MONTANA-DAKOTA UTILITIES CO.

Before the North Dakota Public Service Commission
Case No. PU-20-379
Rebuttal Testimony
of
Tara R. Vesey

Q. Would you please state your name and business address?

A. Yes. My name is Tara R. Vesey and my business address is 400 North Fourth Street, Bismarck, North Dakota 58501.

Q. What is your position with Montana-Dakota Utilities Co.?

A. I am the Regulatory Affairs Manager for Montana-Dakota Utilities Co. (Montana-Dakota).

Q. Are you the same Tara R. Vesey that previously offered direct testimony in this proceeding?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to address certain analysis and recommendations proposed by Mr. Joel F. Jeanson, Principal Consultant at PA Consulting Group, testifying on behalf of the North Dakota Public Service Commission Advocacy Staff, and provide the updated revenue requirement detail in Exhibit No.___(TRV-3).

Q. Please summarize Mr. Jeanson's recommendations you will address.

111 PU-20-379 Filed 03/24/2021 Pages: 10
Exhibit MDU 14 - Rebuttal Testimony of Tara Vesey
Montana-Dakota Utilities Co.

A. I will address the following income statement adjustment and recommendations by Mr. Jeanson:

- A decrease in labor expense of $361,158 relating to executive stock compensation and executive incentive compensation which are tied to Corporate Earnings Per Share (EPS); and
- Comment that Uncollectible Accounts expense is not in line with historical averages.

In addition, I will also address the following rate base comments:

- Comment that the projected retirements may be understated;
- Comment that customer advances may be understated; and
- Recommendation that an A&G Capitalization study be performed.

Q. Mr. Jeanson recommended two adjustments to labor. Do you agree with his recommendations?

A. No. Mr. Jeanson has recommended the Company's labor expense should be reduced to exclude costs associated with executive stock compensation (page 13, line 7) and executive incentive compensation associated with EPS (page 15, line 15).

Mr. Jeanson testifies that these costs are incurred for the benefit of the shareholder.

In order to determine its competitiveness within the industry, Montana Dakota has an independent review of the executive compensation performed annually. Stock and incentive compensation are a part of the total compensation philosophy and is a portion of the compensation package that is used to attract and retain employees that will make appropriate business decisions. Specifically regarding stock compensation, Montana-Dakota's program is designed to place a focus on long-term business decisions and to encourage lasting and stable planning. The argument that one can parse benefits of good business decisions between a shareholder and a customer is misguided.

Additionally, Montana-Dakota applies a 'Total Rewards' philosophy to determine the appropriate level of employee compensation. Within this philosophy are three components: base pay, incentive (at-risk) pay, and benefits. Stock and incentive compensation are "pay-at-risk." It is also part of the Company's total employee expense for the test year. If the Company did not provide these items of compensation, it would have to increase the other components. As a result, removing one component of the Company's aggregate compensation expense without a corresponding adjustment to another component is inappropriate.

Finally, good business decisions are beneficial to customers in totality and to disallow certain costs is an overreach. Mr. Jeanson's recommended adjustments of $361,158 be rejected.

Q. Mr. Jeanson has indicated that the 2020 projected Uncollectible Accounts Expense are inconsistent with historical trends. Do you agree?

A. No. On page 8, lines 5 through 9, Mr. Jeanson has pointed to historical expense averages and the actual January through November 2020 Uncollectible Accounts Expense as his reason for noting the inconsistency.

January through November 2020 is not an accurate indicator of projected 2020 Uncollectible Account Expense as the Company suspended customer disconnections from March 18, 2020 to September 1, 2020 in response to the COVID-19 pandemic. As a result, the Uncollectible Accounts Expense was lower in 2020 than they would have been if there was not a global pandemic. Additionally, the Company also suspended late payment charges during this time and did not adjust the revenues associated in this case in recognition that the lower revenues will likely not be applicable in future years.

	2020	2021
Total Pro Forma Sales Revenue	$113,659,942	$114,748,655
Three-Year Average Write-Offs	0.34%	0.34%
	$386,444	$390,145

	Net Write-Offs	Sales and Trans. Rev	%
Twelve months ending			
12/31/17	$413,887	$109,538,358	0.38%
12/31/18	443,421	117,196,410	0.38%
12/31/19	330,367	117,834,454	0.28%
Total	$1,187,675	$344,569,222	0.34%

As noted in the table above, the Company does use historical information based on the three-year historical weighted average percent of the net write offs as compared to the Sales and Transportation Revenue. The Company continues to support the calculation of Uncollectible Account Expenses.

Q. Mr. Jeanson has commented that the projected retirements may be understated in 2020 and 2021 give the replacement spending. Do you agree?

A. No. Mr. Jeanson indicates on page 21, lines 7 through 12 that the projected retirements in 2020 and 2021 are based on a three-year average and thus may be understated. Montana-Dakota bases its retirements on an average retirement ratio as it compares to the plant in service. The Company calculates the retirement ratio based on the three-year plant retirements and the plant in service at the end of the prior year. This is consistent with the last several cases filed with the Commission.

The Company does agree with Mr. Jeanson's statement that an understatement does not affect the rate base. However, as an extra precaution, the Company has compared the 2020 actual depreciation with the updated filling, implementing the changes identified below as reflected in Exhibit No.___(TRV-3), and determined that the projection for the 2020 depreciation expense remains reasonable.

Q. Do you have further issues to address regarding the testimony of Mr. Jeanson?

A. Yes, Mr. Jeanson has indicated that the customer advances may be understated due to the lack of extension projects and recommendation that an A&G Capitalization study be performed. I will discuss those issues now.

On page 26, lines 3 through 8, Mr. Jeanson suggests that the Company's decision to hold customer advances from May to December 2020 may understate customer advances. Montana-Dakota reviewed the Actual 2020 customer advances and compared them to the projected values from the Company's filing in the table below. Although there is some variance in the monthly values, the thirteen-month average comparison led the Company to conclude that the projection for 2020 was reasonable.

	Actual 2020	Case 2020
Dec-19	$ (8,929,529)	$ (8,929,529)
Jan-20	$ (8,901,000)	(8,901,000)
Feb-20	$ (8,930,992)	(8,930,992)
Mar-20	$ (8,760,488)	(8,760,488)
Apr-20	$ (8,731,502)	(8,731,502)
May-20	$ (8,786,871)	(8,786,871)
Jun-20	$ (8,824,653)	(8,786,871)
Jul-20	$ (8,824,653)	(8,786,871)
Aug-20	$ (8,708,708)	(8,786,871)
Sep-20	$ (8,764,902)	(8,786,871)
Oct-20	$ (8,161,501)	(8,786,871)
Nov-20	$ (8,183,529)	(8,786,871)
Dec-20	$ (8,153,278)	(8,786,871)
13 Month Average	$ (8,666,277)	$ (8,811,421)

Mr. Jeanson (on page 27, line 24 and Page 28, line 1 through 2) has also recommended that Montana-Dakota complete an A&G Capitalization study to reassess its administrative costs. The Company last completed an A&G Capitalization Study in 2017 and implemented its findings into this case preparation. Montana-Dakota's policy indicates that time studies will be conducted no less than every five years with the next scheduled study to be performed in 2021.

Q. Has Montana-Dakota made any other changes or revisions to its revenue requirement since its initial filing?

A. Yes, in light of the pandemic and its impact on customers, Ms. Kivisto directed changing the requested return on equity from 10.2 percent to 9.8 percent. The testimony of Ms. Bulkley fully supports the Company's original request, but the Company is concerned with the impact to customers in today's environment.

The Company has updated the 2020 and 2021 plant additions based on the projects that were delayed or canceled in those years. Additionally, Montana-Dakota has updated the 2021 plant additions to include a modified value for meters based on Mr. Jeanson's suggestion.

Finally, the pension regulatory asset and pension expense correction discussed in Mr. Jacobson's rebuttal testimony was implemented.

Q. Can you please explain Exhibit No.___(TRV-3)?

A. Exhibit No.___(TRV-3) shows the calculation of the updated revenue deficiency of $7,709,931, which is a decrease of $1,262,493 from the original filing of $8,972,424, based on:

- the reduction of the return on equity to 9.8 percent;
- reducing plant additions in 2020 by $1,014,461 and 2021 by $754,711 based on the projects that were delayed or canceled in those years;
- reduce the plant additions in 2021 by $1.0 million to reflect Mr. Jeanson's recommended meter value; and
- updating the pension regulatory asset and pension expense correction discussed in Mr. Jacobson's rebuttal testimony.
- These changes are reflected along with an overall rate of return of 7.103 percent.

Q. Does this conclude your testimony?

A. Yes.

MONTANA-DAKOTA UTILITIES CO. & GREAT PLAINS NATURAL GAS CO.
PROJECTED OPERATING INCOME AND RATE OF RETURN
REFLECTING ADDITIONAL REVENUE REQUIREMENTS
PROJECTED 2021

	Before Additional Revenue Requirements 1/	**Additional Revenue Requirements**	Reflecting Additional Revenue Requirements
Operating Revenues			
Sales	$112,506,332	**$7,709,931**	$120,216,263
Transportation	2,242,323		2,242,323
Other	3,472,064		3,472,064
Total Revenues	118,220,719	7,709,931	125,930,650
Operating Expenses			
Operation and Maintenance			
Cost of Gas	73,319,285		73,319,285
Other O&M	23,530,307		23,530,307
Total O&M	96,849,592		96,849,592
Depreciation	11,470,525		11,470,525
Taxes Other Than Income	2,710,719		2,710,719
Income Taxes	113,509	1,881,601 2/	1,995,110
Total Expenses	111,144,345	1,881,601	113,025,946
Operating Income	$7,076,374	$5,828,330	$12,904,704
Rate Base	$181,679,634		$181,679,634
Rate of Return	**3.895%**		**7.103%**

1/ Statement A, Page 2.
2/ Reflects state and federal taxes at 24.4049%.