

MONTANA-DAKOTA UTILITIES CO.
Before the North Dakota Public Service Commission
Case No. PU-20-379
Rebuttal Testimony
of
Travis R. Jacobson

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

2 A. Yes. My name is Travis R. Jacobson and my business address is
3 400 North Fourth Street, Bismarck, North Dakota 58501.

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

5 A. I am the Director of Regulatory Affairs for Montana-Dakota Utilities
6 Co. (Montana-Dakota).

7 **Q. Are you the same Travis R. Jacobson that previously offered direct
8 testimony in this proceeding?**

9 A. Yes, I am.

10 **Q. What is the purpose of your rebuttal testimony?**

11 A. The purpose of my testimony is to address certain analysis
12 and recommendations proposed by Mr. Joel Jeanson, PA
13 Consulting Group, testifying on behalf of the North Dakota Public
14 Service Commission Advocacy Staff.

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

17 A. Mr. Jeanson has ultimately recommended that the North
18 Dakota Public Service Commission (Commission) deny Montana-

1 Dakota's request to include both the pension and post retirement
2 regulatory assets as a component of rate base.

3 **Q. Does Mr. Jeanson consider it unusual for a utility to request**
4 **and receive regulatory approval of regulatory assets such as**
5 **pension or post retirement regulatory assets?**

6 A. No. Mr. Jeanson states that "it is common...for companies
7 to request and receive regulatory approval for the establishment of
8 pension-related assets and liabilities" on page 33, lines 8 – 10.

9 **Q. Since it is common, does Mr. Jeanson indicate why he has**
10 **recommended the Commission deny Montana-Dakota's**
11 **request?**

12 A. Mr. Jeanson cites two main reasons for denying the
13 Company's request. The two reasons are:

- 14 • Montana-Dakota has included the pension and post
15 retirement regulatory assets as working capital; and,
- 16 • The Company appeared to have double-counted a 2019
17 pension contribution.

18 **Q. Does Montana-Dakota consider pension and post retirement**
19 **regulatory assets to be working capital?**

20 A. No. Montana-Dakota considers both pension and post
21 retirement as regulatory assets. Mr. Jeanson acknowledges that
22 the Company has described them as regulatory assets on page 32,
23 line 3 of his testimony. As noted, Montana-Dakota did include the

1 pension and post retirement regulatory assets under a section
2 called "Additions" on the rate base as displayed on page 18 of Mr.
3 Jeanson's testimony. There are certain working capital items in the
4 same section, and it may have been confusing to Mr. Jeanson;
5 however, the Company does consider both pension and post
6 retirement to be regulatory assets and not a component of working
7 capital.

8 **Q. Can you compare the revenue requirement between a working**
9 **capital item and a regulatory asset?**

10 A. The revenue requirement for a working capital item and a
11 regulatory asset are computed in the same manner and would be
12 identical when the value of each is the same. In addition, the
13 Company would not have determined a different value to be
14 included in rate base regardless if it would have been considered a
15 working capital item or a regulatory asset.

16 **Q. Mr. Jeanson's second concern suggested the Company double**
17 **counted a 2019 pension contribution. Is that true?**

18 A. Regrettably, yes that is true. As mentioned in Mr. Jeanson's
19 testimony on page 29, beginning on line 17, Montana-Dakota
20 prefunded its 2020 and 2021 pension contributions at the end of
21 2019 whereas the Company's filing assumed the pension funding
22 would occur in 2020 and 2021.

1 **Q. Does the Company typically prefund its pension cash**
2 **contributions and, at the time of preparing the filing, were you**
3 **aware of the prefunding contribution at the end of 2019?**

4 A. No. Typically, Montana-Dakota funds its pension
5 contributions as determined by its actuary to meet its IRS minimum
6 requirements and to avoid any benefit restrictions. At the end of
7 2019, the Company reviewed the upcoming actuarially determined
8 required contributions for 2020 and 2021 and determined that it
9 would be prudent and beneficial to make the payment at that time,
10 at least in part, to take advantage of the current low interest rates.

11 Unfortunately, during preparation of the filing, the Company
12 used an actuarial report that was prepared prior to the decision to
13 prefund its 2020 and 2021. The actuary did provide an updated
14 actuarial report which the Company used to record the appropriate
15 accounting entries during 2020. Again, unfortunately the filing did
16 not reflect the correct report and relied on a prior version of the
17 actuarial data.

18 **Q. Why did the Company prefund the 2020 and 2021 pension**
19 **contributions?**

20 A. The Company was able to deduct the additional funding
21 during 2019 for income tax purposes. The tax deduction creates a
22 tax benefit that minimizes the cash necessary to fund the pension
23 contribution. It is important to note that the prefunded amount does

1 generally match the required contributions that would have been
2 made during 2020 and 2021 as noted by Mr. Jeanson. Therefore,
3 the overall pension contribution for the period of 2019 through 2021
4 would have been quite similar.

5 Another important factor that should be noted is that
6 contributions to the pension trust fund are invested and all earnings
7 within the pension trust are tax free. This results in a greater ability
8 to offset pension expense within the trust, which lowers the pension
9 expense requested in this case.

10 **Q. Since you agree that the Company has double counted the**
11 **pension contributions, have you prepared a corrected pension**
12 **regulatory asset to be included in rate base if the correct**
13 **assumption had been used?**

14 A. Yes. Montana-Dakota did prepare an analysis to show the
15 impact of corrected pension regulatory asset. As shown in the table
16 below, the appropriate level to include in rate base, net of taxes, is
17 \$10,895,895, which is a reduction of \$1,510,207 from the
18 Company's initial filing.

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	2019	2020	2021
Corrected			
Pension Regulatory Asset	\$14,582,942	\$14,670,711	\$14,848,840
Pension Accumulated ADIT	(3,898,892)	(3,909,481)	(3,952,945)
Net Pension	\$10,684,050	\$10,761,230	\$10,895,895
As Filed			
Pension Regulatory Asset	\$14,582,942	\$15,746,436	\$16,846,468
Pension Accumulated ADIT	(3,898,892)	(4,171,958)	(4,440,366)
Net Pension	\$10,684,050	\$11,574,478	\$12,406,102
Variance			
Pension Regulatory Asset	\$0	(\$1,075,725)	(\$1,997,628)
Pension Accumulated ADIT	0	262,477	487,421
Net Pension	\$0	(\$813,248)	(\$1,510,207)

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See Exhibit No.__(TRJ-2) for the details supporting the table above, including the updated level of contributions and the impact of pension expense on the pension regulatory asset.

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Q. Did the 2019 prefunded pension contribution have any impacts on Montana-Dakota's natural gas customers?

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A. Yes. As previously mentioned, pension contributions result in an increase in pension trust funds upon which the Company is allowed to earn tax free. The prefunding resulted in a reduction in 2020 and 2021 pension expense from that which had been requested in the development of the Company's projected benefits. As shown in the table below, the actuarially determined expense once adjusted to reflect the prefunding is significantly lower than the assumption used by the Company. As previously mentioned, Montana-Dakota used an actuarial assumption that did not reflect the prefunding.

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Pension Expense			
	2019	2020	2021
Updated	\$270,137	(\$26,103)	(\$107,137)
As Filed	270,137	327,136	331,258
Variance	\$0	(\$353,239)	(\$438,395)

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See Exhibit No.__(TRJ-3) for the details supporting the updated pension expense.

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Q. Will you summarize the Company’s position?

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Yes. As noted by Mr. Jeanson, it is common for utilities to both request and receive regulatory approval for the establishment of pension-related regulatory assets. In addition, on page 33, line 11, he indicates that, in many cases, these regulatory assets earn a return.

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While Mr. Jeanson has portrayed the Company’s pension and post retirement regulatory assets as working capital, Montana-Dakota intended, and described as such, that both pension and post retirement related items were included in its rate base in the ‘Additions’ section as regulatory assets.

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The determination of the revenue requirement is the same regardless of whether the pension and post retirement related items are considered working capital or regulatory assets. Lastly, while Mr. Jeanson mentions other options, a rate case is an appropriate vehicle to establish both pension and post retirement regulatory assets. A separate filing would require an alternative rate making mechanism and may create customer confusion. Montana-Dakota asserts that it is more

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1 straightforward to include both pension and post retirement regulatory
2 assets in this filing and notes that it may eliminate any additional costs
3 of the associated filing fees of another filing.

4 **Q. Earlier in testimony, an updated pension regulatory assets and**
5 **updated pension expense was determined using the correct actuarial**
6 **assumption. Have you determined the impact to the revenue**
7 **requirements reflecting these updates?**

8 A. Yes. Ms. Vesey has incorporated these updates and included in an
9 updated revenue requirement in her testimony.

10 **Q. Does this conclude your testimony?**

11 A. Yes.

**Montana-Dakota Utilities Co.
 Pension Regulatory Asset
 Updated for 2019 Pension Prefunding**

UPDATED

	2019	2020	2021
<u>Pension Regulatory</u>			
Beginning Balance		\$59,757,480	\$59,934,780
Less: Pension Expense		(177,300)	(727,718)
Plus: Pension Funding			
Ending Balance	\$59,757,480	\$59,934,780	\$60,662,498
North Dakota Gas Share	\$14,582,942	\$ 14,670,711	\$ 14,848,840
<u>Accumulated Pension DIT</u>			
Beginning Balance		(\$14,739,188)	(\$14,782,449)
Pension Change @ 24.4%		(43,261)	(177,563)
Ending Balance	(\$14,739,188)	(\$14,782,449)	(\$14,960,012)
North Dakota Gas Share	(\$3,898,892)	\$ (3,909,481)	\$ (3,952,945)

AS FILED

	2019	2020	2021
<u>Pension Regulatory</u>			
Beginning Balance		\$59,757,480	\$64,329,480
Less: Pension Expense		1,670,000	1,691,000
Plus: Pension Funding		6,242,000	6,185,000
Ending Balance	\$59,757,480	\$64,329,480	\$68,823,480
North Dakota Gas Share	\$14,582,942	\$ 15,746,436	\$ 16,846,468
<u>Accumulated Pension DIT</u>			
Beginning Balance		(\$14,739,188)	(\$15,854,756)
Pension Change @ 24.4%		(1,115,568)	(1,096,536)
Ending Balance	(\$14,739,188)	(\$15,854,756)	(\$16,951,292)
North Dakota Gas Share	(\$3,898,892)	\$ (4,171,958)	\$ (4,440,366)

**MONTANA-DAKOTA UTILITIES CO.
 BENEFITS EXPENSE
 GAS UTILITY - NORTH DAKOTA
 TWELVE MONTHS ENDING DECEMBER 31, 2019
 PROJECTED 2020 - 2021
 UPDATED FOR 2019 PENSION PREFUNDING**

	Per Books		Projected
	2019	2020	2021
Medical/Dental 1/	\$1,479,058	\$1,612,173	\$1,733,086
Pension expense 2/	270,137	(26,103)	(107,137)
Post-retirement 3/	(366,284)	(378,115)	(378,720)
401 K 4/	1,115,043	1,155,519	1,193,767
Workers compensation 4/	16,528	17,128	17,695
Other benefits 4/	26,150	27,099	27,996
Total Benefits Expense	<u>\$2,540,632</u>	<u>\$2,407,701</u>	<u>\$2,486,687</u>

1/ Reflects an increase of 9.00% for 2020 based on effective 2020 premiums and 7.50% for 2021 based on projected medical premiums.

2/ Total Company pension expense based on the 2020 actuarial reports.		
	Actuarial Expense	
	2020	2021
Bargaining	(\$16,883)	(\$225,888)
Non-Bargaining	(160,417)	(501,830)
Total	(\$177,300)	(\$727,718)
Increase		310.44%

3/ Total Company post-retirement expense based on the 2020 actuarial estimate.

	Per Books	Actuarial Estimate	
Total	(\$1,859,000)	(\$1,919,000)	(\$1,922,000)
Increase		3.23%	0.16%

4/ Reflects the straight time labor increase of 3.63% for 2020 and 3.31% for 2021.