Opening Statement of Victor Schock

on behalf of

Advocacy Staff, North Dakota Public Service Commission

Montana-Dakota Utilities Co., 2020 Natural Gas Rate Increase, Case No. PU-20-379

Hello Commissioners. My name is Victor Schock and I am testifying on behalf of Advocacy Staff in this proceeding. I am testifying today in support of the Settlement Agreement between Montana-Dakota Utilities Co. (MDU or Company) and Public Service Commission Advocacy Staff.

This Settlement Agreement provides for total North Dakota rate base of $181.68M, a base rate revenue increase of $6,886,091 or 6%, a 9.3% return on equity (ROE), an equitable allocation of the revenue increase between the classes of service, increases to the customer charge, and a line extension tariff change.

The $181.68M North Dakota rate base is an increase of approximately $33M since MDU's last natural gas rate case. The increase is attributed to investments in replacements of old pipe, system loops to increase reliability and most significantly the addition of a pension regulatory asset in the amount of $10.8M. As explained in direct testimony, the pension asset represents the difference between the amount MDU has contributed to the pension account and the amount that has been contributed by ratepayers. The method to calculate the pension asset is consistent with FERC treatment of pension costs for transmission rate base as sited in the FERC case ER15-1436. For that reason, Staff believes it is appropriate to allow the inclusion of the pension asset in rate base. I believe this total rate base is an appropriate representation of the value of MDU's property, used and useful, for the service and convenience of the public in North Dakota.

The overall $6,886,091 revenue increase represents a total reduction of $2,086,405 from the Company's original request of $8,972,496. The decrease is made up of:

- $1.1M reduction due to the drop in ROE from the Company's original proposal of 10.2% to 9.3%.
- $193k reduction due to the elimination of 50% of incentive compensation.
- $12k reduction due to the elimination of the Hettinger franchise fee from the general revenue requirement.
- $11k reduction due to the change from a 3 to a 5-year average of net write-offs.
- $771k reduction due to rate base adjustments and pension corrections that MDU agreed to in its rebuttal testimony.

The 9.3% ROE ensures that customers do not pay an overinflated rate of return while recognizing the Company's historical performance. This ROE translates into an overall rate of return (ROR) of 6.851% when considering the Company's long and short term debt cost. I believe this ROE and ROR provide MDU with a just and reasonable rate of return on its property, used and useful, for the service and convenience of the public in North Dakota.

The $193k reduction to incentive compensation is consistent with commission treatment of incentive compensation in previous rate cases. The incentive compensation involved is only the portion tied to targets primarily benefiting shareholders rather than ratepayers.

The $12k reduction for Hettinger is minor, but necessary to ensure proper allocation of costs. Prior to this agreement the Hettinger franchise fee was included as a general expense that was paid by all North Dakota MDU gas customers. This change ensures the fee is charged directly to Hettinger customers just as all other franchise fees are charged directly to the customers in that municipality.

Staff believes the $11k reduction to net write-offs is more appropriate than MDU's given the variability of year-to-year net write-offs.

The $771k in rate base reductions include the elimination of project costs that were planned but not completed or delayed for 2020 and 2021, and a correction to the calculation of net pension asset.

The recommended class revenue distribution in this case moves each class closer to contributing their fair share to system costs. The residential portion of the increase will be added to the customer charge. We believe this straight fixed variable rate design for residential natural gas rates is the most appropriate representation of the actual cost to serve the residential class. The increase moves the current monthly charge from approximately $20.86 per month to $25.92, an increase of $5.06 which would be the same amount for a customer using 0 dekatherms or one using 200.

Based on the facts of this case, these rates and charges are necessary to provide a just and reasonable rate of return on MDU's property, used and useful, for the service and convenience of the public in North Dakota. Furthermore, the proposed rate schedules are designed in such a manner that they result in a basis of charge to its customers that is just and reasonable without unjust discrimination.

The other change included in the Settlement Agreement modifies the Firm Gas Service Extension Policy Rate 120. The change helps ensure MDU is unable to pass a portion of the cost for new line extensions to all customers rather than assigning them directly to new customers or developers. The change modifies section A-2 of the tariff to read "The company shall require customer or developer cost participation if the estimated capital expenditure is not cost justified." In the original version the word 'shall' was 'may', which MDU used to give themselves flexibility to lessen the cost to new customers and developers at the expense of existing customers.

Due to these factors, and the interest of MDU's North Dakota ratepayers, I recommend the Commission adopt this Settlement Agreement. I look forward to answering any questions you may have.