

MONTANA-DAKOTA UTILITIES CO.

Before the North Dakota Public Service Commission

Case No. PU-22-\_\_\_

Direct Testimony

Of

Tara R. Vesey

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

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

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

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

7 **Q. Would you please describe your duties as Regulatory Affairs  
8 Manager?**

9 A. I am responsible for the preparation of cost of service studies, fuel  
10 cost adjustments, purchased gas cost adjustments, and gas tracking  
11 adjustments in each of the jurisdictions in which Montana-Dakota  
12 operates.

1 **Q. Would you please describe your education and professional**  
2 **background?**

3 A. I graduated from North Dakota State University with a Bachelor of  
4 Science degree in Economics. I started my career with Montana-Dakota in  
5 2019 as a Regulatory Affairs Manager. Prior to that I was employed for 13  
6 years by a power cooperative. During that time, I held positions of  
7 increasing responsibility, including Contract Administrator, Sales Manager,  
8 Transportation Manager, and Manager of Market Operations and  
9 Logistics.

10 **Q. Have you testified in other proceedings before regulatory bodies?**

11 A. Yes. I have previously presented testimony before this  
12 Commission, the Public Service Commissions of Montana and Wyoming,  
13 and the Public Utilities Commissions of Minnesota and South Dakota.

14 **Q. Are you familiar with the books and records of Montana-Dakota and**  
15 **the manner in which they are kept?**

16 A. Yes. Montana-Dakota's books and records are kept in accordance  
17 with the Federal Energy Regulatory Commission (FERC) Uniform System  
18 of Accounts.

1 **Q. What is the purpose of your testimony in this proceeding?**

2 A. The purpose of my testimony is to present the North Dakota electric  
3 operations per books cost of service for the twelve months ended  
4 December 31, 2021, and the projected cost of service for 2022 and 2023.  
5 Based on the results, I have prepared the calculation of the revenue  
6 deficiency and the calculation of the interim request. I will also discuss the  
7 Company's proposal to include the pension and post retirement benefits  
8 regulatory assets in rate base. Finally, I will discuss the amortization  
9 schedule of the Lewis & Clark Unit I and Heskett Unit I & Unit II coal  
10 regulatory assets.

11 **Q. What statements, schedules, and exhibits are you sponsoring?**

12 A. I am sponsoring Statements A through D, Statement F and  
13 Statements F-2 through J, revenue requirement presented in Exhibit  
14 No.\_\_\_\_ (TRV-1), the Company's treatment of pension regulatory asset and  
15 liability balances presented in Exhibit No.\_\_\_\_(TRV-3), Interim Statements  
16 A through D, Interim Statement F and Interim Statements F-2 through J,  
17 and the interim revenue requirement presented in Exhibit No.\_\_\_\_(TRV-2).

1 **Q. Were these statements and exhibits prepared by you or under your**  
2 **direct supervision?**

3 A. Yes, they were.

4 **Case Description**

5 **Q. What is included in this Revenue Requirement?**

6 A. The Company is requesting \$25,372,099, which represents a 12.3  
7 percent increase, based on a projected 2023 test year. Montana-Dakota  
8 currently has four riders: the Generation Resource Recovery Rider  
9 (Generation Rider), the Renewable Resource Cost Adjustment  
10 (Renewable Rider), the Transmission Cost Adjustment (Transmission  
11 Rider), and the Environmental Cost Recovery Rider (Environmental Rider)  
12 (with no current recovery). The 12.3 percent increase includes the effect  
13 on the base electric rates and the Generation Rider. No changes to the  
14 Renewable and Transmission Rider are included in this request.

15 More specifically, Montana-Dakota is proposing to move or expand  
16 the cost recovery from certain riders and base rates as follows:

- 17 • Move the retired investment and related expenses of Lewis  
18 & Clark Unit I and Heskett Unit I and II from base retail rates  
19 to the Generation Rider.

- 1                   • Move the production investment and related expenses of
- 2                   Lewis & Clark Unit II (RICE) currently recovered through the
- 3                   Generation Rider to base retail rates.
- 4                   • Recover the production investment and related expenses of
- 5                   Heskett Unit IV in base retail rates.

6   **Q.   Why are the Renewable and Transmission Riders excluded from this**  
7   **case?**

8   A.           Montana-Dakota worked with the Commission to implement a  
9           smoothing effect of the Production Tax Credits (PTC's) for Thunder Spirit  
10          Wind in Case No. PU-20-440 and the Diamond Willow Wind repower  
11          project in Case No. PU-21-420. The Company will levelize the revenue to  
12          reflect a smoothing of PTCs earned over the life of those wind facilities  
13          instead of the applicable timeframe that the PTCs are earned. In an effort  
14          to provide transparency and maintain the levelization, the Company is  
15          proposing no changes to the Renewable Rider in this Case.

16                The Company is not proposing changes the Transmission Rider  
17          revenue requirement in base rates in an effort to simplify this filing. Given  
18          that the Transmission Rider is trued-up each year and reflects the current  
19          capital structure, the Montana-Dakota customers are not impacted by  
20          continuing the annual Transmission Rider filings.

1 **Q. How was the \$25,372,099 revenue requirement derived?**

2 A. The Company has developed the projected revenue requirement  
3 for the 2023 test period based on projected sales revenues (including  
4 \$3,450,741 associated with the Lewis & Clark RICE unit currently in the  
5 Generation Rider), Operation & Maintenance (O&M) expenses, other  
6 operating expenses, taxes and the projected 2023 rate base. In addition,  
7 Montana-Dakota is proposing to move the investment associated with the  
8 Lewis & Clark RICE unit into base rates. The result is a revenue  
9 requirement shortfall of \$20,990,260.

10 Furthermore, Montana-Dakota is proposing to amortize \$7,832,580  
11 per year associated with the regulatory asset established upon the closure  
12 of Lewis & Clark Unit I and Heskett Unit I & II coal units and that it will be  
13 included in the Generation Rider. This proposal results in an increase to  
14 the revenue requirement of \$4,381,839 when netted with the current rates  
15 under the Generation Rider.

16 As shown in Statement A, page 1, this results in a total change of  
17 \$25,372,099.

1 **Q. In Case No. PU-19-317, Montana-Dakota indicated the Regulatory**  
2 **Asset would be fully amortized in 7 years. Is that still the Company's**  
3 **intent?**

4 A. In the information provided in Docket No. 66 in Case No. PU-19-  
5 317, Montana-Dakota indicated that the regulatory asset would be fully  
6 amortized over 7 years. This determination was based on a projected  
7 2023 annual revenue requirement for Lewis & Clark Unit I and Heskett  
8 Unit I & Unit II. This determination was also based on the assumption that  
9 the Heskett Unit IV would be included in the assessment.

10 As previously noted, Montana-Dakota has prepared the revenue  
11 requirement to include Heskett IV in base rates. Continuing with the  
12 current level of amortization in the Generation Rider would result in an  
13 amortization period of approximately 4 years. Furthermore, customers  
14 would also not realize an offset for the Heskett IV revenue requirement.  
15 Therefore, the Company is proposing to set the revenue requirement in  
16 the Generation Rider at \$7,832,580 to accomplish a 10-year amortization  
17 and, as noted by Ms. Kivisto, to somewhat mitigate the rate increases to  
18 customers as a result of this filing.

19 The amortization period began in April 2021 and is expected to be

1 completed in April 2031.

2 **Revenue Requirement**

3 **Q. What were the results of North Dakota electric operations for 2021?**

4 A. Statement A, pages 3 and 4 show the per books income statement  
5 and rate base for the North Dakota electric operations for 2021. As shown  
6 on page 3, North Dakota electric operations produced a return on rate  
7 base of 5.942 percent for the twelve months ended December 31, 2021.  
8 The details for each line item, i.e. sales revenue, other revenue, etc., are  
9 included in the referenced Statements.

10 Montana-Dakota prepared an Adjusted 2021 calculation that  
11 reflects the Per Books 2021 income statement and rate base excluding  
12 the Renewable Rider, the Transmission Rider, and the production  
13 investment and related expenses of Lewis & Clark Unit I and Heskett Unit  
14 I and II. The resulting statement present a similar comparison to Projected  
15 2022 and 2023.

16 **Q. How was the per books cost of service allocated to North Dakota?**

17 A. The Company utilizes a jurisdictional accounting system that  
18 directly assigns and/or allocates every item of revenue, expense, and rate  
19 base to the jurisdictions as part of the regular accounting process on a

1 monthly basis. The allocation methods and procedures are the same as  
2 those that have previously been used in Commission proceedings and are  
3 based on the principle of assigning and/or allocating costs to the cost  
4 causer.

5 **Q. What test period are you using to determine the revenue**  
6 **requirement?**

7 A. The revenue requirement is based on a projected average 2023  
8 test period. As stated by Ms. Kivisto, the revenue increase is largely  
9 driven by:

	<b>Amount</b> <b>(in millions)</b>
Increase in Rate Base	\$13.8
Lower Sales	2.7
Higher O&M Expenses	10.0
Higher Depreciation	10.0
Property Tax	1.7
Other	1.0
Amortization of L&C and Heskett	7.8
Offset by:	
L&C and Heskett Savings	<u>(\$21.6)</u>
Net Increase	<u><u>\$25.4</u></u>

10

11

12

The Heskett Unit IV addition is included in the Rate Base and represents approximately \$5.6 million of the \$13.8 million increase. The

1 effect of the depreciation study is approximately \$4.6 million of the  
2 depreciation increase.

3 Montana-Dakota is using a future test year in accordance with  
4 North Dakota Century Code §49-05-04.1.

5 **Q. Would you describe the development of the projected cost of service  
6 for 2022 and 2023?**

7 A. The projected 2022 and 2023 cost of service is presented in  
8 Statement A, with schedules supporting the income statement in  
9 Statements F, G, H, I, and J. The revenues and expenses reflect the  
10 annual level that is projected for 2022 and 2023. Likewise, the rate base  
11 reflects average 2022 and 2023 plant and related balances.

12 **Income Statement**

13 **Q. Would you describe the development of the projected revenues and  
14 expenses?**

15 A. The projected revenues for 2022 and 2023 are summarized in  
16 Statement F. Mr. Neigum discusses the development of the projected  
17 volumes in his testimony, and Ms. Bosch discusses the development of  
18 the retail sales revenues in her testimony.

19 Revenue and expenses were developed to include:

- 1                   •     Base rates and the movement of the current Generation  
2                             Rider (based on the Lewis & Clark RICE unit) into the base  
3                             rates
- 4                   •     Include the Heskett IV plant addition
- 5                   •     Exclude the amortization of the Lewis & Clark Unit I and  
6                             Heskett Unit I & Unit II

7                   As noted earlier, the Renewable Rider and Transmission Rider  
8                   were not included in the development of the revenue or expense and each  
9                   will be discussed individually.

10                   **Base Rates:** The projected base revenues for 2022 and 2023 are  
11                   summarized on Statement F, page 1. The retail sales revenues reflect  
12                   projected volumes at current rates, including the Generation Rider  
13                   (currently including the Lewis & Clark RICE unit), again at current rates,  
14                   and are shown in more detail on Statement F, Schedule F-1, page 1.

15                   The Company did report sales for resale revenue in 2021.  
16                   Montana-Dakota continues to propose that revenue from sales for resale  
17                   offset the costs included in the fuel and purchased power adjustment and,  
18                   therefore, no projection has been included.

19                   Other operating revenues are projected to decrease as detailed on  
20                   Statement F, Schedule F-1, page 1 primarily because the Company

1 continues to propose that revenue from the sale of renewable energy  
2 credits (RECs) offset the costs included in the fuel and purchased power  
3 adjustment and, therefore, are excluded from Miscellaneous Revenue.

4 Late payment revenues were projected for 2022 and 2023 based  
5 on the 2021 ratio of late payment revenue to retail sales revenue of 0.103  
6 percent applied to Projected 2022 and 2023 retail sales revenue excluding  
7 the projected revenue from the Renewable and Transmission Riders.

8 **Heskett IV Plant Addition:** The plant addition and associated  
9 depreciation, taxes, and operation and maintenance (O&M) expenses are  
10 included in the Rate Base and Income Statement in Projected 2023. The  
11 Company has proposed to include the asset as if it had been in service for  
12 all of 2023. Other assets placed in service during 2023 are assumed to  
13 have a mid-year in service date. With that in mind, Heskett IV will reflect a  
14 full annual period of depreciation and the full in service cost for the test  
15 year 2023. Because of the significant level of capital investment in  
16 Heskett IV, the revenue requirement would be significantly under stated for  
17 all periods following the implementation of rates and could impact the  
18 Company's ability to earn a reasonable rate of return resulting in a follow  
19 up rate case.

1                   **Amortization of Lewis & Clark Unit I and Heskett Unit I & Unit**

2                   **II:** The amortization of the of Lewis & Clark Unit I and Heskett Unit I &  
3                   Unit II is currently a component of base rates and the Company proposes  
4                   to move recovery to the Generation Rider. Although Lewis & Clark did  
5                   operate during 2021 and Heskett operated for all of 2021 and the  
6                   beginning of 2022, all associated revenue and expenses have been  
7                   excluded from the Adjusted 2021 and Projected 2022 and 2023 periods.

8                   **Renewable and Transmission Rider:** As previously discussed,  
9                   the associated revenue and expenses of the Renewable and  
10                  Transmission Riders have been excluded.

11   **Q.    Would you describe the development of the operation and**  
12   **maintenance expenses?**

13   A.           Yes. The projected 2022 and 2023 O&M expenses are  
14               summarized on Statement G, Schedule G-1, pages 5 through 8, with the  
15               detail provided on pages 9 through 31.

16   **Q.    Would you describe the development of the projected other O&M**  
17   **expense?**

18   A.           Yes. O&M expenses were reviewed and projected by resource or  
19               cost category on a North Dakota electric basis. As stated previously,

1 Montana-Dakota created an Adjusted 2021 calculation that reflects the Per  
2 Books 2021 values and excludes the Renewable Rider, the Transmission  
3 Rider, and the production investment and related expenses of Lewis &  
4 Clark Unit I and Heskett Unit I and II.

5 Montana-Dakota developed the O&M expenses for 2022 by  
6 by reviewing current information, as well as discussions with operations  
7 personnel to determine the best information for 2022 excluding the current  
8 Renewable and Transmission Riders and the Lewis & Clark Unit I and  
9 Heskett Unit I & Unit II which will be moving to the Generation Rider.  
10 Projected 2023 expenses are based on Projected 2022 expenses with the  
11 Company's best estimate when changes are known or based on an  
12 inflation factor when appropriate. To establish an inflation factor, the  
13 Company based its factor on the indices published by the Organization for  
14 Economic Cooperation and Development, International Monetary Fund,  
15 and PriceWaterhouseCoopers. The rates are represented in an average  
16 of 3.37 percent for 2022 and 2.56 percent for 2023.

17 **Q. Have you updated the fuel and purchased power costs?**

18 A. Yes. The fuel and purchased power cost adjustment has been  
19 included on Statement G, Schedule G-1, page 9. The Company's

1            dispatching software has been updated to model generation by plant  
2            based on the projected sales adjusted for losses to represent total  
3            generation and power purchase requirements and has been updated to  
4            reflect projected cost assumptions and purchased power prices. The fuel  
5            and purchased power cost adjustment has been computed in total and  
6            has been allocated to both primary and secondary sales classes for the  
7            purposes of determining the recovery in revenue on a per unit basis.

8                        As shown on Statement Workpapers G, Schedule G-1, page 2, the  
9            cost per kWh is projected to reduce for Montana-Dakota customers from  
10           Per Books 2021 to the Projected 2022 and 2023 periods.

11    **Q.    Would you describe the development of the labor and benefits**  
12           **expense?**

13    A.            Yes. Labor expense is shown on Schedule G-1, page 10, with  
14           actual labor expense for the twelve months ended December 31, 2021  
15           used as the starting point, with the Adjusted 2021 value (excluding the  
16           Renewable Rider and Lewis & Clark Unit I and Heskett Unit I & Unit II)  
17           defined on page 11.

18                        Montana-Dakota expects to hire 12.81 full time employees to its  
19           Customer Experience Team as replacements for annualized employee

1 turnover in 2021. Furthermore, as described in detail by Mr. Anderson, an  
2 Outage Management Software will be implemented which will require  
3 additional employees. These replacement or new positions and the labor  
4 expenses associated are further defined in pages 12 through 13.

5 The overall projected increase of 3.32 percent in 2022 includes an  
6 increase of 3.00 percent for bargaining unit employees pursuant to a  
7 negotiated union contract and 3.50 percent for non-bargaining unit  
8 employees effective in 2022. Incentive compensation has been adjusted  
9 to reflect 11.65% of straight time and vacation. The overall increase for  
10 projected 2023 is 3.97 percent and includes an increase of 3.00 percent  
11 for bargaining unit employees pursuant to a negotiated union contract and  
12 4.50 percent for non-bargaining unit employees.

13 Benefits are shown on Schedule G-1, page 14 with additional  
14 support provided on pages 15 through 17. Benefits expense consists of  
15 medical/dental insurance, pension, post-retirement, 401K, and workers  
16 compensation. Each of these items was adjusted individually.  
17 Medical/dental expense for 2022 and 2023 reflect an increase of 10.00  
18 percent per year based on premiums in effect for 2022. Pension and post-  
19 retirement expense for 2022 and 2023 is based on the 2022 Actuarial

1 Estimate. Projected 401K, workers compensation, and other benefits  
2 expense reflected the straight time labor increase of 3.32 percent for 2022  
3 and 3.97 percent for 2023. Pages 16 through 17 represent the additional  
4 benefits associated with the new or replacement positions referenced  
5 above.

6 **Q. Would you describe the other projected O&M expense items**

7 A. Yes. The subcontract labor expense shown on Statement G,  
8 Schedule G-1, page 18 is based on the Adjusted 2021 value, adjusted for  
9 a budgeted building and grounds project for maintenance to the outside of  
10 the General Office Building, and inflated 3.37 percent for 2022 and 2.56  
11 percent for 2023 based on an average of the three indices described  
12 above.

13 Big Stone and Coyote expenses shown on Statement G, Schedule  
14 G-1, page 19 are based on 2021 actual expenses. Projected 2022 and  
15 2023 were adjusted to reflect expected cost of operation for 2022 and  
16 2023 with normalized outages scheduled.

17 Materials expense, shown on Statement G, Schedule G-1, page 20,  
18 reflects the Adjusted 2021 value with an increase of 10.00 percent for  
19 2022 and 5.00 percent for projected 2023. Projected 2022 also considers

1 current pricing trends while 2023 reflects the material expense associated  
2 with the implementation of Heskett Unit IV.

3 Vehicles and work equipment shown on Statement G, Schedule G-  
4 1, page 21 reflects all expenses associated with the Company's vehicles  
5 and equipment, such as backhoes, skid steers, and excavators, including  
6 the cost of fuel, insurance, maintenance, and depreciation expense. The  
7 depreciation expense on these items is charged to a clearing account  
8 (rather than to depreciation expense), where it is then recorded in O&M  
9 expense or capitalized as part of a project as the vehicle or work  
10 equipment is used. Projected 2022 and 2023 is based on projected plant  
11 applied to proposed depreciation rates and projected fuel expenses based  
12 on U.S Energy Information Administration Short-Term Energy Outlook.

13 Company utilities shown on Statement G, Schedule G-1, page 22 is  
14 the expense for general utilities, electric, and natural gas consumption in  
15 Company buildings. The general utilities and electric components are  
16 based on a three-year average annual expense of 2018, 2019, and 2021.  
17 The Company excluded 2020 as the expense was abnormally low to most  
18 employees working from home as a result of the COVID-19 pandemic.

1 The natural gas component is based on 2021 weather normalized  
2 volumes and increased projected cost of natural gas and propane.

3 Uncollectible accounts expense shown on Statement G, Schedule  
4 G-1, page 23 is based on the ratio of the five-year average of net write-  
5 offs to sales revenue. This ratio was then applied to the projected 2022  
6 and 2023 sales revenues, which results in an increase in uncollectible  
7 accounts expense.

8 Postage expense shown on Statement G, Schedule G-1, page 24  
9 for projected 2022 reflects the 4.45 percent postage increase for 2022.  
10 Conversely, the additional postage savings for the year is calculated by  
11 considering the number of customers receiving their monthly billing via  
12 electronic format as of the December 2021. Postage expense for 2023 is  
13 projected to increase by the 2.56 percent inflation rate.

14 Software maintenance expense shown on Statement G, Schedule  
15 G-1, page 25 is based on estimated levels for projected 2022. The costs  
16 associated with 2023 are based on the five-year average increase of  
17 expense and reflect expenses related to a variety of areas including those  
18 mandated cybersecurity needs. Advertising expense is shown on  
19 Statement G, Schedule G-1, page 26. Promotional advertising expense

1 has been eliminated from the projected time periods and informational and  
2 institutional advertising are adjusted to exclude advertising that is not  
3 applicable to North Dakota electric operations. Additionally, Projected  
4 2022 and 2023 reflect an inflation rate of 3.37 percent and 2.56 percent,  
5 respectively.

6 Industry dues shown on Statement G, Schedule G-1, page 27  
7 reflect the projected levels of industry dues and eliminated the industry  
8 dues not specifically applicable to North Dakota electric operations.

9 Insurance expense shown on Statement G, Schedule G-1, page 28  
10 reflects projected 2022 at the current insurance level as of January 2022.  
11 Projected 2023 reflects an increase of 10.00 percent based on recent  
12 trends and additional insurance expenses associated with Heskett Unit IV.

13 Regulatory commission expense as shown on Statement G,  
14 Schedule G-1, page 29 reflects the expenses to be incurred in this filing  
15 amortized over a three-year period, a three-year average of ongoing  
16 regulatory commission expense, and the expenses related to the common  
17 and electric depreciation studies amortized over five years for projected  
18 2022 and 2023.

1 Covid expense as shown on Statement G, Schedule G-1, page 30  
2 reflects a normalizing adjustment to reflect those costs that were avoided  
3 or delayed during the COVID-19 pandemic. Costs associated with  
4 external auditing, collection agency fees, commercial and corporate air,  
5 personal vehicle usage, office supplies, safety training materials and  
6 expenses, and other reimbursable expenses were normalized using a  
7 2016 through 2019 averages and applied to the Adjusted 2021 calculation.  
8 Projected 2022 and 2023 also reflects inflation rates of 3.37 percent and  
9 2.56 percent, respectively.

10 The O&M expenses adjusted individually above represent  
11 approximately 96.5 percent of total North Dakota electric O&M expenses,  
12 as shown on Statement G, Schedule G-1, pages 1 and 2. The remaining  
13 O&M expenses, which make up approximately 3.5 percent of other O&M  
14 expenses, were adjusted by 3.37 percent and 2.56 percent to reflect the  
15 effects of inflation for projected 2022 and 2023.

16 **Q. Would you describe the calculation of depreciation expense?**

17 A. The depreciation rates in this filing are proposed based on a  
18 depreciation study prepared by Concentric Energy Advisors at the  
19 Company's request as of December 31, 2020. These rates

1 represent an increase in depreciation expense and are fully  
2 explained by Mr. Kennedy. As noted on page 18, lines 4 through 7  
3 of his Direct Testimony, Mr. Kennedy states:

4 "Given the period from 2015 through 2020 has incorporated  
5 a lower than recommended rate for a number of the Depreciation  
6 accounts, this current depreciation study is proposing a significant  
7 increase in the depreciation for the company's distribution assets."

8 Projected depreciation expense is summarized on Statement H,  
9 page 1. The calculation of depreciation expense and associated  
10 accumulated reserve for depreciation is shown on Schedule H-2, pages 1  
11 and 2. The summary of composite depreciation rates is shown on  
12 Statement H, Schedule H-1, page 1.

13 **Q. How were taxes other than income projected?**

14 A. Projected taxes other than income are shown on Statement I. As  
15 shown on Statement I, Schedule I-1, page 1, Ad valorem taxes were  
16 calculated using the projected 2022 and 2023 average plant in service  
17 balances (excluding the Transmission and Renewable Riders, and the  
18 Lewis & Clark Unit I and Heskett Unit 1 & Unit II) and applying the effective  
19 tax rate based on the ratio of the Adjusted 2021 ad valorem taxes to the  
20 Adjusted 2021 plant balances, by function.

1                   Projected payroll taxes were based on the ratio of payroll taxes to  
2 labor expense for 2021 and applied to the projected 2022 and 2023 labor  
3 expense to determine the projected payroll taxes as shown on Statement  
4 I, Schedule I-1, page 2.

5                   Production taxes have been adjusted to reflect 2022 and 2023  
6 projected generation levels and applicable retail sales volumes. North  
7 Dakota coal conversion taxes have also been adjusted to reflect projected  
8 generation levels. Wind Generation Tax has been removed as it is  
9 recovered in the Renewable Rider.

10                  All other taxes other than income were projected to remain at the  
11 2021 level.

12 **Q.    Would you describe the calculation of federal and state income**  
13 **taxes?**

14 A.            The projected income tax calculation for North Dakota electric  
15 operations is shown on Statement J. Interest is deductible for tax  
16 purposes and the projected interest expense, shown on Schedule J-1,  
17 page 1, is calculated on the projected rate base using the projected debt  
18 ratio and weighted cost of debt from Statement E, page 1.

19                  North Dakota federal and state income taxes are fully normalized,

1 so the calculation of income taxes is made on the taxable income after  
2 interest, since any tax deductions would be fully offset by deferred income  
3 taxes.

4 **Rate Base**

5 **Q. Would you describe the development of the projected rate base for**  
6 **2022 and 2023?**

7 A. The rate base is summarized on Statement A, page 4 and shows  
8 the Per Books 2021, Adjusted 2021, and projected 2022 and 2023  
9 average rate base for North Dakota electric operations. Statements B, C,  
10 D, and J are the supporting components of the projected rate base.

11 Statement B, page 1 shows the projected plant in service for 2022  
12 and 2023. The projected plant was developed by adding the capital  
13 budget items for 2022 to the Adjusted 2021 plant in service balances. The  
14 projected 2022 plant is detailed in Statement B, Schedule B-1, page 1.  
15 Retirements, based on a three-year average of retirements by function,  
16 were deducted and the average 2022 balance was calculated. The  
17 process was repeated for 2023 in detail on Statement B, Schedule B-1,  
18 page 2 with the only difference being Heskett Unit IV is recorded at a full  
19 year value. Statement B, Schedule B-1, pages 3 through 8 detail the 2021

1 Adjusted Plant in Service associated with the North Dakota electric  
2 operations.

3 The detailed capital additions by project for 2022 and 2023 are  
4 shown on Statement B, Schedule B-2, pages 1 through 11. These  
5 additions exclude any items that are included in the Transmission and  
6 Renewable Rider. Because the Lewis & Clark Unit I and Heskett Unit I &  
7 Unit II are being retired, there are no capital additions related to these coal  
8 units, except for those associated with landfill closures. Page 11  
9 specifically references the addition and associated depreciation, and taxes  
10 associated with Heskett Unit IV.

11 The projected accumulated reserve for depreciation is summarized  
12 in Statement C. The projected reserve balances were calculated using  
13 the Adjusted reserve balances as of December 31, 2021, adding the  
14 calculated depreciation expense and deducting retirements based on a  
15 three-year average of retirements, as shown on Statement H, Schedule H-  
16 2, pages 1 and 2. The average 2022 balances were then calculated and  
17 the process was repeated for 2023 with the only difference being Heskett  
18 Unit IV is recorded at a full year value.

1 **Q. How were the working capital items derived?**

2 A. The projected working capital summary is shown on Statement D,  
3 page 1. Detailed information is shown on Statement D, Schedule D-1,  
4 pages 1 through 12. Materials and supplies, fuel stocks, and prepaid  
5 insurance were restated to a thirteen-month average on pages 1, 2, and 3,  
6 reflecting actual balances through December 2021 with January 2022  
7 through December 2023 based on the prior period actual results. For fuel  
8 stocks, the prior period results used to project January 2022 through  
9 December 2023 were excluding those costs associated with Lewis & Clark  
10 Unit I and Heskett Unit I & Unit II.

11 The unamortized loss on debt, unamortized redemption of preferred  
12 stock cost, loss on the sale of buildings, and decommissioning of retired  
13 power plants were calculated using the balance as of December 31, 2021  
14 and adding the calculated change for 2022, which reflects a reallocation of  
15 the balance and the annual amortization, to arrive at a balance for 2022.  
16 The 2021 and 2022 balances were then averaged to reflect the 2022  
17 average. The process was repeated to calculate the 2023 average, as  
18 shown on Schedule D-1, page 4, 5, 6 and 9. The associated accumulated  
19 deferred income taxes for unamortized loss on debt were also included.

1 The loss on the sale of buildings is being amortized over a 20-year period.

2 The decommissioning of retired power plants was fully amortized in 2021.

3 The regulatory asset associated with Lewis & Clark Unit I and  
4 Heskett Unit I & Unit II is shown on Statement D, Schedule D-1, page 11  
5 through December 2022 assuming the proposed 10-year amortization.

6 Effective with the implementation of final rates from this Case, the  
7 Company is proposing this regulatory asset be recovered through the  
8 Generation Rider.

9 The regulatory liability associated with the Renewable Rider is  
10 shown on Statement D, Schedule D-1, page 12 and is excluded from this  
11 case, it is only reflected in the Per Books 2021.

12 Customer advances for construction are shown on Statement D,  
13 Schedule D-1, page 10 and have been restated to a thirteen-month  
14 average balance for 2022 and 2023, with actuals through December 2021.

15 The Company is also proposing to include the provision for  
16 pensions and benefits and post retirement in the revenue requirement for  
17 the 2023. The associated accumulated deferred income taxes were also  
18 included and is discussed in detail below. The inclusion of these

1 regulatory assets is consistent with the treatment in the most recent gas  
2 rate case (Case No. PU-20-379).

3 **Q. Montana-Dakota has proposed to include the net pension regulatory**  
4 **asset in rate base. Will you explain why?**

5 A. Yes. As discussed in the testimony of Ms. Kivisto, the Company's  
6 required contributions to the pension account resulted in a significant  
7 prepaid asset and exceeded the amount of pension expense (commonly  
8 referred to as FAS 87 or ASC 715 expense) recovered through the  
9 revenue requirement. The contributions are tax deductible for Montana-  
10 Dakota and any earnings on those contributions in the pension trust  
11 account are not subject to income tax. With that in mind, the contributions  
12 help maintain the required funding level and, at the same time, typically  
13 result in lower FAS 87 expense.

14 Post retirement contributions are typically much more closely  
15 matched to the annual expense, so the prepaid asset is much smaller.  
16 However, Montana-Dakota considers the benefits and the circumstances  
17 surrounding the creation of both prepaid assets or liabilities that it is  
18 appropriate to include both pension and post retirement similarly.

19 The table below presents the regulatory asset or liability position for  
20 Montana-Dakota beginning in December 2004 through December 2021.

1 As shown, Montana-Dakota has made cash contributions in the amount of  
2 \$81.5 million but has recovered only \$28.7 million through the inclusion of  
3 pension expense in the revenue requirement. North Dakota electric  
4 operations' share of the total pension regulatory asset is \$15.7 million as  
5 of December 31, 2023.

	Cash Contributions	Pension Expense	Pension Balance Debit (Credit)
Beginning Balance - 12/31/2004			\$7,777,266
Activity - 2005	\$0	\$4,179,348	3,597,918
Activity - 2006	-	4,118,976	(521,058)
Activity - 2007	1,188,690	3,724,426	(3,056,794)
Activity - 2008	-	2,825,775	(5,882,569)
Activity - 2009	8,347,434	4,759,097	(2,294,232)
Activity - 2010	3,871,657	(5,328)	1,582,753
Activity - 2011	13,757,133	1,610,332	13,729,554
Activity - 2012	12,038,687	(740,118)	26,508,359
Activity - 2013	10,014,592	1,830,351	34,692,600
Activity - 2014	12,202,457	594,340	46,300,717
Activity - 2015	2,182,143	1,398,780	47,084,080
Activity - 2016	-	1,746,833	45,337,247
Activity - 2017	422,015	1,422,159	44,337,103
Activity - 2018	7,200,692	720,403	50,817,392
Corporate Reorg. Adj. 3/	(5,133,171)	-	45,684,221
Activity - 2019	15,452,375	1,379,116	59,757,480
Activity - 2020		(177,300)	59,934,780
Activity - 2021		(727,718)	60,662,498
Total Funding	<u>\$81,544,704</u>	<u>\$28,659,472</u>	
6 Ending Balance - 12/31/2021			<u>\$ 60,662,498</u>

1 **Q. Is Montana-Dakota required to make contributions to its pension**  
2 **trust fund? And what are the ramifications if funding is not**  
3 **maintained?**

4 A. Yes. Internal Revenue Service rules govern minimum required  
5 pension funding contributions. If required contributions are missed or  
6 delayed, the missed payment would be considered a reportable event  
7 under the Employee Retirement Income Security Act of 1974 (ERISA)  
8 rules. This could also subject the Company to excise taxes for failure to  
9 meet minimum funding requirements. In addition, if the funded status  
10 drops below certain levels, restrictions on benefit payments may be  
11 required as well as potentially increased premiums payable to the Pension  
12 Benefit Guaranty Corporation.

13 **Q. Montana-Dakota has included pension and post-retirement benefits**  
14 **in this filing. Will you explain why the Company has decided to**  
15 **include these regulatory assets in rate base at this time?**

16 A. As reflected in the table above, the pension regulatory asset  
17 fluctuates from an asset to a liability and then, beginning in 2012, started  
18 to increase to a magnitude as the Company had made significant funding  
19 contributions. However, the amount recovered through the revenue  
20 requirement (i.e. recovery of FAS 87 expense as a component of

1 operating expenses) has decreased to the point that the regulatory asset  
2 has become a material asset upon which Montana-Dakota is not able to  
3 earn a return. The Company was evaluating the inclusion of pension and  
4 post retirement at the time of the last electric rate case (Case No. PU-16-  
5 666) but did not include the regulatory assets at that time. Since that time,  
6 Montana-Dakota did propose the inclusion of pension and benefits and  
7 post-retirement benefits regulatory assets in gas Case No. PU-20-379 rate  
8 base. The Company's proposal was accepted by the Commission through  
9 the Settlement Agreement in that Case.

10 Post retirement benefits regulatory assets are similar in nature, as  
11 mentioned earlier, but is on a smaller scale.

12 **Q. Please describe Exhibit No.\_\_(TRV-3).**

13 A. Exhibit No.\_\_(TRV-3) was prepared to present the Company's  
14 general ledger treatment and to provide a historic view of the pension  
15 regulatory asset and liability balances.

16 **Q. Would you describe how the accumulated deferred income tax**  
17 **balances were developed?**

18 A. The accumulated deferred income tax balances are summarized on  
19 Statement J, Schedule J-2, page 1. The projected balances were derived

1 by adding the changes to the deferred income taxes for 2022 and 2023 to  
2 the Adjusted 2021 balances and calculating the average balance.

3 The changes associated with book/tax depreciation differences  
4 (liberalized depreciation and full normalization,) are on Schedule J-2, page  
5 3 and display the projected changes due to the plant additions as well as  
6 existing plant. The Company is required to use the Proration Method of  
7 computing deferred taxes for all test period filings in which a forecast has  
8 been used to develop the revenue requirement to comply with IRS  
9 normalization rules.

10 **Q. What is the additional revenue requirement calculated on Exhibit**  
11 **No.\_\_\_\_(TRV-1)?**

12 A. Exhibit No.\_\_\_\_(TRV-1), which is identical to Statement A, pages 1  
13 and 2, shows the calculation of the revenue deficiency of \$25,372,099  
14 based on the projected 2023 income and rate base and using the overall  
15 rate of return of 7.513 percent from Statement E, page 1 and supported by  
16 Ms. Nygard.

17 **Interim Revenue Requirement**

18 **Q. Is Montana-Dakota seeking an interim increase in this case?**

19 A. Yes it is. As stated by Ms. Kivisto, Montana-Dakota is seeking an

1 interim rate relief in this case pursuant to North Dakota §49-05-06.

2 **Q. What amount of interim rate relief is the Company seeking?**

3 A. The Company has identified and interim revenue requirement,  
4 presented in Exhibit No.\_\_\_\_(TRV-2) of \$11,422,625 and Statement A of  
5 the Interim Application based on the 2023 projected cost of service.

6 **Q. Would you please describe the variances of the interim increases**  
7 **from the case?**

8 A. The following items are the primary changes from the Company's  
9 general rate case filing:

- 10 • The depreciation rates were modified to reflect the currently approved  
11 deprecation rates as approved in Case No. PU-16-666;
- 12 • The investment associated with Heskett Unit IV and the associated  
13 depreciation;
- 14 • The Return on Equity (ROE) was modified to reflect the 9.650 percent  
15 authorized in Case No. PU-16-666;
- 16 • The pension and benefits and post retirement regulatory assets were  
17 excluded; and
- 18 • The annualized amortization of the Lewis & Clark Unit I and Heskett Unit I  
19 & Unit II was adjusted to reflect a 10-year amortization and the regulatory

1           asset was included in the working capital. The Company is proposing to  
2           reduce the current amortization upon the implementation of the interim  
3           rates to match the proposed revenue requirement.

4   **Q.    Does this complete your direct testimony?**

5   A.        Yes, it does.

MONTANA-DAKOTA UTILITIES CO.  
**PROJECTED OPERATING INCOME AND RATE OF RETURN**  
**REFLECTING ADDITIONAL REVENUE REQUIREMENTS**  
**ELECTRIC UTILITY - NORTH DAKOTA**  
**PROJECTED 2023**

	<b>BASE RATES AND RIDERS</b>					
	2023 Revenue at Current Rates	Move Generation (RICE) to Base	Move L&C UI and Heskett UI&J to Generation	Revenue Increase at 10.5% ROE	Total 2023 Revenue Requirement	Total Change in Revenue Requirement
<b>Base Retail Rates</b>	\$169,452,236	\$3,450,741	\$0	\$17,539,519	\$190,442,496	\$20,990,260
<b>Riders:</b>						
Generation	\$3,450,741				\$7,832,580	\$4,381,839
Renewable	18,146,907	-\$3,450,741	\$7,832,580	\$0	18,146,907	
Transmission	14,707,614				14,707,614	
<b>Total Revenue</b>	<b>\$205,757,498</b>	<b>\$0</b>	<b>\$7,832,580</b>	<b>\$17,539,519</b>	<b>\$231,129,597</b>	<b>\$25,372,099</b>

**MONTANA-DAKOTA UTILITIES CO.**  
**PROJECTED OPERATING INCOME AND RATE OF RETURN**  
**REFLECTING ADDITIONAL REVENUE REQUIREMENTS**  
**ELECTRIC UTILITY - NORTH DAKOTA**  
**PROJECTED 2023**

<b>BASE RATES</b>			
	Before Additional Revenue Requirements 1/	<b>Additional Revenue Requirements</b>	Reflecting Additional Revenue Requirements
<b>Operating Revenues</b>			
Sales	\$172,902,977	<b>\$17,539,519</b>	\$190,442,496
Sales for Resale	-		-
Other	3,898,165		3,898,165
Total Revenues	<u>176,801,142</u>	<u>17,539,519</u>	<u>194,340,661</u>
<b>Operating Expenses</b>			
Operation and Maintenance			
Cost of Fuel & Purchased Power	45,814,244		45,814,244
Other O&M	55,764,922		55,764,922
Total O&M	<u>101,579,166</u>		<u>101,579,166</u>
Depreciation	30,209,497		30,209,497
Taxes Other Than Income	7,356,417		7,356,417
Current Income Taxes	4,922,147	4,280,502 2/	9,202,649
Deferred Income Taxes	0		-
Total Expenses	<u>144,067,227</u>	<u>4,280,502</u>	<u>148,347,729</u>
Operating Income	<u>\$32,733,915</u>	<u>\$13,259,017</u>	<u>\$45,992,932</u>
Rate Base	<u>\$612,177,981</u>		<u>\$612,177,981</u>
<b>Rate of Return</b>			
	<u><b>5.347%</b></u>		<u><b>7.513%</b></u>

1/ See Statement A, Page 3.

2/ Reflects state and federal taxes at 24.4049%.

**MONTANA-DAKOTA UTILITIES CO.**  
**PROJECTED OPERATING INCOME AND RATE OF RETURN**  
**REFLECTING ADDITIONAL REVENUE REQUIREMENTS - INTERIM**  
**ELECTRIC UTILITY - NORTH DAKOTA**  
**PROJECTED 2023**

<b>BASE RATES</b>			
	Before Additional Revenue Requirements 1/	<b>Additional Revenue Requirements</b>	Reflecting Additional Revenue Requirements
<b>Operating Revenues</b>			
Sales	\$172,902,977	<b>\$11,422,625</b>	\$184,325,602
Sales for Resale	-		-
Other	3,898,165		3,898,165
Total Revenues	<u>176,801,142</u>	<u>11,422,625</u>	<u>188,223,767</u>
<b>Operating Expenses</b>			
Operation and Maintenance			
Cost of Fuel & Purchased Power	45,814,244		45,814,244
Other O&M	55,501,290		55,501,290
Total O&M	<u>101,315,534</u>		<u>101,315,534</u>
Depreciation	28,738,721		28,738,721
Taxes Other Than Income	7,063,612		7,063,612
Current Income Taxes	5,453,163	2,787,680 2/	8,240,843
Deferred Income Taxes	0		-
Total Expenses	<u>142,571,030</u>	<u>2,787,680</u>	<u>145,358,710</u>
Operating Income	<u>\$34,230,112</u>	<u>\$8,634,945</u>	<u>\$42,865,057</u>
Rate Base	<u>\$605,353,152</u>		<u>\$605,353,152</u>
<b>Rate of Return</b>			
	<u><b>5.655%</b></u>		<u><b>7.081%</b></u>

1/ See Statement A, Page 2.

2/ Reflects state and federal taxes at 24.4049%.

**MONTANA-DAKOTA UTILITIES CO.**  
**PENSION & BENEFITS EXHIBIT**  
 2017 - 2021  
 (000s)

**GENERAL LEDGER RECONCILIATION**

	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Fair Value of Net Plan Assets	\$192,712	\$167,331	\$176,548	\$184,031	\$178,442
Benefit Obligation at End of Year	250,889	219,969	206,730	212,723	199,426
Funded Status - Over (Under)	(\$58,177)	(\$52,638)	(\$30,182)	(\$28,692)	(\$20,984)
Regulatory Asset	\$102,514	\$103,455	\$89,939	88626	81646
Net Asset in Rate Base	\$44,337	\$50,817	\$59,757	\$59,934	\$60,662

**MONTANA-DAKOTA UTILITIES CO.  
 PENSION BALANCE SUMMARY  
 ENDING DECEMBER 31, 2021**

	Cash Contributions 1/	Pension Expense 2/	Pension Balance Debit (Credit)
Beginning Balance - 12/31/2004			\$7,777,266
Activity - 2005	\$0	\$4,179,348	3,597,918
Activity - 2006	-	4,118,976	(521,058)
Activity - 2007	1,188,690	3,724,426	(3,056,794)
Activity - 2008	-	2,825,775	(5,882,569)
Activity - 2009	8,347,434	4,759,097	(2,294,232)
Activity - 2010	3,871,657	(5,328)	1,582,753
Activity - 2011	13,757,133	1,610,332	13,729,554
Activity - 2012	12,038,687	(740,118)	26,508,359
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Activity - 2017	422,015	1,422,159	44,337,103
Activity - 2018	7,200,692	720,403	50,817,392
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Activity - 2020		(177,300)	59,934,780
Activity - 2021		(727,718)	60,662,498
Total Funding	<u>\$81,544,704</u>	<u>\$28,659,472</u>	
Ending Balance - 12/31/2021			<u>\$ 60,662,498</u>

- 1/ Actuarially determined cash payments to the pension trust fund.  
 2/ Actuarially determined pension expense use in the development of the revenue requirement through rate cases.  
 3/ Adjustment to reflect the removal of MDU Resources pension funding - cash received by Montana-Dakota due to the 1/1/2019 corporate reorganization in Case No. PU-18-075.