

MONTANA-DAKOTA UTILITIES CO.

BEFORE THE NORTH DAKOTA PUBLIC SERVICE COMMISSION

CASE NO. PU-22-194
REBUTTAL TESTIMONY OF

LARRY E. KENNEDY

1 **Q1. Please state your name and business address.**

2 A1. My name is Larry E. Kennedy. My business address is 200 Rivercrest Drive S.E.,
3 Suite 277, Calgary, Alberta, T2C 2X5.

4 **Q2. By whom are you employed?**

5 A2. I am employed by Concentric Energy Advisors, Inc.

6 **Q3. What is your position with Concentric Energy Advisors, Inc. (“Concentric”)?**

7 A3. I am employed by Concentric as a Senior Vice President.

8 **Q4. On whose behalf are you submitting this Rebuttal Testimony?**

9 A4. I am submitting this Rebuttal Testimony before the North Dakota Public Service
10 Commission (“Commission”) on behalf of Montana-Dakota Utilities Co.
11 (“Montana-Dakota” or the “Company”).

12 **Q5. What is the purpose of your Rebuttal Testimony?**

13 A5. In connection with the Application by Montana-Dakota Utilities (MDU) I submitted
14 Written Direct Testimony which set forth the results of my full and comprehensive
15 depreciation study of the plant in service of the Montana-Dakota Co. – Electric
16 Division as of December 31, 2020 (Exhibit No. LEK-3). Among the information
17 provided, my written Direct Testimony provided an outline of the Scope of the

1 Depreciation Study, the methods and procedures used in the study, the information
2 relied upon in the development of the Depreciation Study, a summary of the results
3 of the study, the reasons for changes for the Depreciation rates.

4 The North Dakota Public Service Commission Advocacy Staff (NDPSC) have
5 entered the evidence of Dr. Marie Fagan from the London Economics International,
6 LLC (“LEI). Additionally, Marathon Petroleum Company, LP (Marathon) has
7 entered evidence of Kavita Maini of KM Energy Consulting, which also included
8 comment on the requested depreciation rates. This rebuttal evidence is required in
9 order to clarify the record regarding the estimated average service lives and net
10 salvage percentages recommended for a number of electric transmission,
11 distribution and general plant accounts.

12 **Q6. Please provide a brief overview of the recommendations made in the NDPSC**
13 **Evidence.**

14 A6. The NDPSC evidence recommends maintaining the current depreciation rates.¹ The
15 NDPSC recommendation appears to be largely based on the disagreement with the
16 net salvage percentages that are proposed in my depreciation study, indicating that
17 *“The more negative net salvage values are a main driver of the higher depreciation*
18 *rates proposed by MDU, and therefore the increase in depreciation expense in the*
19 *current case.”*² However, the only evidence of this conclusion is presented by a
20 comparison of the depreciation rates in Figure 20 of the LEI evidence which also
21 includes the differences in the average service life estimates between the MDU

¹ Direct Testimony of Marie Fagan, London Economics International LLC, page 33, lines 19-20.

² Direct Testimony of Marie Fagan, London Economics International LLC, page 32, lines 9-11.

1 depreciation study and the Otter Tail depreciation study. Based on my review of the
2 referenced Otter Tail Technical Update, it is apparent that the LEI is incorrect, as
3 will be described further in the Rebuttal Evidence.

4 **Q7. Please provide a brief overview of the recommendations made in the**
5 **Marathon Evidence.**

6 A7. Marathon recommends “...that MDU continue to use the existing depreciation
7 rates and recover its investment at the same pace as the current situation.”³ The
8 Marathon recommendation is based entirely on Ms. Maini’s incorrect
9 understanding that the change in depreciation rate is caused by “...the Company’s
10 proposal to recover its investment through depreciation more quickly than the
11 current situation...”⁴

12 **Q8. How is the remainder of your Rebuttal Testimony organized?**

13 A8. Overall, both the NDPSC and Marathon recommend maintaining the use of the
14 currently approved depreciation rates. However, neither the NDPSC and Marathon
15 positions have any basis in depreciation theory nor recognize any of the MDU
16 actual statistical data or relevant current trends. I will first discuss the underlying
17 problems with the other parties’ proposals to ignore and place no relevance on the
18 more current statistical analysis and information contained in the current
19 depreciation study. I will then discuss the problems with the limited analysis
20 presented in either the LEI or KM Energy Consulting Testimony.

³ Direct Testimony of Kavita Maini, page 12, lines 193-194.

⁴ Direct Testimony of Kavita Maini, page 12, lines 188-189.

1 **Q9. Please describe why the continued use of the current depreciation rates is**
2 **inappropriate given that more current and relevant information is now**
3 **available.**

4 A9. The inclusion of depreciation expense into the revenue requirement of regulated
5 utility is meant to achieve the goal that customers of a utility at any point in time
6 are responsible for the loss in service value not restored by current maintenance
7 incurred with the consumption or prospective retirement of utility plant in the
8 course of service from causes which are known to be in current operation and
9 against which the utility is not protected by insurance⁵. This principle, often used
10 in the context of discussion of “Intergenerational equity”, is only achievable when
11 periodic studies of the annual consumption of the service value of utility assets is
12 undertaken. As such, most regulated utilities prepare depreciation studies every
13 three to five years to ensure that the depreciation expense component of the revenue
14 requirement result in generational fairness among both the current and future
15 customers of the system.

16 Over the period of three to five years, the actual retirement experience will not
17 always mirror the estimated retirement activity inherent in the estimated retirement
18 dispersion curves (Iowa curves) or the average service life estimates. Likewise, the
19 actual net salvage experience will not directly align to the estimated future net
20 salvage percentage estimates. Both circumstances will cause the accumulated
21 depreciation position of the utility to become out of alignment with the theoretical

⁵ The National Association of Railroad and Utilities Commissioners, Uniform System of Accounts for Class A and B Electric Utilities. The Definition used by the Federal Energy Regulatory Commission for Electric is essentially the same.

1 accumulated depreciation required to maintain generational fairness. The additional
2 information that is collected over the three-to-five-year period since the previous
3 depreciation study is critical in the development of revised estimates of average
4 service life (including Iowa curves) and required net salvage provisions. Additional
5 capital expenditures will also be made over the period since the last depreciation
6 study which will change the average age of investment and the determination of the
7 remaining life of assets within each account.

8 In accordance with the above fundamentals, MDU undertakes periodic full and
9 comprehensive depreciation studies. The depreciation studies fully review and
10 make recommendations on any required revisions to the average service life and
11 the net salvage percentages. These periodic studies also recalculate the estimated
12 remaining life of each account which provides the period over which the net book
13 value of each vintage of assets is recovered.

14 The position of both the NDPSC and Marathon to simply use the depreciation
15 rates that were calculated a number of years ago and ignore the information and
16 asset history since the last study violates the fundamentals of generational equity.

17 The NDPSC and Marathon positions are not based on any foundation or argument
18 regarding the underlying depreciation parameters, but rather have focused on the
19 depreciation rates which are an arithmetic calculation based on the underlying
20 estimation of the depreciation parameters.

1 **Q10. Why is the LEI analysis supporting the continued use of the current**
2 **depreciation rates incorrect?**

3 A10. At page 32 of the LEI Testimony, Dr. Fagan notes that the net salvage percentages
4 have greatly increased over the period since 2013, and claims that the actual net
5 salvage expenditures resulting in the high levels of cost of removal have not been
6 explained. However, my Direct Testimony (Exhibit LEK-1) at pages 18-20 discuss
7 this topic in response to the question - “What is causing this trend to increased cost
8 of removal of utility assets?”

9 I also note that in Figure 18 of the LEI evidence, the actual net salvage percentage
10 over the period of 2013 through 2020 varied from negative 102.2 percent to negative
11 361.1 percent. The same figure shows that the recommended net salvage percentage
12 of negative 50% is much less negative than the overall life to date net salvage
13 indication of negative 82.6 percent. Concentric endorses a policy of gradualism and
14 moderation when recommending changes to depreciation parameters, as is
15 evidenced in the data presented in Figure 18 of the LEI evidence and in the salvage
16 analysis presented for all accounts in Section 7 of the depreciation study report.
17 There is clearly a need for a more negative salvage percentage for many accounts.

18 To justify the position to maintain the current depreciation rates. LEI has pointed
19 to a recent Technical Update prepared by Foster Associates for Otter Tail Power
20 Company in a 2022 docket. Based on my review of the Foster Associates report,
21 this technical update was based on the depreciation parameters established in a
22 2018 depreciation study based on December 31, 2017 plant and reserve balances.

23 I also note that the LEI report focused on a comparison of only 5 accounts out of

1 the 16 comparable accounts. In a number of accounts that were not compared to
2 the Otter Tail report, the net salvage percentages were in fact more negative in the
3 Otter Tail study than the negative amounts recommended in the current MDU
4 report. This is consistent with my experience where comparisons of peers can, at
5 best, be used only to compare the reasonableness of the recommendations and the
6 use of only one peer cannot be considered as a viable peer analysis.

7 The LEI report makes an additional critical error, as it uses the comparison of net
8 salvage recommendations of only five accounts to form an opinion on the overall
9 depreciation rate. As noted previously, the depreciation rate calculation is
10 dependant upon the average service life, the estimated retirement dispersion
11 curve, the estimated net salvage percentage, and the estimated future remaining
12 life calculation. While the LEI Testimony made a brief comment on the net
13 salvage parameters of 5 selected accounts, it has provided no evidence related to
14 the comparison of the average service life estimate, the average age of assets in
15 service and the shape of the estimated retirement dispersion curve to any account.
16 As such, any comparison of the MDU composite depreciation rates to the Otter
17 Tail depreciation rates is meaningless.

18 Overall, the omissions in the LEI evidence, when combined with the generational
19 equity concerns when not using currently available relevant information, need to
20 be considered when providing any weight to the LEI depreciation testimony.

1 **Q11. Why is the Marathon testimony supporting the continued use of the**
2 **current depreciation rates incorrect?**

3 A11. The Marathon evidence regarding depreciation was comprised of only 17 lines.
4 With this limited amount of 17 lines, the only noted basis for the continued use of
5 current depreciation is because *“the Company’s proposal to recover its investment*
6 *through depreciation more quickly than the current situation is*
7 *substantial...”[emphasis added]*. Clearly Marathon does not understand the basis
8 of the MDU depreciation calculations. Within the transmission and distribution
9 accounts, the average service life estimate was in fact increased in 11 accounts and
10 only decreased in 1 account.⁶ Consequently, MDU is in fact increasing the period
11 over which it is collecting depreciation expense for these 11 accounts. Additionally,
12 the Life Span dates used for the Production assets have been extended at 6 generation
13 sites and were not shortened at any site.⁷ Clearly the allegation that the current MDU
14 report attempts to recover its investment more quickly is not accurate. In fact, the
15 period of recovery has been extended in this current study.

16 **Q12. Does this conclude your Direct Testimony?**

17 A12. Yes, it does.

⁶ Exhibit LEK-1, comparison of existing versus proposed average service lives - pages 11,12 and 15.

⁷ Exhibit LEK-1, pages 9-10.