

MONTANA-DAKOTA UTILITIES CO.

Before the North Dakota Public Service Commission

Case No. PU-22-194

Rebuttal Testimony

of

Tara R. Vesey

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

2 A. Yes. My name is Tara R. Vesey and my business address is 400
3 North 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. Are you the same Tara R. Vesey 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 Dr. Marie Fagan, Chief
13 Economist, London Economics International, LLC, testifying on
14 behalf of the North Dakota Public Service Commission Advocacy
15 Staff, and to address certain analysis and recommendations
16 proposed by Ms. Kavita Maini, Principal, KM Energy Consulting,
17 LLC, testifying on behalf of Marathon Petroleum Company LP.

1 **Q. Please summarize Dr. Fagan's recommendations you will**
2 **address.**

3 A. I will address the following income statement and rate base
4 adjustments and recommendations by Dr. Fagan:

- 5 • A decrease of \$4,741,530 related to the proposed
6 depreciation rates;
- 7 • A decrease of \$4,193,006 in labor and benefits expenses
8 related to the following items:
 - 9 ○ \$1,391,439 related to long-term incentive;
 - 10 ○ \$2,258,988 related to short-term incentive;
 - 11 ○ \$443,150 related to the new employees/promotions
12 associated with the Outage Management System;
 - 13 ○ \$90,637 relating to distribution labor costs; and
 - 14 ○ \$8,792 relating to the 401k costs associated with the
15 lower distribution labor costs;
- 16 • A decrease of \$1,070,568 related to COVID expenses;
- 17 • A decrease of \$868,050 related to Software Expenses;
- 18 • A decrease of \$226,557 related to Industry Dues;
- 19 • A decrease of \$225,084 related to insurance increases;
- 20 • A decrease of \$56,112 related to advertising;
- 21 • A re-calculation of the pension and post retirement
22 assets;
- 23 • A decrease of \$40,000 related to the personal use of

1 vehicles; and

2 • An increase to the average rate base.

3 In addition, I will also address the following comments:

4 • Comment that a comparison of the prior years' budget to
5 current forecast is necessary;

6 • Comments regarding the use of inflation assumptions;
7 and

8 • Comments on the jurisdictional allocation factors.

9 **Q. Please summarize Ms. Maini's recommendations you will**
10 **address.**

11 A. I will address the income statement recommended decrease
12 of \$4.6 million related to the proposed depreciation rates.

13 **Income Statement and Rate Base Recommendations**

14 **Q. Dr. Fagan and Ms. Maini commented that Montana-Dakota did**
15 **not make a compelling argument to implement the rates**
16 **identified in the current Depreciation Study. Do you agree?**

17 A. No. Montana-Dakota performs periodic depreciation studies
18 in order to account for changes in investment or assumptions (such
19 as a change in asset life). The Company requests to update the
20 resulting depreciation rates only at the time of a general rate case.
21 The last time depreciation rates were updated was August 7, 2017,
22 when final rates in Case No. PU-16-666 were implemented. The
23 rates approved in that Case were based on a depreciation study

1 that included assets placed in service as of December 31, 2014.
 2 Certainly, the passage of time and the changes in the Company's
 3 plant investment are compelling arguments to include updated
 4 depreciation rates in the Company's request.

5 As shown in the table below, the plant investment at the Big
 6 Stone Generation Station, which implemented an Air Quality
 7 Control System (AQCS) in 2015, has increased 133%.

| Account | Depreciable Plant | Truncation Date | Original Cost at Dec 31, 2020 | Original Cost at Dec 31, 2014 | Variance |
|-------------------------------------|--|-----------------|-------------------------------|-------------------------------|----------------------|
| STEAM PLANT | | | | | |
| 311.00 | Structures and Improvements | | | | |
| | Big Stone Generating Station | 2046 | 33,163,446.92 | 9,509,529.19 | 23,653,917.73 |
| 312.00 | Boiler Plant Equipment | | | | |
| | Big Stone Generating Station | 2046 | 85,685,287.65 | 34,242,520.56 | 51,442,767.09 |
| 314.00 | Turbogenerator Units | | | | |
| | Big Stone Generating Station | 2046 | 13,525,236.19 | 12,161,777.33 | 1,363,458.86 |
| 315.00 | Accessory Electric Equipment | | | | |
| | Big Stone Generating Station | 2046 | 8,947,155.15 | 4,237,158.97 | 4,709,996.18 |
| 316.00 | Miscellaneous Power Plant Equipment | | | | |
| | Big Stone Generating Station | 2046 | 1,649,259.12 | 1,258,777.87 | 390,481.25 |
| TOTAL STEAM PRODUCTION PLANT | | | 142,970,385.03 | 61,409,763.92 | 81,560,621.11 |

8
 9 This significant change in investment, coupled with no
 10 change in the life of the plant, is the driver for the majority of the
 11 notable change in Steam Plant depreciation rates, referenced by
 12 both Dr. Fagan and Ms. Maini. The update to the Big Stone
 13 Generating Station depreciation rates accounts for approximately
 14 \$1.7 million of the change in depreciation rates. That said, without
 15 some change in the depreciation rates, Montana-Dakota will have a
 16 stranded asset at the end of life for Big Stone Generation Station
 17 resulting in a lack of intergenerational equity discussion in the
 18 rebuttal testimony of Mr. Larry E. Kennedy.

1 Furthermore, on page 28 of her testimony, Dr. Fagan
2 identifies that the changes in “Account 367.0 alone would increase
3 MDU’s depreciation expense by almost \$2 million.”

4 As identified on page 17 of Mr. Kennedy’s direct testimony,
5 Account 367.0 was one of various accounts in which a reduced rate
6 was implemented in Case No. PU-16-666 because it had been
7 negotiated in another jurisdiction. Implementing depreciation rates
8 below the study findings only results in elevating depreciation rates
9 in the future given the account is under depreciated in the
10 timeframe the negotiated rate is active.

11 Furthermore, the implementation of the proposed
12 depreciation study lowers Montana-Dakota’s rate base over the
13 long term, thus is a benefit to the customers.

14 Mr. Kennedy fully supported and justified the depreciation
15 study and will continue to fully support the study in his rebuttal
16 testimony. This adjustment is without merit and should be rejected.

17 **Q. Dr. Fagan recommended four adjustments to labor. Do you**
18 **agree with her recommendations?**

19 A. No. Dr. Fagan has recommended the Company’s labor
20 expense should be reduced to exclude costs associated with long-
21 term incentives (page 12, lines 9 through 15), short-term incentives
22 (page 13, lines 14 through 15), the Outage Management System

1 (page 20 lines 22 through 27 and page 21, lines 1 through 4), and
2 certain distribution labor costs.

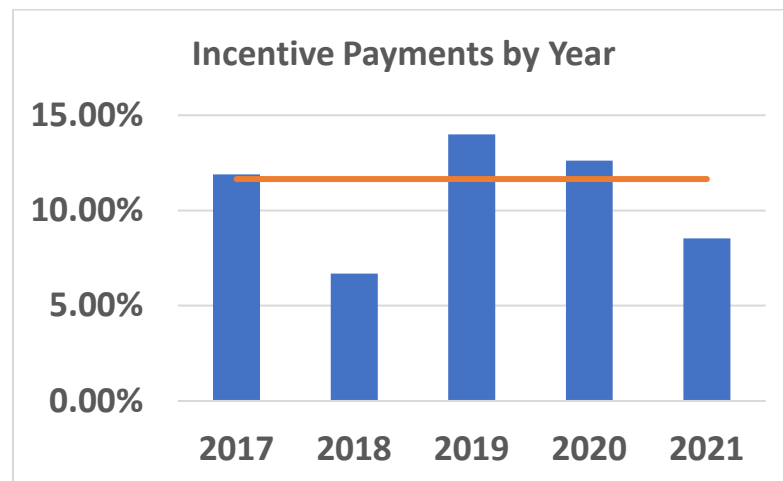
3 **Q. Dr. Fagan recommended disallowance for Long-Term and**
4 **Short-Term Incentives. Do you agree with her**
5 **recommendation?**

6 A. No. Dr. Fagan testifies that these costs are incurred for the
7 benefit of the shareholder.

8 Incentive compensation is a part of the total compensation
9 philosophy and is a portion of the compensation package that is used to
10 attract and retain employees that will make appropriate business
11 decisions. The argument that one can parse benefits of good business
12 decisions between a shareholder and a customer is misguided.

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

1 Dr. Fagan further testifies, on page 10, lines 25 and 26, and page
2 11, lines 1 and 2, that the Company's short-term incentive rate is artificially
3 high based on historical data. This information is not accurate. As shown
4 in the graph below, Montana-Dakota's proposal is appropriate for long-
5 term rate making as the Company has paid out short-term incentives at a
6 rate higher than the proposal in 3 of the past 5 years.



7
8 This topic is more fully discussed in the rebuttal testimony of Ms.
9 Kirsti Hourigan, but good business decisions are beneficial to customers in
10 totality and to disallow certain costs is an overreach. Dr. Fagan's
11 recommended adjustments of \$1,391,439 and \$2,258,988 must be
12 rejected.

13 **Q. Dr. Fagan recommended disallowances for the Outage**
14 **Management System (OMS) and the labor costs associated.**
15 **Do you agree with her recommendation?**

16 A. No. The OMS is a critical project for Montana-Dakota which
17 is focused on the safety and reliability of our electric system.

1 The OMS will allow for real time communication during
2 outages and major storm events. Although Montana-Dakota is
3 extremely proud of its response time during the ice storm that
4 effected North Dakota on the weekend of April 23, 2022, as stated
5 in the direct testimony of Mr. Daryl Anderson, the OMS would have
6 provided more centralized damage and repair tracking, customer
7 outage numbers could be seen in real time thus reducing
8 confusion, and follow-up maintenance damage could be managed
9 easier.

10 Dr. Fagan testifies that OMS costs are incurred with no clear
11 operational targets. The direct testimony of Mr. Daryl Anderson
12 clearly defines the goals and additional benefits expected for the
13 OMS, on pages 7 through 10. This is further discussed in the
14 rebuttal testimony of Mr. Anderson.

15 Additionally, Montana-Dakota has indicated to the North
16 Dakota Public Service Commission in Case Nos. PU-21-360 and
17 PU-22-175 that the OMS system is necessary in order to fully
18 comply with the updated reporting requirements of the North
19 Dakota Administrative Code Section 69-09-02-06.

20 The Company continues to support the inclusion of the OMS
21 in the rate base and labor costs and thus adjustments of \$443,150
22 from labor costs, and \$2,146,511 from rate base should be rejected.

1 **Q. Dr. Fagan recommended disallowances for distribution labor**
2 **costs. Do you agree with her recommendation?**

3 A. No. The recommendations of Dr. Fagan regarding
4 distribution labor are duplicative given the other reductions to labor
5 she recommended.

6 Regardless of the duplication, the distribution labor
7 comparison does not take into consideration the various difference
8 in the companies. This comparison does not consider, among other
9 things, the differences in capital investment versus O&M, amount of
10 subcontract labor used, customer types, and the utilization of
11 energy within the customer types. Without a full comparison of the
12 companies considered, this is not a reasonable calculation and is
13 not well supported by Dr. Fagan.

14 Therefore, the adjustments of \$90,637 relating to distribution
15 labor costs; and \$8,792 relating to the 401k costs associated with
16 the lower distribution labor costs are unreasonable and should be
17 rejected.

18 **Q. Dr. Fagan has indicated that the COVID expense is**
19 **inconsistent with historical trends and should be disallowed.**
20 **Do you agree?**

21 A. No. Montana-Dakota has historically included these costs,
22 including but not limited to Commercial Air Services, Seminars and
23 Meetings, Collection Agency Fees, and Office Supplies, as part of

1 its cost of service. As a result of the COVID-19 Pandemic, these
 2 expenses were reduced or delayed in 2020 and 2021.

3 It is important to note that Dr. Fagan has recommended the
 4 complete disallowance of each of the costs noted in the table
 5 below. Certainly, the Company will continue to be audited each
 6 year and every other expense identified will continue to be incurred.
 7 Therefore, her recommendation is entirely unreasonable.

| | 2016-2019 Avg | Dr. Fagan |
|-----------------------------|--------------------|------------|
| External Auditing | \$139,442 | \$0 |
| Collection Agency Fees | 54,015 | 0 |
| Commercial Air Service | 49,206 | 0 |
| Corporate Aircraft | 20,445 | 0 |
| Personal Vehicle Use | 7,181 | 0 |
| Meals | 95,562 | 0 |
| Other Reimbursable Exp | 138,007 | 0 |
| Office Supplies | 409,844 | 0 |
| Safety Trng Materials & Exp | 133,530 | 0 |
| Total | <u>\$1,047,232</u> | <u>\$0</u> |

8
 9 The Company's actual expense and the requested
 10 adjustment to those expenses for 2016 through 2021 is shown in
 11 the table below and further represented in Workpaper Statement G,
 12 page 50.

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2016-2019 Avg |
|-----------------------------|------------------|--------------------|------------------|--------------------|------------------|------------------|--------------------|
| External Auditing | \$144,952 | \$125,478 | \$139,381 | \$147,955 | \$129,544 | \$130,287 | \$139,442 |
| Collection Agency Fees | 54,876 | 50,900 | 61,921 | 48,563 | 40,094 | 37,263 | 54,015 |
| Commercial Air Service | 37,713 | 47,822 | 48,758 | 62,731 | 7,868 | 7,139 | 49,206 |
| Corporate Aircraft | 18,359 | 19,482 | 26,102 | 18,838 | 6,306 | 8,161 | 20,445 |
| Personal Vehicle Use | 7,717 | 6,591 | 7,407 | 7,009 | 3,182 | 1,377 | 7,181 |
| Meals | 81,558 | 89,742 | 95,702 | 115,244 | 48,019 | 47,844 | 95,562 |
| Other Reimbursable Exp | 126,557 | 139,935 | 131,028 | 154,510 | 45,892 | 47,935 | 138,007 |
| Office Supplies | 357,598 | 531,577 | 381,257 | 388,945 | 380,433 | 342,639 | 409,844 |
| Safety Trng Materials & Exp | 140,883 | 137,477 | 117,213 | 138,767 | 98,855 | 94,523 | 133,530 |
| Total 1/ | <u>\$969,793</u> | <u>\$1,147,804</u> | <u>\$988,767</u> | <u>\$1,082,562</u> | <u>\$739,773</u> | <u>\$714,948</u> | <u>\$1,047,232</u> |
| Per Books 2021 | | | | | | 714,948 | |
| Normalizing Adjustment | | | | | | | <u>\$332,284</u> |

13

1 Given, that Montana-Dakota's expenses in these areas are
2 artificially low due to the recent historical anomaly of a Global
3 Pandemic, a normalizing adjustment of \$332,284 was made to the
4 Adjusted 2021 value of \$677,533 to create a realistic expected
5 expense which represent normal business expenses for these
6 areas, including the inflation rate.

7 Dr. Fagan indicates, on page 15 lines 9 and 10, that tracking
8 costs associated with the COVID adjustment back to 2016 is not
9 appropriate, "because 2016 is four years before the pandemic
10 began." The Company asserts that Montana-Dakota had the
11 identified expenses prior to the COVID-19 Pandemic. The
12 normalizing adjustment is intended to create a realistic expense for
13 these areas by taking an average of the costs incurred from 2016
14 through 2019 (prior to the beginning of the pandemic).

15 Therefore, the identified expenses, which were impacted
16 significantly by COVID-19 pandemic, of \$1,070,568 should be
17 allowed, inclusive of the normalizing adjustment of \$322,284.

18 **Q. Dr. Fagan has recommended the disallowance of \$868,050 of**
19 **Software Expense. Do you agree?**

20 A. No. Dr. Fagan indicated that the justification for her
21 recommended Software Expense adjustment is found on
22 Workpaper Statement G, Schedule G-1, page 46 and 47 (Page 17,

1 lines 1 through 8). However, that is only a portion of the
2 workpapers justifying Montana-Dakota's adjustment.

3 A full and thorough review of the adjustment is necessary to
4 make a recommendation. As shown in the workpaper index, the
5 Software Expense adjustment workpapers are found on Workpaper
6 Statement G, Schedule G-1, pages 44 through 49. Page 44 shows
7 the summary of the various company areas. The workpapers
8 determine the North Dakota Electric allocation of charges and then
9 apply the anticipated increases.

10 As was communicated to the North Dakota Commission
11 during the Periodic Information Exchange on November 23, 2021,
12 maintaining a safe and secure system is a priority for Montana-
13 Dakota and takes investment and constant change. Furthermore,
14 the changes within the software industry associated with the
15 utilization of subscription and cloud services leads to an increase in
16 software expenses.

17 Finally, Montana-Dakota's forecasted software expenses for
18 2022 are reasonable when compared to actuals and tracking as
19 projected for 2023.

| | <u>Montana-Dakota</u> | | | <u>Dr. Fagan</u> |
|---------------------|-----------------------|------------------|-------------|------------------|
| | <u>Per Books</u> | <u>Projected</u> | | <u>2023</u> |
| | <u>2021</u> | <u>2022</u> | <u>2023</u> | |
| 20 Software Expense | \$1,893,027 | \$2,057,071 | \$2,326,137 | \$1,458,087 |

21 As shown above, Dr. Fagan's recommendation is in error, is
22 not reasonable, and should be rejected.

1 **Q. Dr. Fagan has indicated that past rate cases have disallowed**
2 **industry dues. Do you agree?**

3 A. No. Following the precedent set in past cases, Montana-
4 Dakota has included the industry dues associated with providing
5 gas and electric service in North Dakota utilizing the same logic as
6 presented in Electric Case Nos. PU-10-124 and PU-16-666 and
7 Gas Case Nos. PU-13-803, PU-15-090, and PU-17-295.

8 Dr. Fagan claims that industry dues should be eliminated as
9 they do not provide a benefit to electric customers. Montana-
10 Dakota disagrees as some of the organizations listed promote
11 compliance with state and federal regulations applicable to electric
12 service in North Dakota. In addition, Montana-Dakota is an
13 important part of each community in which it provides service. It is
14 important to each community to have Montana-Dakota's presence
15 in order to retain a strong community focus and advocate for safe
16 practices. A strong community is a benefit to all residents of those
17 communities and Montana-Dakota's small contribution and
18 involvement should remain in the Company's projected expenses.
19 Dr. Fagan's recommendation should be rejected.

20 **Q. Dr. Fagan has indicated that Montana-Dakota did not justify**
21 **the 10% increase in insurance expenses. Do you agree?**

22 A. No. Dr. Fagan indicated that Montana-Dakota's 10%
23 increase was not justified. Dr. Fagan then provided an example of

1 a reasonable justification as “is it owing to trends in the insurance
2 industry for higher premiums?” on page 16, lines 5 and 6.

3 Dr. Fagan appears to have disregarded my entire direct
4 testimony on this topic. As defined on page 20, lines 9 through 12
5 of my direct testimony, the “increase of 10.00 percent based on
6 recent trends...” Also, in Workpaper Statement G, Schedule G-1,
7 page 40, footnote 3, the increase is identified as tied to inflation (ie
8 – trends in the industry).

9 Finally, Montana-Dakota’s actual and forecasted 2022
10 insurance expenses are reasonable when compared to actuals.

11 The increase has been fully justified, is reasonable, and thus
12 Dr. Fagan’s recommendation should be rejected.

13 **Q. Dr. Fagan has recommended that Institutional Advertising
14 Expenses should be disallowed. Do you agree?**

15 A. No. Following the precedent sent in past Montana-Dakota
16 cases as far back as 2002, Montana-Dakota has included
17 Institutional Advertising expense associated with providing gas and
18 electric service in North Dakota utilizing the same logic as
19 presented in Electric Case Nos. PU-399-03-296, PU-10-124 and
20 PU-16-666 and Gas Case Nos. PU-399-02-183, PU-399-04-097,
21 PU-13-803, PU-15-090, and PU-17-295.

22 Montana-Dakota uses Institutional Advertising expenses in
23 order to create and maintain name recognition. For instance, the

1 "In the Community to Serve" campaign, which includes a safety
2 message, is part of this expense. The Company believes that it is
3 to the customer's benefit to have an easily identifiable electric
4 provider in those communities.

5 Montana-Dakota is an important part of each community in
6 which it provides service. It is important to each community to have
7 Montana-Dakota's presence in order to retain a strong community
8 focus.

9 It should be noted that Montana-Dakota did remove all
10 Promotional Advertising as well as those Institutional Advertising
11 expenses not associated with North Dakota Electric Operations.

12 Dr. Fagan's recommendation should be rejected.

13 **Q. Dr. Fagan has suggested that Montana-Dakota be required to**
14 **re-calculate pension and post-retirement assets. By doing so,**
15 **the Company would reduce the size of the regulatory assets.**
16 **Do you agree?**

17 A. No. Dr. Fagan has dedicated nearly three pages of
18 testimony explaining the impact of current and future discount rates
19 and expected return on assets. While future discount rates and
20 expected return on assets may impact future pension and post
21 retirement expense, Montana-Dakota's pension and post-retirement
22 regulatory assets are based on two historical components which
23 will not change. Specifically, the pension and post-retirement

1 assets are based on 1) previous Company contributions to the
2 pension and post-retirement trust accounts; and 2) historical
3 pension and post-retirement expenses. Both of these items were
4 based on the discount rates and expected return on assets at the
5 time they were recorded.

6 Again, contrary to Dr. Fagan's assertions, the pension and
7 post-retirement regulatory assets presented in this case will not be
8 impacted by updating the discount rates and expected return on
9 assets. The Commission should reject Dr. Fagan's
10 recommendation.

11 **Q. Dr. Fagan has recommended some vehicle expense be**
12 **disallowed. Do you agree?**

13 A. No. Montana-Dakota asserts that the personal use of
14 Company vehicles is a miscellaneous employee benefit that has a
15 minimal cost associated. Furthermore, the employee utilization of
16 Company vehicles is a benefit to the customer during emergencies.

17 This procedure is more fully justified in the rebuttal testimony
18 of Mr. Eric P. Martuscelli and should be allowed.

19 **Q. Dr. Fagan has recommended that the rate base be updated.**
20 **Do you agree?**

21 A. No. Montana-Dakota does not accept Dr. Fagan's
22 recommendations and thus does not agree with the rate base
23 update. Furthermore, Montana-Dakota uses an average rate base,

1 and Dr. Fagan's recommended changes are based on the year end
2 balances, thus Dr. Fagan's updated average rate base is elevated.

3 **Comments**

4 **Q. Dr. Fagan has indicated that previous budget forecasts are**
5 **critical to assessing the accuracy of the current forecast. Do**
6 **you agree?**

7 A. No. As was explained in the response to DR 13.1, Montana-
8 Dakota does not use budget information to create rate cases. The
9 budgeted O&M Adjustments and Capital Additions for 2023 was not
10 available prior to the May 2022 filing date of this case. Therefore,
11 comparing the 2023 budget to the rate case is not appropriate as
12 they are not comparable information.

13 **Q. Dr. Fagan has indicated that Montana-Dakota only used**
14 **inflation factors in a few instances. Do you agree?**

15 A. No. My direct testimony and the statements clearly defined
16 the various adjustments and the instances in which the forecasted
17 inflation was applied and the instances when another adjustment
18 logic was used.

19 The inflation factors are derived by taking an average of
20 three forecasted CPI's for each projected year (2022 and 2023).
21 The information source was the Organization for Economic Co-
22 Operation and Development, the International Monetary Fund, and
23 PricewaterhouseCoopers.

1 Also, the inflation factor that was forecasted at the time of
2 the rate case filing was well below the actual inflation that is
3 currently being experienced.

4 **Q. Dr. Fagan has indicated that Montana-Dakota did not provide**
5 **2023 jurisdictional allocation factors. Do you agree?**

6 A. Dr. Fagan, on page 46 of her testimony, has indicated that
7 Montana-Dakota did not provide jurisdictional allocators. In this
8 filing, Montana-Dakota relied on the 2022 jurisdictional allocation
9 factors as those were the most recently updated and available
10 factors at the time of the filing. The Company updates the 2023
11 jurisdictional allocation factors only at the beginning of 2023.
12 Therefore, the Company did provide all allocation factors it had
13 available at the time of the request. More importantly, the annual
14 update of the allocation factors generally results in only modest
15 changes in plant balances and forward-looking expenses. The
16 factors were updated in early February and 2023 North Dakota
17 electric operations will not see a significant change in any factor
18 that would impact the rate case filing as originally prepared.

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

20 A. Yes.