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March 21, 2023

**SENT VIA EMAIL (NDPSC@ND.GOV) AND
U.S. MAIL CERTIFIED MAIL**

Steve Kahl, Executive Secretary
North Dakota Public Service Commission
600 E. Boulevard Avenue, Dept. 408
Bismarck, ND 58505-0480

**RE: *Marathon Petroleum Company LP's Surrebuttal Testimony of Kavita Maini
Montana-Dakota Utilities Co. 2022 Electric Rate Increase Application
PSC Case No. PU-22-194***

Dear Mr. Kahl:

Enclosed please find the *Surrebuttal Testimony of Kavita Maini* and *Certificate of Service* for the same, in the above-referenced matter, on behalf of Marathon Petroleum Company LP.

Thank you for your attention to this matter. Please let me know if you have any questions.

Sincerely,

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Prefiled Surrebuttal Testimony of Kavita Maini
Marathon Petroleum Company LP
Stephen Campbell, Clark Hill, PLC

Surrebuttal Testimony of
Kavita Maini

Before the
North Dakota Public Service Commission

In the Matter of Montana-Dakota Utilities Co. for Authority
To Establish Increased Rates for Electric Service

CASE NO.: PU-22-194

Exhibit __

March 21, 2023

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1 **I. INTRODUCTION**

2 **Q. Please state your name and occupation.**

3 A. My name is Kavita Maini. I am the principal and sole owner of KM Energy Consulting,
4 LLC.

5 **Q. Please state your business address.**

6 A. My office is located at 961 North Lost Woods Road, Oconomowoc, WI 53066.

7 **Q. Are you the same Kavita Maini who has previously filed direct testimony in this case?**

8 A. Yes, I filed direct testimony on behalf of Marathon Petroleum Company LP (“MPC”). My
9 direct testimony provided recommendations regarding Montana-Dakota Utilities’ (“MDU”
10 or “Company”) Applied Blockchain load addition, depreciation rates, class cost of service
11 study (“COSS”) and revenue allocation to classes.

12 **Q. What is the purpose of your surrebuttal testimony?**

A. The purpose of my surrebuttal testimony is to respond to Company, AARP and
Commission Staff witnesses regarding sales forecast, depreciation rates, COSS
methodology and revenue allocation matters. The fact that I do not address any issue should
not be interpreted as my implicit approval of any position taken by Staff or any other party
on that issue.

1 **II. REVENUE REQUIREMENT ISSUES:**

2 **A. Sales Forecast**

3 **Q. What are Commission Staff's observations about the sales forecast?**

4 A. Commission Staff witness, Dr. Marie Fagan noted a 2,688,705 revenue requirement
5 associated with sales on page 3 of her direct testimony. She is concerned that the
6 Company's sales forecast methodology is not supported by detailed evidence.

7 **Q. How did MDU respond?**

8 A. While MDU witness Mr. Darcy Neigum provided more details and support regarding the
9 methodology in his rebuttal testimony, the Company did not update its sales forecast and
10 the resulting impacts on the revenue requirement.

11 **Q. Please explain.**

12 A. MDU has not updated its forecast and cost of service to accommodate the Applied Digital
13 Blockchain load even though the Commission granted the Company's petition to extend
14 service to this customer in an order issued on February 8, 2023, in Case No. PU-22-370.
15 Sales are traditionally updated in a rate case setting. Given that this load is already being
16 served by MDU and falls within the test year, the sales forecast and resulting cost of service
17 should be updated. Alternatively, in the absence of updating the sales forecast and cost of
18 service model, the Commission approved margins associated with this load must be
19 reflected and accounted for in this case. It is my understanding that the margin or net
20 revenues are expected to be addressed in Case No. PU-22-371 in which the Company has
21 requested approval of the Applied Digital Blockchain Electric Service Agreement ("ESA").

1 **B. Depreciation Expense**

2 **Q. What was your recommendation with regards to updating the depreciation rates in**
3 **direct testimony?**

4 A. I recommended that the Company continue to utilize the current depreciation rates. As
5 noted in my direct testimony, the main motivation for making this recommendation was
6 the concern with incorporating \$4.7 million for updating depreciation rates at a time when
7 the Company's proposed revenue requirement increase is in the double digits.

8 **Q. How did MDU respond?**

9 A. MDU primarily cited intergenerational equity concerns about retaining the existing
10 depreciation rates and not updating these rates.¹

11 **Q. How do you respond to MDU?**

12 A. The Company did not entirely follow the results of its own depreciation study in Case No.
13 PU-16-666. In that case, MDU voluntarily changed depreciation rates at the outset of its
14 rate case application for several assets, to keep these rates consistent across its
15 jurisdictions.² This voluntary action implies that the Company waived the
16 intergenerational concerns on its own accord at that time. While the motivating factor
17 behind the Company's actions in the last case and my recommendation in this case may
18 differ, the bottom line is that other priorities superseded the concern about intergenerational
19 equity. In my view, the proposed double-digit increase coupled with inflationary pressures
20 facing residential, commercial, and industrial customers deem it necessary to make rate
21 mitigation a priority. Retaining the existing depreciation rates helps with rate mitigation in
22 the current rate case. At the same time, the intent of my recommendation is not to disallow

¹ See Ms. Tara Vasey's rebuttal testimony, pages 3-5.

² See Mr. Travis Jacobson's direct testimony, page 24 in Case No. PU-16-666.

1 recovery of costs over the long term, but to adopt the same approach utilized by MDU in
2 the last case. Rationally speaking, MDU would not have voluntarily offered lower
3 depreciation rates in the last case that deviated from its own depreciation study with the
4 understanding there would be disallowance of cost recovery in the long term. Further,
5 retaining existing depreciation rates benefits MDU in the long run because the rate base is
6 higher compared to using the proposed depreciation rates.

7 **Q. MDU witness Ms. Tara Vasey cited the changes in the Big Stone investment between**
8 **the 2014 depreciation study and the 2020 depreciation study and the passage of time**
9 **as arguments to update the depreciation rate. Do you have comments about these**
10 **observations?**

11 A. Yes, I do. While there is a substantive difference used in the capital investment in the 2014
12 versus the 2020 study, it is my understanding that the entire Big Stone AQCS related costs
13 were incorporated into rate base in the 2016 rate case because the project was declared
14 commercially operational on December 29, 2015.³ Therefore, the difference between what
15 was actually folded into the rate base and the 2020 amounts is not as significant as the
16 difference depicted in between depreciation study updates. The working papers from the
17 last case suggest \$106.8 million for plant in service for year ending 2015 and plant
18 additions in 2016 of \$1.269 million.⁴ Furthermore, as shown below, it is important to note
19 that MDU voluntarily deviated from its depreciation study and utilized lower rates
20 associated with the entire AQCS related investment when folding this investment in rate
21 base.⁵ Consequently, neither the significance of the level of investment used in the two

³ See Mr. Alan Welte's testimony, page 18 in Case No. PU-16-666.

⁴ See workpaper L1 in Case No, PU-16-666.

⁵ Workpaper L in Case No. PU-16-666.

1 depreciation studies nor the passage of time are compelling arguments because MDU did
2 not follow its own depreciation study rates for most of the investment that was folded into
3 rate base in the last rate case.

		2014 Proposed Dep. Rate	Depreciation Rate Used
	<u>Big Stone</u>		
311	Structures & Improvements	0.69%	0.31%
312	Boiler Plant Equipment	3.48%	1.58%
314	Turbogenerator units	3.57%	1.70%
315	Accessory Equipment	2.33%	1.21%
316	Miscellaneous Equipment	4.32%	2.50%

6
7 **Q. Do you have any additional comments regarding this matter?**

8
9 A Yes. To the extent that MDU believes that utilizing the existing depreciation rates results
10 in disallowance of costs in the long term, it should provide this analysis in its surrebuttal
11 testimony. The analysis should also incorporate the impacts to the return on rate base
12 associated with the lower rate base using the proposed depreciation rates versus higher rate
13 base using the existing depreciation rates respectively.

14 **III. NON REVENUE REQUIREMENT ISSUES**

15 **A. Class Cost of Service Study (CCOSS) Issues**

16 **Q. What was your recommendation in direct testimony regarding the demand allocator
17 to allocate fixed production plant?**

18 A. I had indicated that since production plant must be sized to meet the maximum load or
19 demand imposed on these facilities, an alternative allocator to the Company's 12 coincident
20 peak ("CP") allocator can be used to reflect these cost causative characteristics. I
21 recommended that it would be appropriate to consider class contributions to monthly
22 demands for all months that are around 10% of the system peak, which resulted in 4-CP

1 allocator. I also indicated that the 4-CP allocator approach is compatible with the
2 Company's most recent integrated resource plan and reasonably captures the cost causative
3 driver for generation investment.

4 **Q. How did MDU respond?**

5 A. MDU witness Mr. Amen testified that the company's 12-CP method was developed in part
6 recognizing a review of the total demand on system capacity, not simply the system load
7 demand.⁶ He further explained that the demand on system capacity incorporates the sum
8 of load demand to serve customers, planned and forced generation outages and weather
9 changes. He concluded that based on the full demand on capacity, the 12-CP allocation
10 factor appropriately reflects cost causation for the system based on all of the operating
11 characteristics of the system.

12 **Q. How do you respond to the Company's assessment?**

13 A. I agree with Mr. Amen that planned and unplanned outages as well as variations in weather
14 must be considered. The 4-CP method already accounts for such factors. This is because
15 in making generation investment decisions, utilities add a planning reserve margin
16 requirement to the system peak load. Loss of load expectation ("LOLE") analysis is
17 conducted that considers unplanned generation outages, load uncertainty and numerous
18 other factors to calculate a reserve margin. This reserve margin is added to the maximum
19 demands to ensure that utilities including MDU have sufficient capacity to reliably serve
20 firm demand requirements. Thus, the primary cost causing characteristics are the highest
21 demands because the resulting reserve margin (and related capacity needed) is based on
22 these demands.

⁶ See Mr. Amen's rebuttal testimony on page 30.

1 The 12-CP demand is 376,261 KW and the 4-CP demand is 406,583 KW. If
2 capacity was built to meet the 12-CP demand, the Company would not have sufficient
3 capacity to meet the highest demands of the year. By placing equal weighting on each
4 month of the year, the primary cost causative basis for why generation investment is built,
5 is diluted.

6 Thus, I conclude that the 4-CP allocator is also a reasonable demand allocator. As
7 indicated in my direct testimony, the results between the 4-CP and 12-CP are directionally
8 consistent although the magnitude varies. In particular, as discussed on page 19 of my
9 direct testimony, the results showed that at present rates, the primary class and Tesoro
10 related rates of return are significantly higher under the 4-CP approach compared to the
11 Company's 12-CP result.

12 **Q. What was your recommendation regarding the allocation of fuel and purchase power**
13 **costs in direct testimony?**

14 A. I discussed the concern about MDU's use of a flat energy allocator which is likely over
15 allocating energy costs to high load factor classes such as the General Primary Class. I
16 recommended that the Commission require the Company to develop and introduce an
17 E8760 allocator to allocate fuel costs recovered through the fuel and purchased power rider.
18 From a timing perspective, I recommended that this allocator should be effective with final
19 rates in this case.

20 **Q. What was MDU's response?**

21 A. Mr. Amen concurred with my observations. However, from a timing perspective, he cited
22 concerns about the ability to accomplish the implementation of the E8760 allocator in this

1 case.⁷ Specifically, he cited considerations related to the current structure of the Company's
2 load study data and implications for jurisdictional allocations. He further indicated that
3 MDU would be willing to submit a proposal in the next rate case.

4 **Q. How do you respond?**

5 A. Utilities such as Otter Power Company utilize the E8760 allocator method by using this
6 method within each jurisdiction. I am not certain whether Otter Tail Power Company
7 utilizes the E8760 allocation to allocate fuel and purchased power costs to each jurisdiction
8 at this time. As such, I would not be opposed to the Company implementing the E8760
9 allocation to jurisdictions in the next rate case to provide sufficient time for preparation
10 and planning. That said, I am concerned about the impact of a delay in the E8760 allocator
11 implementation to the retail classes within the North Dakota jurisdiction until a future case.
12 Similar to other utilities, since MDU is allowed rider recovery on the vast majority of its
13 investments, the Company's submittal of general rate case applications is not frequent. For
14 example, the Company's last general rate case filing in Case No. PU-16-666 was made in
15 2016. Such a delay would be too significant for the E8760 implementation
16 from a retail customer standpoint. Since both Otter Tail and Xcel Energy utilize this
17 allocation, the Company could contact their peers in these companies for guidance on the
18 implementation. While I continue to prefer that the E8760 allocator be effective with final
19 rates in this case, I would not be opposed to MDU making a filing to request approval of
20 E8760 based allocations to the retail classes and accordingly adjust the fuel and purchased
21 power rider within 90 days of the conclusion of this rate case. Since the fuel and purchased

⁷ See page 33 of Mr. Amen's rebuttal testimony.

1 power costs are recovered through this rider, the implementation can be practically
2 conducted through this rider.

3 **Q. What is AARP's position regarding MDU's CCOSS?**

4 A. AARP's witness Mr. Ron Nelson opposes the Company's minimum distribution approach
5 to classifying certain distribution plant related costs booked in FERC accounts 364-368.
6 He advocates for the basic customer method which consists of classifying all costs in these
7 accounts as demand related.

8 **Q. Do you support Mr. Nelson's view?**

9 A. No. Mr. Nelson's approach ignores the basic premise that that the distribution system exists
10 to serve a dual purpose: 1) being capable of delivering service to customers' residences or
11 businesses (customer costs), and 2) ensuring that the distribution system is large enough to
12 provide reliable service (demand costs). As noted by Mr. Amen on page 7 of his rebuttal
13 testimony, one of the most commonly accepted literary references relied upon when
14 preparing embedded cost of services studies is the Electric Utility Cost Allocation Manual
15 by National Association of Regulatory Utility Commissioners ("NARUC"). Chapter 6 of
16 the NARUC manual is specifically dedicated to the classification and allocation methods
17 for electric distribution plant as they apply to embedded cost studies. This Chapter shows
18 the classification of costs booked in FERC account 364-368 as demand and customer
19 related.

20 The minimum distribution approach is a long established approach and .is widely
21 used by utilities. As such MDU has reasonably classified the specific distribution related
22 plant related costs.

1 **Q. Mr. Nelson points to a recent Xcel Energy rate case to observe that North Dakota**
2 **Commission Staff have opposed the minimum system approach. Did the**
3 **Commission’s decision in that case specifically reject Xcel Energy’s minimum system**
4 **approach and adopt an alternative method?**

5 A. No.

6 **Q. Has Staff taken a position regarding the minimum system approach in this case?**

7 A. No. Aside from the issue of loss factors, Staff did not take a position regarding CCOSS
8 related matters.

9 **B. Revenue Allocation**

10 **Q. What clarification do you wish to provide regarding revenue allocation?**

11 A. While I did not provide an alternative to MDU’s proposed revenue allocation to the major
12 customer classes for reasons identified in my direct testimony, I recommended a different
13 allocation within the Large General Service class based in part on the 4-CP CCOSS results.
14 This recommendation is discussed on pages 22-24 of my direct testimony.

15 **Q. Did MDU respond to this recommendation in rebuttal testimony?**

16 A. No.

17 **Q. Did AARP submit a revenue allocation proposal to classes?**

18 A. Yes. Page 29 of Mr. Nelson’s testimony shows his preferred revenue allocation to classes.

19 **Q. How do you respond?**

20 A. Since Mr. Nelson is relying on a CCOSS approach that fails to consider the customer
21 component in classifying certain distribution related plant, I oppose his revenue allocation
22 approach. Instead, I support Mr. Amen’s recommendation that the Commission should
23 reject it.

1 Q. **Does this conclude your surrebuttal testimony?**

2 A. Yes.

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