

MONTANA-DAKOTA UTILITIES CO.

BEFORE THE NORTH DAKOTA PUBLIC SERVICE COMMISSION

CASE NO. PU-22-194
SURREBUTTAL 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 Direct Testimony?**

9 A4. I am submitting this Surrebuttal 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

1 provided, my written Direct Testimony provided an outline of the Scope of the
2 Depreciation Study, the methods and procedures used in the study, the information
3 relied upon in the development of the Depreciation Study, a summary of the results
4 of the study, the reasons for changes for the Depreciation rates.

5 Based on my evidence, the North Dakota Public Service Commission Advocacy
6 Staff (NDPSC) have entered the evidence of Ms. Marie Fagan from the London
7 Economics International, LLC (“LEI). Additionally, Marathon Petroleum
8 Company, LP (Marathon) have entered evidence of Kavita Maini of KM Energy
9 Consulting, which also included comment on the requested depreciation rates. In
10 response to this evidence of other parties, I submitted rebuttal evidence to clarify
11 the record regarding the estimated average service lives and net salvage percentages
12 recommended for a number of electric transmission, distribution and general plant
13 accounts. In response to my rebuttal testimony, the NDPSC have entered the
14 surrebuttal evidence of Ms. Marie Fagan from the LEI and Marathon entered
15 surrebuttal evidence of Kavita Maini of KM Energy Consulting. This surrebuttal
16 testimony addresses comments contained in the surrebuttal of LEI.

17 **Q6. Please provide a brief overview of the recommendations made in the LEI**
18 **rebuttal.**

19 A6. The NDPSC evidence recommends maintaining the current depreciation rates.¹ The
20 Fagan rebuttal assumes that because the 2020 proposed depreciation rates result in
21 a similar overall composite depreciation as determined in the MDU 2014

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

1 depreciation study, and MDU was willing to lower depreciation rates as part of an
2 overall settlement discussion, those same negotiated depreciation rates are
3 appropriate going forward. Ms. Fagan concludes that the inclusion of the historic
4 date from the years from the years 2015 through 2020 “*did not impact the rates*
5 *significantly*”²

6 **Q7. Is Ms. Fagan correct in her assumption that the inclusion of the historic data**
7 **did not impact the depreciation rate?**

8 A7. No. While Ms. Fagan’s arithmetic may be correct at the total composite
9 depreciation rate level, the impact by functional group presents a different view.
10 Review of the 5 functional groups presented in Figure 5 of Ms. Fagan’s rebuttal
11 testimony shows that material impacts of individual groups can net out at the
12 composite level. However, it is key that the depreciation charged to each account
13 is appropriate. The fact that the overall composite rate is only minimally changed
14 should not disguise the inappropriate rates (either too high or too low) of the
15 individual accounts.

16 Additionally, inappropriately short average service life estimates should not be used
17 to incorporate inappropriately low net salvage percentages. One inappropriately
18 high depreciation rate should not be considered reasonable simply because a
19 different account has an equally inappropriately low depreciation rate. However,
20 this is precisely the approach being recommended by Ms. Fagan. At the extreme,
21 under Ms. Fagen’s philosophy, utilities would only require one account which

² Surrebuttal Testimony of Marie Fagan dated March 21, 2023, page 11, lines 28-29

1 would have one composite depreciation rate. Such a philosophy violates both
2 financial reporting standards, and importantly in this circumstance, regulatory
3 accounting standards and requirements. It is for this reason that utilities follow a
4 Uniform System of Accounts (USoA) and recognize the importance of completing
5 periodic depreciation studies recent plant accounting activity.

6 **Q8. Is the type of analysis that was completed by Ms. Fagan appropriate?**

7 A8. No. The LEI testimony is simply that because the composite depreciation rate did
8 not change from one study to the next, the most current study should be ignored,
9 and currently approved depreciation rates should be continued. Not only is this
10 approach in violation of commonly accepted depreciation standards, it is
11 particularly inappropriate when current depreciation rates were the result of a
12 negotiated settlement process. Determination of depreciation rates is a calculation
13 using the average service life estimate, the estimated retirement dispersion curve,
14 and the estimated net salvage percentage requirement being applied to the net book
15 value of each vintage of each account. A negotiated settlement process based only
16 on a composite depreciation rate will invariably result in inappropriate depreciation
17 rates by account.

18 While I support a negotiated settlement process, the process needs to be developed
19 based on the specific parameters for each account, or at least at an account level
20 rather than at a composite depreciation rate level.

1 **Q9. Please describe any long term risks associated with the Ms. Fagan's approach**
2 **to depreciation**

3 A9. There are two main issues with Ms. Fagan's approach. Firstly, the focus on a
4 composite rate masks the changing influence of the lengthening of average service
5 estimates, and the impact of the longer average service life is having on the required
6 net salvage percentages. Given the inflationary impact on the labor costs associated
7 with the removal of plant, salvage percentages are required to increase. The building
8 of reserves for the future removal is designed to fairly allocate the service value of
9 an asset (which includes the provision to remove the asset) to the customers gaining
10 the benefit of the asset while it is in service. Focusing only on reductions to this
11 component of the depreciation rate calculations as clearly intended by Ms. Fagan³,
12 exasperates the impact of generational equity as future customers who will bear an
13 unfair amount of the inflation impact on the future retirement requirements to
14 remove assets.

15 Secondly, Ms. Fagan's focus on the composite depreciation rate to maintain the
16 currently negotiated depreciation rates will compound the generational impacts of
17 prior negotiated settlements. It is not surprising that the net salvage percentages
18 in the current depreciation study have an increasing influence on the depreciation
19 rate calculation, when it is considered that the impact of the 2016 negotiated
20 settlement were all on the salvage components of the depreciation rate calculation.

³ Ibid, page 15, lines 1-5

1 Continued use of the current depreciation rates will compound this impact over
2 the next rate period.

3 **Q10. Does this conclude your Sur-surrebuttal Testimony?**

4 A10. Yes, it does.