



SMITH PORSBORG
 Schweigert Armstrong Moldenhauer & Smith
 ATTORNEYS AT LAW

April 27, 2023

VIA E-MAIL AND HAND DELIVERY

Public Service Commission
 Attention: Steve Kahl
 600 East Boulevard Avenue, Dept. 480
 Bismarck, ND 58505-0480

In re: Montana-Dakota Utilities Co.
 2022 Electric Rate Increase
 PU-22-194
 OAH File No.: 20220225

Dear Mr. Kahl:

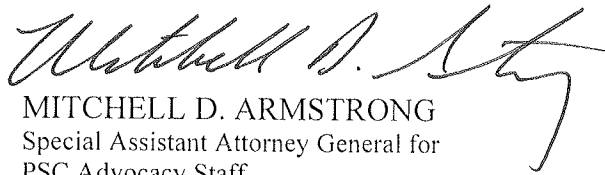
Enclosed for filing in the above-referenced matter please find the original and seven copies of the following:

1. Direct Testimony of Robert Frank;
2. Verification; and
3. Affidavit of Service.

Sheldon A. Smith*
 Scott K. Porsborg**
 Suzanne M. Schweigert*
 Mitchell D. Armstrong**
 Stacy M. Moldenhauer**
 David J. Smith**
 Brian D. Schmidt*
 Tyler J. Malm*
 Austin T. Lafferty*
 Jon C. Lengowski*
 Morgan E. Wentz*

Thank you for your attention to this matter.

Respectfully,



MITCHELL D. ARMSTRONG
 Special Assistant Attorney General for
 PSC Advocacy Staff

130 PU-22-194 Filed 04/27/2023 Pages: 9
 Prefiled Direct Testimony of Robert Frank
 Public Service Commission Advocacy Staff Counsel
 Mitchell Armstrong

amh
 enclosures
 PSC.4

* Licensed in North Dakota

** Licensed in Minnesota

° Licensed in South Dakota

* Board Certified Civil Trial
 Specialist by National Board
 of Trial Advocacy

BEFORE THE
NORTH DAKOTA PUBLIC SERVICE COMMISSION

Montana-Dakota Utilities Co.

2022 Electric Rate Increase, Application, Case No. PU-22-194

DIRECT TESTIMONY
OF
ROBERT FRANK

ON BEHALF OF THE
NORTH DAKOTA PUBLIC SERVICE COMMISSION
ADVOCACY STAFF

April 27, 2023

1 Q: Provide your name and qualifications.

2 A: My name is Robert Frank. I am a Public Utility Analyst for the North Dakota
3 Public Service Commission (commission). I have 9 years of utility resource
4 planning experience and one year of utility regulatory experience.

5 I received a Bachelor of Business Administration in Business Economics as
6 well as a Master of Science in Applied Economics from the University of North
7 Dakota in 2010. Prior to my work with the commission, I completed Long-Term
8 Load Forecasts on an annual basis for planning purposes for Basin Electric
9 Power Cooperative.

10 Q: What is the purpose of your testimony?

11 A: The commission has appointed me to North Dakota Public Service Commission
12 Advocacy Staff (staff) in this proceeding. As such, I will provide the commission
13 with an analysis and recommendation concerning the settlement agreement
14 submitted by Montana-Dakota Utilities Co. (MDU), AARP, Walmart Inc.,
15 Marathon Petroleum Company LP, and staff.

16

17 Q: Please summarize the settlement.

18 A: The settlement provides for a 2023 test year revenue requirement of \$221
19 Million (M), a return on equity (ROE) of 9.75%, an average rate base of
20 \$617.9M, and reductions to various operations and maintenance expenses
21 (O&M).

22

23 Q: What is the total agreed revenue requirement for the test year?

24 A: All parties have agreed to a test year revenue requirement of \$221M, an
25 increase of \$15.276M over present rates, or a 7.4% increase. This is a
26 reduction of \$10.09M over MDU's original request of \$25.366M.

27

28

29

1 Q: What are the components of the Cost of Capital?

2 A: The settlement cost of capital includes a capital structure of 50.810% common
3 equity at a cost of 9.750%, 44.587% long term debt at a cost of 4.503%, and
4 4.603% short term debt at a cost of 3.684%. This structure nets a weighted
5 average cost of capital of 7.132%. I would like to note that the debt and equity
6 ratio has stayed the same as the previous rate case and that it is reasonably
7 balanced.

8

9 Q: What revenue requirement adjustments are specified in the settlement
10 agreement?

11 A: The revenue requirement adjustments include the ROE reduction as well as
12 reductions to incentive compensation, depreciation, software expense,
13 advertising expense, industry dues, insurance expense, outage management
14 system payroll, and the complete disallowance of personal use of company
15 vehicles.

16

17 Q: What impact did the ROE reduction have on MDU's test year revenue
18 requirement?

19 A: The ROE reduction from MDU's requested 10.5% to the settlement of 9.75%
20 reduces the test year revenue requirement by \$3.083 M.

21

22 Q: What adjustment was made for Incentive Compensation?

23 A: MDU's initial proposal for incentive compensation was \$1,391,439 for long-
24 term and \$2,258,988 for short term for a total of \$3,650,427. The amount has
25 been reduced by \$1,844,000, a reduction of approximately 50%. Given MDU's
26 incentive compensation program, I believe this reduction appropriately
27 balances the cost of incentive compensation between shareholders and
28 ratepayers.

29

30

1 Q: Please explain the depreciation expense adjustment?

2 A: The depreciation study utilized by MDU calculated increased salvage values
3 and newly proposed life of asset rates based on a June 2021 depreciation study
4 performed by Concentric Advisors, ULC. The parties agreed to eliminate the
5 salvage values and adopt the proposed rates resulting in a reduction of \$4.6 M
6 to the test year revenue requirement. I believe this results in depreciation rates
7 that are just and reasonable.

8

9 Q. Please briefly explain the other adjustments?

10 A. The remaining adjustments were for disputed expense items in the parties' pre-
11 filed testimony. The settlement reflects a compromise between the parties on
12 these issues that I believe results in just and equitable rates.

13

14 Q: Is an earnings-sharing provision a part of the Settlement?

15 A: Yes, the Settling Parties have agreed to an earnings-sharing provision. Any of
16 MDU's earnings over 10% will be shared with 70% refunded to customers and
17 30% retained by MDU. The earnings-sharing will be based on MDU's annual
18 report, and the earnings will include any margin the Commission allows MDU
19 to retain as a result of the Applied Blockchain Electric Service Agreement (Case
20 No. PU-22-371) or any future rate 45 customer.

21

22 Q. What is the reason for the 70/30 earnings-sharing and the spread between the
23 granted ROE of 9.75% and the earnings-sharing provision at 10.0%?

24 A. Staff agreed to these provisions in recognition that MDU does not weather
25 normalize electric volumes and the terms provide an incentive for MDU to
26 operate more cost effectively by allowing an opportunity to recoup some costs
27 before being required to refund a portion of overearnings to North Dakota
28 customers.

29

30

1 Q: Is the revenue allocation just and reasonable?

2 A: Yes, staff agrees with the class cost of service study and finds the revenue
3 allocation to be just and reasonable without undue discrimination.

4

5 Q: Does this conclude your testimony?

6 A: Yes it does.

VIA EMAIL & U.S. MAIL

David Tschider
Attorney at Law
2005 N. Kavaney Dr., Ste. 100
P.O. Box 754
Bismarck, ND 58502
dtschider@tschider-smithlaw.com

John B. Coffman
Attorney at Law
871 Tuxedo Blvd
St. Louis, MO 63119-2044
john@johncoffman.net

Allison Waldon
Attorney at Law
MDU Resources Group, Inc.
P.O. Box 5650
Bismarck, ND 58506-5650
allison.waldon@mduresources.com

Paul Sanderson
Attorney at Law
1100 College Dr., Suite 5
Bismarck, ND 58501
psanderson@esattorneys.com

VIA EMAIL & HAND-DELIVERY

John Schuh
General Counsel
Public Service Commission
600 East Boulevard, Dept. 408
Bismarck, ND 58505-0480
jschuh@nd.gov

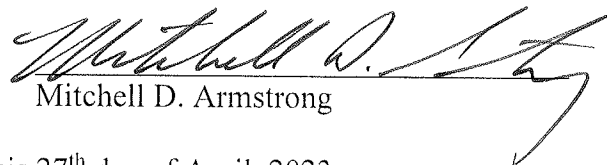
VIA EMAIL & U.S. MAIL

Julie Clark
Attorney at Law
3440 Youngfield Street, Suite 276
Wheat Ridge, CO 80033
jclark@clarkenergylaw.com

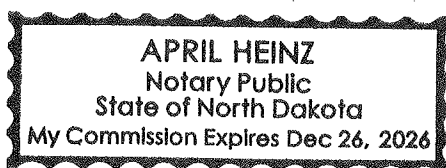
Stephen A. Campbell
Attorney at Law
500 Woodward, Suite 3500
Detroit, Michigan 48226
scampbell@clarkhill.com


Ross H. Espeseth
Attorney at Law
418 E. Broadway Ave., Ste. 240
P.O. Box 995
Bismarck, ND 58502-0995
respeseth@bmellp.com

Hope L. Hogan
Administrative Law Judge
2911 N 14th Street- Suite 303
Bismarck, ND 58503
hlhogan@nd.gov


Mitchell D. Armstrong

Subscribed and sworn before me this 27th day of April, 2023.




Notary Public
Burleigh County, North Dakota