

BEFORE THE  
NORTH DAKOTA PUBLIC SERVICE COMMISSION

*Montana-Dakota Utilities Co.*

*2023 Natural Gas Rate Increase, Application, Case No.  
PU-23-341*

DIRECT  
TESTIMONY OF  
ROBERT FRANK

ON BEHALF OF THE  
NORTH DAKOTA PUBLIC SERVICE COMMISSION  
ADVOCACY STAFF

September 16, 2024

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 over two years 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), Federal Executive Agencies  
15 (FEA), AARP, and staff.

16

17 Q: Please summarize the settlement.

18 A: The settlement provides for a 2024 test year revenue requirement of \$165  
19 Million (M), a return on equity (ROE) of 9.9%, an average rate base of  
20 \$215.4M, 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 \$165.662M, an  
25 increase of \$9.45M over present rates, or a 6.05% increase. This is a reduction  
26 of \$2.189M over MDU's original request for an increase of \$11.635M.

27

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

1 A: The settlement cost of capital includes a capital structure of 50.185% common  
2 equity at a cost of 9.9%, 45.296% long term debt at a cost of 4.569%, and  
3 4.519% short term debt at a cost of 4.954%. This structure nets a weighted  
4 average cost of capital of 7.262%. I would like to note that the debt and equity  
5 ratio is comparable to the previous rate case and that it is reasonably balanced.  
6

7 Q: What revenue requirement adjustments are specified in the settlement  
8 agreement?

9 A: The revenue requirement adjustments include the ROE reduction as well as  
10 reductions from the removal of canceled or delayed capital projects, incentive  
11 compensation, and postage and material expense. In addition, a minor  
12 adjustment has been made to increase the revenue requirement due to the  
13 Portal, ND, project delay.  
14

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

17 A: The ROE reduction from MDU's requested 10.5% to the settlement of 9.9%  
18 reduces the test year revenue requirement by \$864,000.  
19

20 Q: What adjustment was made for Incentive Compensation?

21 A: MDU's initial proposal for incentive compensation was approximately  
22 \$1,538,643 for short-term and \$447,990 for long-term for a total of \$1,986,634.  
23 This amount has been reduced by \$993,317, a reduction of approximately 50%.  
24 This reduces the revenue requirement by \$1,060,000. I believe this reduction  
25 appropriately balances the cost of incentive compensation between  
26 shareholders and ratepayers.  
27

28 Q: Please explain the removal of canceled and delayed capital projects?

29 A: MDU agreed to remove capital projects that were either delayed or cancelled  
30 during the test year. The combined total for these projects is approximately

1           \$3,088,553. Their removal from the rate base reduces the revenue requirement  
2           by \$171,000. In addition, the City of Portal, North Dakota, distribution system  
3           capital project has been delayed. The capital expenses associated with this  
4           project have been removed as well as associated revenue generated by Portal  
5           customers. This results in a minor increase to the revenue requirement of  
6           \$1,000.

7

8       Q:     Please explain the adjustment to postage and materials?

9       A:     The reduction of \$95,000 to MDU's revenue requirement from removal of  
10       postage and material expense reflects a compromise between the parties  
11       obtained during settlement negotiations.

12

13    Q:     Is the revenue allocation just and reasonable?

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

16

17    Q:     Does this conclude your testimony?

18    A:     Yes, it does.

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