

MONTANA-DAKOTA UTILITIES CO.
A Division of MDU Resources Group, Inc.

Before the Public Utilities Commission of South Dakota

Docket No. NG05-___

Direct Testimony
of
Bruce T. Imsdahl

1 Q. Please state your name and business address.

2 A. My name is Bruce T. Imsdahl and my business address is 400
3 North Fourth Street, Bismarck, North Dakota 58501.

4 Q. By whom are you employed and in what capacity?

5 A. I am the President and Chief Executive Officer of Montana-Dakota
6 Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc.

7 Q. Please describe your duties and responsibilities with Montana-Dakota.

8 A. I have executive responsibility for the development, coordination,
9 and implementation of Company strategies and policies relative to all
10 areas of operations.

11 Q. Please outline your educational and professional background.

12 A. In 1970, I received a Bachelor of Science degree in Mechanical
13 Engineering from North Dakota State University, Fargo, North Dakota. I
14 was granted certificates of attainment from the Joseph M. Kraatz Graduate
15 School of Business in Management Program for Executives from the
16 University of Pittsburgh, Pittsburgh, Pennsylvania in 1990 and from the

1 Graduate School of Business, Stanford University in the Executive
2 Management Program in 2003.

3 Upon graduating from college in 1970, I began my career with
4 Montana-Dakota as a results engineer at the Lewis & Clark electric
5 generating station. In 1973, I took an engineering position at the
6 corporate office and was responsible for the engineering at five of our
7 electric generating stations. In 1979, I transferred to the Lewis & Clark
8 Station as the Plant Superintendent, where I was responsible for all
9 engineering, operations, and maintenance of the plant. In 1983, I
10 transferred to the R. M. Heskett Station as the Plant Manager, where I
11 was again responsible for all engineering, operations and maintenance of
12 the plant. In 1985, I transferred to the corporate office as Generation
13 Manager, where I became responsible for all the electric generating plants
14 that Montana-Dakota owned and operated and the company's
15 Environmental Department. In 1989, I became Vice President - Power
16 Supply and, in November 1992, I was named Vice President - Energy
17 Supply assuming responsibility for natural gas supply as well as the
18 electric power supply. In February 2003, I was named Executive Vice
19 President. I became President of Montana-Dakota in July 2003 and was
20 named Chief Executive Officer in November 2004.

21 I am a Registered Professional Engineer in North Dakota and
22 Montana. I also have been involved with the activities of the Electric
23 Power Research Institute, the Edison Electric Institute, the University of

1 North Dakota Energy & Environmental Research Center, and the
2 American Gas Association.

3 Q. What is the purpose of your testimony?

4 A. The purpose of my testimony is to provide a background of the
5 initial expansion in South Dakota into the East River natural gas system. I
6 will also provide an overview of our current East River operations, explain
7 our request for a gas rate increase and discuss the policies and reasons
8 underlying the major aspects of the request. Finally, I will identify the
9 Company witnesses in this proceeding.

10 Q. Would you please provide a summary of the initial expansion into the East
11 River natural gas system?

12 A. In early 1993, Montana-Dakota began investigating the possibility
13 of expanding service to the Pierre, South Dakota area along with South
14 Dakota Intrastate Pipeline Company (SDIP). At that time, Montana-
15 Dakota's South Dakota natural gas service area was comprised of service
16 to several communities in western South Dakota which we refer to as the
17 Black Hills service area. In addition to natural gas service Montana-
18 Dakota provides electric service in 32 communities in South Dakota.
19 Montana-Dakota felt that, with minimal additional personnel, it could
20 adequately provide natural gas service to several of the South Dakota
21 communities where the Company was providing electric service
22 (Mobridge, Gettysburg, Ipswich, Selby, Bowdle, Roscoe and Glenham) as
23 well as expanding into the communities of Pierre, Ft. Pierre, Onida and

1 Agar. The expansion seemed to be a logical fit with our organizational
2 structure.

3 Montana-Dakota negotiated a transportation service agreement
4 with SDIP for delivery of natural gas from an interconnection with Northern
5 Border Pipeline. With the cooperation of these three parties, tariff rates for
6 the East River natural gas distribution system were approved on August
7 10, 1993. There have not been any general rate cases affecting
8 distribution rates for the East River jurisdiction since that time.

9 Q. Mr. Imsdahl, did you authorize the filing of the rate application in this
10 proceeding?

11 A. Yes, I did.

12 Q. Why has Montana-Dakota filed this application for a gas rate increase?

13 A. Montana-Dakota is requesting an increase in its general gas rates
14 at this time because the cost of providing safe and reliable natural gas
15 service to our East River customers is not adequately reflected in the
16 currently authorized rates. It should be noted that this application does
17 not include any cost changes related to the cost of gas which is handled
18 through the Commission authorized Purchased Gas Cost Adjustment
19 tariff.

20 Q. Would you provide a summary of Montana-Dakota's current gas
21 operations in East River?

22 A. The East River natural gas distribution system serves
23 approximately 5,800 customers in 11 communities. The customer mix is

1 about 86% residential and 14% firm commercial, with primary use for
2 space and water heating. As such, Montana-Dakota's system has a low
3 load factor with peak gas requirements occurring during the winter, with
4 summer loads being quite small by comparison. The total annual gas
5 used by our East River customers is 690,000 dk as identified for the test
6 period in this case. Consumption by customer class is 44.9% residential
7 and 55.1% firm commercial. Montana-Dakota's East River natural gas
8 service area has two district offices located in Mobridge and Pierre.
9 Technical support for the Pierre office comes from the region office in
10 Rapid City, while the Mobridge office receives support from the Bismarck,
11 North Dakota region office.

12 Q. In Docket No. NG93-003, the Company was projecting East River would
13 have approximately 9,000 customers and consumption of 1.7 Mmdk by
14 the tenth year of operation, or 2003. Would you please explain why the
15 actual levels of customers and consumption are less than projected?

16 A. The actual customer and volume levels have been lower than
17 projected due to lower customer growth than anticipated and a lower use
18 per customer than anticipated. While overall less than anticipated, East
19 River customers have grown by approximately 5 percent each year, which
20 is at a faster rate than the rest of Montana-Dakota's system. While we
21 have not reached the anticipated total throughput we are seeing
22 consistent growth in this area.

1 Q. Would you please explain the basic elements that make up the total costs
2 of providing gas service, and which of those elements is subject to
3 regulation by this Commission?

4 A. Yes. The costs of providing natural gas service can be best broken
5 down into two major categories; first, the cost of gas delivered to the town
6 border station, where it leaves the interstate or intrastate pipeline and
7 enters our distribution system, and second, the cost of delivering the gas
8 from the town border station through our distribution system to the
9 individual customers. We call this portion distribution costs or non-gas
10 costs.

11 Natural gas purchased from a producer or supplier is a commodity
12 like wheat or corn and prices are not regulated. The charges for moving
13 the gas to our distribution system on the pipeline system are regulated by
14 the Federal Energy Regulatory Commission and other regulatory agencies
15 including this Commission. These two elements, which we call "gas
16 costs", are passed on to our customers on a dollar-for-dollar basis as
17 specified in the Purchased Gas Cost Adjustment tariff, and there is no
18 profit made by Montana-Dakota. This portion comprises about 78% of a
19 typical residential bill for gas service.

20 The distribution cost portion of our rates is regulated by this
21 Commission and is the subject of this proceeding. This portion includes
22 operation and maintenance expenses, depreciation, taxes, and a
23 component for the opportunity to earn a return on the investment we have

1 in facilities to provide natural gas service. The distribution costs are about
2 22% of a typical residential bill.

3 Q. What is the amount of the identified revenue increase necessary to
4 produce a reasonable return on the investment used to safely and reliably
5 provide natural gas service to the East River System?

6 A. The required annual increase, as identified by Ms. Mulkern, is
7 \$1,786,862 based on a 2004 test year adjusted for known and measurable
8 changes.

9 Q. What is the amount of the increase you are requesting in this Application?

10 A. The Company is requesting an annual increase of \$849,745. This
11 amount will not produce the required return and in fact will produce a
12 return on equity less than zero. However, in recognizing customer impacts
13 and the need to remain competitive with alternate energy sources
14 available to customers, we are requesting rates that will produce only 48%
15 of the required increase, which represents an annual increase of
16 \$849,745.

17 Q. How will the requested increase affect the various classes of customers?

18 A. The proposed percentage change in rates by customer class is
19 approximately 18% for residential customers and 9% for the firm general
20 customers.

21 Q. Mr. Imsdahl, are the rates requested in this proceeding just and
22 reasonable?

1 A. Yes. Although the proposed rates will not allow Montana-Dakota to
2 recover all operating costs incurred in the East River jurisdiction, they will
3 allow us to offer our safe and reliable natural gas service at competitive
4 prices within the market.

5 Q. What are the primary reasons that Montana-Dakota needs an increase at
6 this time?

7 A. The primary reasons for the need for the increase are increased
8 operating expenses, investment in facilities and because volume levels
9 have been significantly lower than authorized. The increase in operating
10 expenses (operation and maintenance costs, depreciation and taxes other
11 than income) and investment have occurred, since the initial rates were
12 established almost twelve years ago.

13 Q. When was the last gas general rate increase for Montana-Dakota in the
14 East River jurisdiction?

15 A. Montana-Dakota's gas rates have not been increased since the
16 initial rates were approved in August 1993 in Docket No. NG93-003.

17 Q. Will you please identify the other witnesses who will testify on behalf of
18 Montana-Dakota in this proceeding?

19 A. Yes. In addition to me, Mr. Garret Senger, Director of Accounting
20 for Montana-Dakota will testify regarding the capital structure and overall
21 debt and preferred equity costs. Ms. Rita A. Mulkern, Regulatory Analysis
22 Manager for Montana-Dakota, will testify regarding the total revenue
23 requirements necessary for Montana-Dakota's East River natural gas

1 operations, and Ms. Tamie A. Aberle, Pricing and Tariff Manager for
2 Montana-Dakota, will testify on the rate design proposals.

3 Q. Does this complete your direct testimony?

4 A. Yes, it does.