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

Before the Public Utilities Commission of South Dakota

Docket No. NG12-___

Direct Testimony
of
Garret Senger

Q. Would you please state your name, business address and position?

A. Yes. My name is Garret Senger and my business address is 400 North Fourth Street, Bismarck, North Dakota 58501. I am Vice President of Regulatory Affairs and Chief Accounting Officer (CAO) for Montana-Dakota Utilities Co. (Montana-Dakota), and Great Plains Natural Gas Co. (Great Plains), divisions of MDU Resources Group, Inc.

Q. Would you please describe your duties?

A. I oversee the activities of the regulatory affairs group for Montana-Dakota and Great Plains. I am also responsible for providing the direction and leadership of the accounting and the financial forecasting/planning functions, including the analysis and reporting of all financial transactions for Montana-Dakota and Great Plains.

Q. Would you please outline your educational and professional background?

A. I graduated from the University of Mary with a Bachelor of Science degree in Accounting and a Masters in Business Administration. I started my career with Montana-Dakota in 1985 as a financial analyst in the Financial Reporting area and during my tenure with the Company have held positions of increasing responsibility, including Supervisor of Financial Reporting, Manager of Financial Forecasting, Manager of Financial Reporting & Planning, Director of Accounting, Controller, and Chief Accounting Officer.

Q. Have you testified in other proceedings before regulatory bodies?

A. Yes, I have testified before the Wyoming Public Service Commission and the North Dakota Public Service Commission, and submitted written testimony in proceedings before the South Dakota Public Utilities Commission and the Montana Public Service Commission.

Q. Are you familiar with the territory served by Montana-Dakota and the facilities of the Company utilized in providing natural gas distribution service?

A. Yes, I am.

Q. What is the purpose of your testimony in this proceeding?

A. I am responsible for presenting Statement A, Statement B, Statement C and Statement G.

Q. Were these statements and the data contained therein prepared by you or under your supervision?

A. Yes, they were.

Q. Are they true to the best of your knowledge and belief?

A. Yes, they are.

Q. Would you describe Statement A, Statement B, Statement C and Statement G?

A. Statement A, pages 1 and 2 show Montana-Dakota's balance sheet as of June 30, 2012 with September 30, 2012 information on pages 3 and 4, and the notes to the financial statements following.

Statement B consists of Montana-Dakota's income statement for the twelve months ended June 30, 2012 and nine months ended September 30, 2012.

Statement C reports Montana-Dakota's retained earnings statement as of June 30, 2012.

These statements have been prepared from the Company's books and records which are maintained in accordance with the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts.

Statement G shows the average utility capital structure of Montana-Dakota for the twelve months ended June 30, 2012 and the projected average capital structure for June 30, 2013. Statement G includes the associated costs of debt, preferred stock and common equity. The capital structure and the associated costs serve as the basis for the overall rate of return requested by Montana-Dakota in this rate filing of 8.101 percent. The cost of debt and preferred stock were derived from Montana-Dakota's books and records. The 10.5 percent cost of common equity contained within the overall cost of capital is supported by the testimony of Dr. J. Stephen Gaske.

Q. Would you please explain Rule 20:10:13:72, Statement G?

A. Page 1 of Rule 20:10:13:72, Statement G summarizes the actual average utility capital structure at June 30, 2012 and the projected average capital structure and related utility costs of capital for June 30, 2013. As shown on page 1, the components of the June 30, 2013 projected overall annual rate of return, which are used by Ms. Mulkern to calculate the revenue requirement, are:

	Capital Ratio	Cost	Weighted Cost of Capital
Long Term Debt	37.700%	6.846%	2.581%
Short Term Debt	9.529%	1.060%	0.101%
Preferred Stock	2.063%	4.583%	0.095%
Common Equity	50.708%	10.50%	5.324%
Required Rate of Return	100.000%		8.101%

The debt costs reflected on Statement G, Rule 20:10:13:73 page 1 represent the actual weighted embedded costs of Montana-Dakota's long-term debt at June 30, 2012 and the long-term debt projected to be outstanding at June 30, 2013, and are supported by pages 2 through 4. In calculating the debt costs, the "Yield-to-Maturity" method (also referred to as the Internal Rate of Return ("IRR") method) is used to determine the total cost for each respective debt issue as presented on Rule 20:10:13:73, pages 2 and 3. The yield-to-maturity calculation of each debt issue outstanding gives consideration to the stated rates of interest being paid on such debt, the timing of the interest payments, related issuance expenses, underwriters' commissions, the discount or premium realized upon issuance and the amortization of losses on bond redemption transactions. Page 4 reflects the amortization of issuance costs associated with reacquired debt.

Page 5 of Statement G, Rule 20:10:13:73 reports the actual average short-term debt balance and cost of short-term debt for June 30, 2012 as well as the projected average short-term debt balance and the associated interest expense and cost of short-term debt for June 30, 2013.

Statement G, Rule 20:10:13:74, supports the cost of Montana-Dakota's preferred stock capital, representing the weighted cost of the issues at June 30, 2012 and projected cost of the issues to be outstanding at June 30, 2013.

Page 1 of Rule 20:10:13:75 reflects the Company's utility common equity balance at June 30, 2012 and the projected balance at June 30, 2013. The changes to the common equity balances are representative of normal changes, including projected earnings and equity additions less dividends.

Q. **How does the Company finance its utility operations and determine the amount of common equity, debt and preferred stock to be included in its capital structure?**

A. Through its financial planning process, the Company determines the amounts of necessary capital and financing required to support the capital investments to meet its obligation to provide safe, adequate and reliable service to its customers as well as its ongoing working capital requirements for operating and facility maintenance. Montana-Dakota finances its operations targeting a year end 50/50 debt to equity ratio capital structure. Capital expenditure investments are financed through a mix of internally generated funds, the utilization of its short-term credit line and the issuance of additional long-term debt and equity financing as required to maintain its targeted capital ratios while meeting the finance needs of its combined utility operations. In 2008, through a private placement, the Company issued $100 million of ten year unsecured senior notes at an interest rate of 6.04 percent. In 2009, the Company obtained $29 million of common equity through new stock issuances between July and October. In 2009, the Company issued $50 million of unsecured senior notes in two $25 million private placements with a seven year maturity, at interest rates of 6.66 percent and 6.61 percent respectively.

Since 2006, the Company has refinanced essentially all of its long-term debt and has lowered its embedded weighted average debt cost from 8.794 percent at December 31, 2005 to a projected 6.845 percent at June 30, 2013. The Company's mix of securities employs various maturity dates to provide flexibility and mitigate refinancing risks. The Company does not plan to issue additional long-term debt prior to June 30, 2013, but anticipates adding $10 million of common equity in late 2012, again to achieve and maintain the targeted 50/50 year end capital structure at December 31, 2012.

Q. What does Statement G, Rule 20:10:13:73 show?

A. Page 1 is a summary showing the Company's long-term debt at

June 30, 2012 and the associated cost of long-term debt, and it shows the projected long-term debt and associated costs for June 30, 2013 as well as the average cost of debt for the two periods. Page 2 shows the cost and long-term debt balance by issue at June 30, 2012 and page 3 shows the projected long-term debt balance and cost at June 30, 2013. Page 4 reflects the amortization of issuance costs associated with reacquired debt. For this proceeding, the amortization has been computed on a straight-line basis over the remaining life of the issues, the same calculation as is used by the Company for accounting purposes.

Q. Would you please describe Statement G, Rule 20:10:13:73, page 5?

A. Page 5 presents the projected average short-term debt balance for June 30, 2013 as well as the projected average cost of short-term debt. A twelve month average of short-term debt is used in the cost of capital calculation to reflect the seasonality in the short-term debt balance as the twelve month average calculation is more reflective of the borrowing level than a beginning and end of year average balance.

Q. What does Statement G, Rule 20:10:13:74 show?

A. Page 1 presents the preferred stock balances at June 30, 2012 and the projected balances for June 30, 2013. The anticipated weighted cost of preferred stock is also shown on page 1. Page 2 sets forth the various preferred stock issues outstanding at June 30, 2012 and page 3 sets forth the issues projected to be outstanding at June 30, 2013.

Q. What does Statement G, Rule 20:10:13:75 show?

A. Page 1 reports the common equity balance at June 30, 2012 as well as the projected balance at June 30, 2013 and the average balance. Pages 2 and 3 show the issuances of shares of common stock for the five-year period ending June 30, 2012.

Q. What does Statement G, Rule 20:10:13:76 show?

A. Page 1 indicates that MDU Resources Group, Inc. did not issue shares in connection with a stock split or stock dividend during the five year period from July 1, 2008 through June 30, 2012.

Q. Would you please describe Statement G, Rule 20:10:13:77?

A. This schedule presents various financial and market data relative to the Company's common stock for the years 2007 through June 30, 2012, and for each month of the twelve month period ended June 30, 2012.

Q. Would you please describe Statement G, Rule 20:10:13:78?

A. This schedule shows the reacquisition activity for long-term debt in the last five years and shows a summary of scheduled retirements of preferred stock for the five years ended June 30, 2012.

Q. Montana-Dakota is proposing new depreciation rates in this filing, based on plant for the twelve months ending December 31, 2008, and supported by Mr. Earl Robinson in his testimony. Has Montana-Dakota implemented the new depreciation rates developed by Mr. Robinson?

A. The new rates were implemented effective January 2010 based on the referenced study, with the exception of the cost of removal rates on distribution plant. Montana-Dakota implemented the new rates because overall, absent the cost of removal rates on distribution plant, the study resulted in lower depreciation rates. Montana-Dakota made the decision to implement the lower rates and elected to use the cost of removal on distribution rates that were in effect at the time until the new depreciation study could be reviewed in a general rate case.

Q. Does this conclude your direct testimony?

A. Yes, it does.