MONTANA-DAKOTA UTILITIES CO.

Before the South Dakota Public Utilities Commission

Docket No. NG23-___

Direct Testimony

Of

Tara R. Vesey

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

A. My name is Tara R. Vesey, and my business address is 400 North Fourth Street, Bismarck, North Dakota 58501.

Q. What is your position with Montana-Dakota Utilities Co.?

A. I am the Regulatory Affairs Manager for Montana-Dakota Utilities Co. (Montana-Dakota).

Q. Would you please describe your duties as Regulatory Affairs Manager?

A. I am responsible for the preparation of cost of service studies, fuel cost adjustments, purchased gas cost adjustments, and electric and gas tracking adjustments in each of the jurisdictions in which Montana-Dakota operates.

Q. Would you please describe your education and professional background?

A. I graduated from North Dakota State University with a Bachelor of Science degree in Economics. I started my career with Montana-Dakota in 2019 as a Regulatory Affairs Manager. Prior to that I was employed for 13 years by a power cooperative. During that time, I held positions of increasing responsibility, including Contract Administrator, Sales Manager, Transportation Manager, and Manager of Market Operations and Logistics.

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

A. Yes. I have previously presented testimony before this Commission, the Public Service Commissions of Montana, North Dakota and Wyoming, and the Public Utilities Commission of Minnesota.

Q. Are you familiar with the books and records of Montana-Dakota and the manner in which they are kept?

A. Yes. Montana-Dakota's books and records are kept in accordance with the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts.

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

A. The purpose of my testimony is to present the South Dakota gas operations per books cost of service for the twelve months ended December 31, 2022, and the pro forma cost of service reflecting known and measurable adjustments that will occur by December 2023. Based on the results, I have prepared the calculation of the revenue deficiency.

I will also discuss the Company's proposal to include the pension and benefits regulatory asset, post retirement regulatory asset, and cash working capital adjustment in rate base. Furthermore, I will present proposed changes to Rate 88 – Purchased Gas Cost Adjustment to be established in conjunction with this filing.

Q. What statements, schedules and exhibits are you sponsoring?

A. I am sponsoring Statements D through F, Statement H, Statement I, pages 1 through 6, Statement J through M, Statements P through R, Exhibit No.___(TRV-1), Exhibit No.___(TRV-2), and the proposed Rate 88 – Purchased Gas Cost Adjustment presented in Appendix B of the Application.

Q. Were these statements and exhibits prepared by you or under your direct supervision.

A. Yes, they were.

<u>Case Description</u>

Q. What is included in this Revenue Requirement?

A. The Company is requesting $7,418,636, which represents an 11.2 percent increase, based on a pro forma 2023.

Q. How was the $7,418,636 revenue requirement derived?

The Company has developed the pro forma revenue requirement based on adjustments to the sales revenues, Operation & Maintenance (O&M) expenses, taxes and the December 31, 2023 pro forma rate base. All of these adjustments are reasonably certain to occur and can be measured with reasonable accuracy, thus meeting the criteria of known and measurable.

Pro Forma Revenue Requirement

Q. What were the results of South Dakota's gas operations for the twelve months ended December 31, 2022?

A. Rule 20:10:13:96, Statement M, pages 1 and 2 show the per books income statement and rate base for total Company and South Dakota. As shown on page 1, South Dakota gas operations had a return on rate base of 3.858 percent for the twelve months ended December 31, 2022. The details for each line item, i.e. sales revenue, transportation revenue, other revenue, etc., are included in the applicable Rule listed. Pages 3 and 4 list the pro forma adjustments to operating revenues, expenses and rate base. All adjustments were calculated on either a South Dakota specific basis or on a total Company basis and allocated to South Dakota, as indicated on the statement or schedule detailing each adjustment.

Q. How was the per books cost of service allocated to South Dakota?

A. The Company utilizes a jurisdictional accounting system that directly assigns and/or allocates every item of revenue, expense and rate base to the jurisdictions as part of the regular accounting process on a monthly basis. The allocation methods and procedures are the same as have previously been used in Commission proceedings and are based on the principle of assigning and/or allocating costs to the cost causer.

Q. What test period are you using to determine the revenue requirement?

A. The revenue requirement is based on a pro forma year ending

December 31, 2023 test period. As stated by Ms. Kivisto, the revenue increase is largely driven by:

	Amount (in millions)
O&M Increase	$4.7
Rate Base	1.0
SSIP	0.4
Depreciation Increase	1.5
Income Tax Reduction	(0.3)
Other	0.1
	$7.4

Montana-Dakota's cost of doing business in South Dakota is increasing despite the Company's effort to control costs and increase efficiency. The Company is experiencing a $4.7 million increase in O&M expenses due to increased costs associated with labor, subcontract labor, vehicles and work equipment, and software maintenance. Other plant additions, including System Safety Integrity Program (SSIP), represents another $1.4 million increase. Finally, increases in depreciation expense, primarily driven by the increased investment in plant, result in a revenue requirement increase of approximately $1.5 million.

Q. What criteria were used to determine the pro forma adjustments?

A. The pro forma adjustments to operating revenue, expenses and rate base were based on known and measurable changes occurring by December 31, 2023, conformed to past Commission practices and are listed on pages 3 and 4 of Rule 20:10:13:96, Statement M. All of these adjustments are reasonably certain to occur and can be measured with reasonable accuracy, thus meeting the criteria of known and measurable.

The details for each line item, i.e. sales revenue, other revenue, etc., are included in the applicable Statement or Rule listed. All adjustments were calculated on a South Dakota specific basis as indicated on the statement or schedule detailing each adjustment.

Q. Would you describe the pro forma adjustments to the income statement and rate base?

A. Yes. The adjustments to the income statement are summarized on Rule 20:10.13:96, Statement M, page 3 and consist of adjustments to revenue, operation and maintenance expenses, depreciation expense, taxes other, and current and deferred income taxes. The adjustments to rate base are summarized on page 4 and include plant, accumulated reserve for depreciation and associated additions and deductions. Each adjustment is discussed in detail below.

Pro Forma Income Statement

Q. What adjustments were made to operating revenues?

A. The adjustments to operating revenues are contained in Rule 20:10:13:85, Statement I.

Adjustment No. 1 restates the per books volumes at current rates, adjusted to reflect an annual gas cost for 2023, exclusive of the surcharge adjustment, and eliminates the unbilled revenue and margin sharing credit, decreasing revenue by $6,900,925.

Adjustment No. 2 decreases revenues by $3,899,674 to reflect the effect of normal and annualized weather on sales and transportation volumes, as weather was 8.6 percent colder than normal in 2022. The normalization process and results are fully supported by Mr. Bensen's testimony.

Adjustment No. 3, located on page 5 of Statement I, is comprised of several adjustments to miscellaneous operating revenues. The pro forma adjustment decreases revenue by $241,038 and consists of several adjustments. The specific details of each adjustment are shown on Workpaper Statement I, page 1. They are as follows:

- Reconnect Fee, Reconnect Fee for Non-payment, NSF Check Fees, Sale of Junk Material, Patronage Dividends, Meter Reading for Others, and Miscellaneous Revenue were adjusted to reflect a three-year average;
- Energy Diversion was adjusted to reflect a three-year average resulting in a small reduction;
- Rent from Property was updated to reflect actual 2023 activity on an annualized basis;
- Late payment revenue is based on a three-year average ratio of the late payment revenue collected and the sales and transportation revenue, which is then applied to the Pro Forma Revenue;
- Conservation and Tracking Adjustment Revenue totaling $117,888 was removed to reflect the revenue recovery through the Conservation Program Tracking Mechanism Rate 90; and
- Penalty revenue was adjusted to reflect a two-year average.

Q. What adjustments were made to operations and maintenance (O&M) expenses?

A. The adjustments to operation and maintenance expenses are summarized in Rule 20:10:13:80, Statement H, pages 1 through 3 and are contained in Rule 20:10:13:81, Schedule H-1.

The adjustment to the cost of gas (Adjustment No. 4) is shown on Rule 20:10:13:81, Statement H, Schedule H-1, page 3, and adjusts the cost of gas to reflect the pro forma dk sales volumes, which were discussed earlier and were the basis for revenue, and an annual 2023 gas cost level. The pro forma cost of gas per dk was derived by calculating the annual demand charges based on the March 2023 purchased gas cost adjustment and the 2023 projected commodity cost of gas.

Q. Would you describe the development of labor and benefits expense?

A. Yes. Labor expense is shown as Adjustment No. 5, in Rule 20:10:13:81, Statement H, Schedule H-1, page 4, with actual labor expense for the twelve months ended December 31, 2022 used as the starting point.

The pro forma labor was developed by removing the labor costs associated with the South Dakota Rate 90 Conservation Program Tracking Mechanism and then applying a 3.96 percent increase. The 3.96 percent increase is based on the weighted average increases of 3.0 percent for union employees and 4.5 percent for non-union employees as shown on Statement H, Schedule H-1, page 6. In addition, incentive compensation has been adjusted to reflect an average target level of 12.21% of straight time and vacation. Labor expenses associated are further defined in page 5 of Statement H, Schedule H-1.

Adjustment No. 6 is an overall increase of $176,252 in benefits expense as shown on page 7 of Statement H, Schedule H-1 with additional support provided on page 8. The 2023 pro forma benefits expense reflects the removal of benefits associated with the South Dakota Rate 90 Conservation Program Tracking Mechanism. Benefits expense consists of medical/dental insurance, pension expense, post-retirement, 401K, workers compensation, and other benefits. Each of these items was adjusted individually using current information and applying the percentage increase to each type of benefit.

Medical and dental expense is increasing 13 percent per year based on the premiums in effect for 2023. Pension expense is increasing 125.66 percent reflecting an increase in the interest expense and lower than expected asset returns. The Company has made significant contributions to the pension fund to minimize expense and maintain adequate pension funding. Post-retirement expense is decreasing by 16.91 percent from 2022 levels. Pro forma 401(k) expense, workers compensation and other benefits are increasing consistent with the change in labor costs. Page 8 represents additional benefit information.

Q. Would you describe the other adjustments made to O&M expense?

A. Yes. Adjustment No. 7, shown on page 9, Statement H, Schedule

H-1 for vehicles and work equipment is an increase of $752,155 and reflects all expenses associated with the Company's vehicles and equipment, such as backhoes, skid steers, and excavators, including the costs of fuel, insurance, maintenance and depreciation expense. Adjustment No. 7 reflects an increase in this accountdue to the change in depreciation rates, specifically the Power Operated Equipment. It is calculated based on the pro forma plant and the depreciation rates in Statement J. The depreciation expense associated with these items is not charged to depreciation expense but rather is charged to a clearing account where it is then recorded in O&M expense as the vehicles or work equipment is used. The Pro Forma Adjustment is based on pro forma plant and projected depreciation rates. Absent the proposed depreciation study, the adjustment would have been an increase of approximately $7,400.

Adjustment No. 8, for Subcontract Labor expense shown on Statement H, Schedule H-1, page 10 is based on the Pro Forma adjusted value, to reflect the increase of $212,361. This increase is primarily due to the increased need for subcontract labor associated with line locating and leak surveying.

Adjustment No. 9, for materials expense, shown on Statement H, Schedule H-1, page 11 reflects an increase of $41,345. This 9.4% increase is based on information provided by the Company's major material supplier and was added to the pro forma period.

Adjustment No. 10 for Software Maintenance expense, shown on Statement H, Schedule H-1, page 12, is an increase of $50,196 and is based on pro forma estimated levels. The costs associated with the Pro Forma timeframe are based on the three-year average increase of expense and reflect expenses related to a variety of software packages and subscription renewals serving various departments, including mandated security needs.

Company consumption (Adjustment No. 11) shown on page 13 of Statement H, Schedule H-1, is the expense for general utilities, electric and natural gas consumption in Company buildings and is expected to decrease. The electric component is projected to remain unchanged while the natural gas component is expected to decrease $9,317 due to an 11.71% decrease in normalized firm sales revenues associated with the pro forma cost of gas.

Adjustment No. 12 for uncollectible accounts expense, shown on page 14 of Statement H, Schedule H-1, is a decrease of $40,503 based on five year average ratio of net write-offs to revenues applied to pro forma sales and transportation revenues.

Postage expense, shown on page 15 of Statement H, Schedule H-1 (Adjustment No. 16), is an increase of $24,368 and reflects a 13.18% increase in postage costs based on the pro forma weighted average increase that is then partially offset by electronic billing savings for the year.

Adjustment No, 14 for advertising expense, is shown on page 16 of Statement H, Schedule H-1 and reflects a decrease of $38,916. Pursuant to past Commission policy, general promotional advertising expenses have been eliminated. Informational and institutional advertising is adjusted to exclude advertising that is not applicable to South Dakota gas operations.

Q. Would you explain why you are including institutional advertising expenses?

A. Montana-Dakota is seeking to include institutional advertising that benefits customers and serves the public interest. As a corporate citizen, Montana-Dakota needs to be active in the communities that it serves. Montana-Dakota's motto is "In the community to serve" and one of the ways to demonstrate being a strong community member is to advertise the Company and what it does for the communities. Communities expect nothing less and advertising in the local newspapers, on television, in school yearbooks, programs, etc., is a necessary part of being active in the community. This advertising benefits the community and the customers in that community, thus serving the public interest.

Q. Would you please continue with your explanation of adjustments to operation and maintenance expenses?

Adjustment No. 15 for Insurance expense, shown on page 17 of Statement H, Schedule H-1, reflects an increase of $69,720. This increase is adjusted to reflect anticipated 2023 expenses and a 5 year average of self-insurance expense.

Industry dues, shown on pages 18 and 19 (Adjustment No. 16) reflects the pro forma level of industry dues and is a decrease of $146. These pages show those dues that are directly assigned or allocated to South Dakota, the appropriate pro forma expense level, and the benefit to the ratepayer.

Adjustment No. 17 for Regulatory Commission Expense as shown on page 20 of Statement H, Schedule H-1, reflects the expenses to be incurred in this filing and the expenses related to depreciation studies, amortized over a five-year period, and a three year average of ongoing regulatory commission expenses. The adjustment is an increase of $125,132. Because the expense incurred for this filing is proposed to be amortized over a five-year period, the unamortized balance has been included in rate base as a Working Capital addition.

Adjustment No. 18 for office supplies expense, shown on page 21 of Statement H, Schedule H-1, reflects an increase of $2,146. This includes a normalizing adjustment to reflect the average costs from 2018 to 2022. The average costs were considered in an effort to smooth out the temporary reduction in office supplies associated with the COVID-19 pandemic.

Annual easements are shown on page 22 of Statement H, Schedule H-1 as Adjustment No. 19. This adjustment reflects an increase of $5,036.

The items adjusted individually above represent approximately 96 percent of total South Dakota gas O&M. The remaining items, which make up approximately 4 percent of other O&M, were adjusted to exclude the costs associated with Conservation Program Tracking Mechanism.

Q. Would you describe the calculation of depreciation expense?

A. The adjustment to depreciation expense is contained in Rule 20:10:13:86, Statement J. Adjustment No. 21 restates the annual depreciation expense to the average pro forma level of plant in service. Concentric Advisors, ULC prepared gas and common plant depreciation studies, at the Company's request, for gas and common assets based on the plant balances on December 31, 2021. The depreciation studies are supported in the testimony of Mr. Kennedy. The depreciation rates are shown on Statement J, pages 2 through 4.

The total pro forma change to depreciation expense is a decrease of $23,249, as shown on Rule 20:10:13:86, Statement J, page 1. Absent the proposed depreciation studies, the adjustment would have been an increase of approximately $599,000.

Q. What adjustments were made to taxes other than income?

A. The adjustments to taxes other than income are contained in Rule 20:10:13:94, Statement L and Rule 20:10:13:95 Statement L, Schedule L-1.

Adjustment No. 22 restates ad valorem taxes to the pro forma level of plant in service based on the 2022 ratio of ad valorem taxes to plant. The net result is an increase of $49,674.

The adjustment to payroll taxes (Adjustment No. 23) is an increase of $44,654 based on the ratio of payroll taxes to labor expense for 2022 applied to pro forma labor expense, excluding the $616 related to the South Dakota Conservation Program Tracking Mechanism.

Adjustment No. 24 for the South Dakota Gross Receipt Taxes is based on the Company's revenue and the current Gross Receipts Tax rate of 0.15 percent. This results in an increase of $21,151.

Q. What adjustments were made to income taxes?

A. The adjustments to income taxes are summarized in Rule 20:10:13:88, Statement K, page 1.

Adjustment No. 25 is for interest expense and is based on the pro forma rate base and cost of debt. It is shown on Rule 20:10:13:88, Statement K, page 9. Interest is deductible for tax purposes and interest expense is calculated on the pro forma rate base using the weighted cost of debt from Rule 20:10:13:72, Statement G, page 1. The resulting interest expense is an increase of $294,669.

Adjustment No. 26, shown on page 10 reflects the net tax depreciation and deferred taxes on the pro forma plant additions. The calculation of net tax depreciation and the resulting deferred taxes on the plant additions are shown on page 18 of Rule 20:10:13:72, Statement G.

Adjustment No. 27, the pro forma adjustment to current income tax on operating revenues and expenses are calculated on page 11.

Shown on page 12 of Rule 20:10:13:72, Statement G, Adjustment No. 28 reflects an adjustment to the per books 2022 actual results to reflect the impact of the federal tax rate on current and deferred income taxes.

Adjustment No. 29, on page 13, is the change in plant related excess deferred income taxes.

<u>Pro Forma Rate Base</u>

Q. How would you describe the development of the rate base?

A. The pro forma rate base is based on the 2022 rate base and reflects known and measurable adjustments that will occur within twelve months ending December 31, 2023. The pro forma adjustments to rate base are summarized on Rule 20:10:13:96, Statement M, page 4.

Adjustment A is the known and measurable plant additions that will be in service by December 31, 2023. The increase includes additions to distribution, general and common plant and the additions are shown on Rule 20:10:13:54, Statement D, pages 2 through 4. Rule 20:10:13:56, Statement D, Schedule D-2, pages 3 and 4 contain the detailed plant additions of $10,302,867.

Adjustment B, shown in Rule 20:10:13:64, Statement E page 1, decreases the reserve for depreciation on the per books plant by $11,623. The provision for depreciation included in this adjustment is inclusive of half of the change in pro forma depreciation expense. This is consistent with the Settlement Stipulation in Docket No. NG15-005.

Q. How were the working capital items derived?

A. The working capital adjustments are summarized in Rule 20:10:13:68, Statement F, page 1.

Detailed information for Adjustments C through K is shown on Rule 20:10:13:69, Statement F, Schedule F-1, pages 1 through 9. Materials and supplies, prepaid insurance, and customer advances for construction are restated to a thirteen-month average balance on pages 1, 2, and 9 reflecting actual balances through February 28, 2023 in Adjustments C, D, and K. Materials and supplies project March 2023 through December 2023 based on prior period actual results. Prepaid Insurance and Customer Advances on Construction project March 2023 through December 2023 is based on expected expenses. Adjustments to materials and supplies, prepaid insurance, and customer advances for construction result in an increase of $47,973, $135,521, and $85,521, respectively.

Adjustments E, F, and G represent the adjustments to the unamortized loss on reacquired debt balances, unamortized redemption of preferred stock, and unamortized rate case expense, and the associated deferred income taxes to reflect 2023 activity. This activity is shown on pages 3 through 5.

The Company is proposing to include the provision for pensions and benefits, the provision for post retirement, and the cash working capital adjustment in the revenue requirement for the 2023. The associated accumulated deferred income taxes for pensions and benefits and post retirement were also included. All three items are discussed in detail below.

Q. Montana-Dakota has proposed to include the net pension regulatory asset in rate base. Will you explain why?

A. Yes. As discussed in the testimony of Ms. Kivisto, the Company's required contributions to the pension account resulted in a significant prepaid asset and exceeded the amount of pension expense (commonly referred to as FAS 87 or ASC 715 expense) recovered through the revenue requirement. The contributions are tax deductible for Montana-Dakota and any earnings on those contributions in the pension trust account are not subject to income tax. With that in mind, the contributions help maintain the required funding level and, at the same time, typically result in lower FAS 87 expense.

Post retirement contributions are typically much more closely matched to the annual expense, so the prepaid asset is much smaller. However, Montana-Dakota considers the benefits and the circumstances surrounding the creation of both prepaid assets or liabilities that it is appropriate to include both pension and post retirement similarly.

The table below presents the pension and benefits regulatory asset or liability position for Montana-Dakota's for MDU beginning in December 2004 through December 2022. As shown, Montana-Dakota has made cash contributions in the amount of $81.5 million but has recovered only $27.8 million through the inclusion of pension expense in the revenue requirement. South Dakota gas operations' share of the total pension regulatory asset is $8.3 million as of December 31, 2022.

	Cash Contributions	Pension Expense	Pension Balance Debit (Credit)
Beginning Balance - 12/31/2004			$7,777,266
Activity - 2005	$0	$4,179,348	3,597,918
Activity - 2006	-	4,118,976	(521,058)
Activity - 2007	1,188,690	3,724,426	(3,056,794)
Activity - 2008	-	2,825,775	(5,882,569)
Activity - 2009	8,347,434	4,759,097	(2,294,232)
Activity - 2010	3,871,657	(5,328)	1,582,753
Activity - 2011	13,757,133	1,610,332	13,729,554
Activity - 2012	12,038,687	(740,118)	26,508,359
Activity - 2013	10,014,592	1,830,351	34,692,600
Activity - 2014	12,202,457	594,340	46,300,717
Activity - 2015	2,182,143	1,398,780	47,084,080
Activity - 2016	-	1,746,833	45,337,247
Activity - 2017	422,015	1,422,159	44,337,103
Activity - 2018	7,200,692	720,403	50,817,392
Corporate Reorg. Adj.	(5,133,171)	-	45,684,221
Activity - 2019	15,452,375	1,379,116	59,757,480
Activity - 2020		(177,300)	59,934,780
Activity - 2021		(727,718)	60,662,498
Activity - 2022		(814,687)	61,477,185
Total Funding	$81,544,704	$27,844,785	
Ending Balance - 12/31/2022			$ 61,477,185

Q. Is Montana-Dakota required to make contributions to its pension trust fund? And what are the ramifications if funding is not maintained?

A. Yes. Internal Revenue Service rules govern minimum required pension funding contributions. If required contributions are missed or delayed, the missed payment would be considered a reportable event under the Employee Retirement Income Security Act of 1974 (ERISA) rules. This could also subject the Company to excise taxes for failure to meet minimum funding requirements. In addition, if the funded status drops below certain levels, restrictions on benefit payments may be required as well as potentially increased premiums payable to the Pension Benefit Guaranty Corporation.

Q. Montana-Dakota has included pension and post-retirement benefits in this filing. Will you explain why the Company has decided to include these regulatory assets in rate base at this time?

A. As reflected in the table above, the pension regulatory asset fluctuates from an asset to a liability and then, beginning in 2012, started to increase to a magnitude as the Company had made significant funding contributions. However, the amount recovered through the revenue requirement (i.e. recovery of FAS 87 expense as a component of operating expenses) has decreased to the point that the regulatory asset has become a material asset upon which Montana-Dakota is not able to earn a return.

The Company was evaluating the inclusion of pension and post retirement at the time of the last gas rate case (Docket No. NG15-005) but did not include the regulatory assets at that time. Since that time, Montana-Dakota has been proposing the inclusion of pension and benefits and post-retirement benefits regulatory assets in other jurisdictions.

Montana-Dakota's proposals have been accepted by the Public Service Commissions of North Dakota, Montana, and Wyoming.

Post retirement benefits regulatory assets are similar in nature, as mentioned earlier, but is on a smaller scale.

Q. Please describe Exhibit No.__(TRV-2).

A. Exhibit No.__(TRV-2) was prepared to present the Company's historic view of the pension regulatory asset and liability balances.

Q. Has the Company added any other new adjustments to be considered?

A. Rule 20:10:13:68, Statement F, page 8 Adjustment J is the cash working capital adjustment. In Docket No. NG15-005, South Dakota Public Utilities Commission staff computed a cash working capital adjustment which was included in the computation for the Settlement Stipulation. In an effort to remain consistent with the last case, Montana-Dakota contracted with Concentric Energy Advisors, Inc to perform a lead/lag study in order to create a cash working capital adjustment. The lead/lag study is fully supported in the testimony of Mr. Adams. The calculation of the cash working capital adjustment was performed by applying the expense lead and revenue lag days from the lead-lag study to the applicable pro forma level of revenue or expense. This resulted in a decrease in the rate base of $295,430 and a reduction in the revenue requirement of approximately $36,000.

Q. Would you describe how the accumulated deferred income tax balance was developed?

A. The adjustments to accumulated deferred income taxes are summarized on Rule 20:10:13:88, Statement K, page 1.

Adjustment L on page 17 of Statement K reflects the pro forma balances that were derived by adding the changes to the deferred income taxes to the Pro Forma Adjusted balances and calculating the average balance.

Q. Are you proposing any changes to Rate 88 – Purchased Gas Cost Adjustment?

A. Montana-Dakota has proposed a Firm General Contracted Demand Service Rate 74 as discussed by Ms. Bosch. Rate 88 has been updated to reflect the cost of gas to be charged for Rate 74. The Capacity Charge will be developed on an incremental pipeline capacity basis and applied to the contracted billing demand. The Cost of Gas - Commodity Charge will be based on costs applicable to firm customers, exclusive of pipeline demand charges, and will be applied to the customer's actual measured Dk for the given month.

Also, in an effort to correct a clerical error, certain spaces were eliminated and Section 5(a)(1) was updated to reflect the correct minimum filing threshold limitation referenced in Section 2(b).

Q. What is the additional revenue requirement calculated on Exhibit No.____(TRJ-1)?

A. Exhibit No.____(TRV-1), which is identical to Rule 20:10:13:96, Statement M, page 7, shows the calculation of the revenue deficiency of $7,418,636 based on the pro forma operating income and rate base and using the overall rate of return of 7.600 percent from Rule 20:10:13:72, Statement G, page 1.

Q. Does this complete your direct testimony?

A. Yes, it does.