MONTANA-DAKOTA UTILITIES CO.

Before the South Dakota Public Utilities Commission

Docket No. EL23-__

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 electric 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 benefits regulatory asset, and cash working capital adjustment in rate base. Furthermore, I will present proposed changes to Rate 58 – Fuel and Purchased Power

Adjustment.

Finally, I will discuss the amortization schedule of the Lewis & Clark Unit I and Heskett Units I & II coal units closure regulatory assets.

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

A. I am sponsoring Statements D through F, Statement H, Statement I, pages 1 through 5, Statement J through M, Statements P through R as well as Exhibit No.___(TRV-1), Exhibit No. ___ (TRV-2), and Exhibit No.___(TRV-3).

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 $2,985,726, which represents a 17.3 percent increase, based on a 2022 test period adjusted for known and measurable changes, which is comprised of the revenue deficiency shown on Statement M, page 7 and the annual amortization of the retire coal units, as shown on Exhibit No.___(TRV-3). This equates to an average annual increase of approximately 2.2 percent per year.

Montana-Dakota currently has three riders: the Infrastructure Rider Rate 56 (Infrastructure Rider), the Transmission Cost Recovery Rider Rate 59 (Transmission Rider), and the Environmental Cost Recovery Rider Rate 57 (Environmental Rider). The Environmental Rider currently has no recovery and thus will not be discussed further. The 17.3 percent increase includes the net effect on the changes in base electric rates and the movement assets from the current Infrastructure and Transmission Riders.

More specifically, Montana-Dakota is proposing to move or expand the cost recovery from certain riders and base rates as follows:

- Move the regulatory asset and related amortization of Lewis & Clark Unit I and Heskett Units I and II from base retail rates to the Infrastructure Rider.
- Move the assets currently recovered in the Infrastructure Rider, including those associated with the Thunder Spirit Wind Facility, to base retail rates.
- Move the transmission investment and related expenses currently recovered through the Transmission Rider to base retail rates. As discussed further below, the net RTO expenses will remain in the Transmission Rider and have been excluded from this revenue requirement.
- Begin recovery of the production investment and related expenses of Heskett Unit IV in base retail rates.
- Move the production tax credits (PTCs) related to the Thunder Spirit Wind Facility from the Infrastructure Rider to become an offset to fuel and purchase power costs in the Fuel and Purchase Power Adjustment Rate 58 (FPPA).

- PTCs related to the Diamond Willow Wind Facility, which are currently retained by the Company pursuant to Docket No. EL22-021, are proposed to also become an offset to fuel and purchase power costs in the FPPA.

Q. What is the Company proposing to continue to recover in the riders?

A. The Company is proposing to continue to recover the net revenue requirement for costs and revenues invoiced through Midcontinent Independent System Operator (MISO) and Southwest Power Pool (SPP) in the Transmission Rider. These costs and revenues have been excluded from the revenue requirement in this case. These costs include the expenses and revenues directly associated with transmission level customers, such as Rate 45 customers as well.

As previously stated, the Company is proposing to recover the remaining deferred regulatory asset balance and associated amortization of the Lewis & Clark I and Heskett I & II closure costs in the Infrastructure Rider. The Company is currently tracking the amortization of the deferred asset balance by applying the revenue requirement identified in the current authorized base rates for the retired generation facilities.

Q. How was the $2,984,237 revenue requirement derived?

A. The Company has developed the projected revenue requirement for the 2023 pro forma period based on projected sales revenues (including $3,577,558 associated with the investments currently in the Infrastructure and Transmission Riders, as shown on Rule 20:10:13:99, Statement O, Schedule O-1, page 1), Operation & Maintenance (O&M) expenses, taxes, and the pro forma 2023 rate base. In addition, Montana-Dakota is proposing to move the investment associated with the Thunder Spirit Wind Facility and transmission related projects currently recovered in the Riders to base rates. The result is a revenue requirement shortfall of $2,593,434.

Furthermore, Montana-Dakota is proposing to amortize approximately $392,292 per year associated with the regulatory asset established upon the closure of Lewis & Clark Unit I and Heskett Units I & II. This amortization recovery is proposed to be included in the Infrastructure Rider and amortized over an approximate three year period from implementation of final rates.

The proposed revenue requirement shortfall of $2,593,434 and the amortization proposed to be included in the Infrastructure Rider of approximately $392,292 results in a total shortfall of $2,985,726, as shown on Statement M, page 7 and Exhibit No.___(TRV-3).

Q. What is Montana-Dakota's proposal related to the amortization of the retired generation units?

A. In Docket No. EL19-040, the Commission approved the Company's proposed application for deferred accounting treatment related to the costs to retire the Lewis & Clark I and Heskett I & II generating stations until the next rate proceeding. In the Company's annual Infrastructure Rider filings (Docket Nos. EL21-007, EL22-007, and EL23-006), the deferred regulatory asset, decommissioning and employee related costs were presented, along with an amortization, to begin reducing the overall deferred asset balance. As noted previously, the amortization is based on the Company's estimated revenue requirement in current base rates identified to the retired generation units. At the current level of amortization, the regulatory asset will be fully amortized by approximately November 2024.

Montana-Dakota is proposing to amortize the remaining regulatory asset, decommissioning and employee related costs for 3 years starting March 2024 which is estimated to be the implementation of final rates in this proceeding. The proposal to extend the overall recovery of the regulatory assets results in full amortization in approximately March 2027. The Company believes this proposal strikes an appropriate balance while minimizing the overall impact to the rate payers within the rate case.

<u>Pro Forma Revenue Requirement</u>

Q. What were the results of South Dakota electric 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 electric operations had a return on rate base of 5.600 percent for the twelve months ended December 31, 2022. The details for each line item, i.e. sales revenue, sales for resale, 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 which has implemented known and measurable changes from the test period ending December 31, 2022. As stated by Ms. Kivisto, the revenue increase since the last case is largely driven by:

	Amount (in millions)
O&M Increase	$0.4
Other RB Additions	$1.0
Heskett IV	$0.4
Depreciation Increase	$0.4
Increased Property Taxes	$0.2
Other	$0.2
	$2.6
Amortization of L&C and Heskett	$0.4
	$3.0

The Heskett Unit IV addition is included in the rate base and represents approximately $400,000 of the increase. Other plant additions, represents another $1.0 million increase. Pro forma Property Taxes reflect an increase of approximately $200,000. Depreciation increases are a result of the updated Depreciation Study, the Lewis & Clark Unit I and Heskett Units I & II amortization, and other additions to rate base. These increases are partially offset by the Lewis & Clark Unit I and Heskett Units I & II plant closures.

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 rRule 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 and associated additions and deductions. Each adjustment is discussed in detail below.

<u>Pro Forma Income Statement</u>

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 is the adjustment to reflect pro forma sales revenues as discussed by Ms. Stephanie Bosch and is a decrease in revenue of $972,667.

Adjustment No. 2 increases revenue by $32,544 to reflect the expected revenue associated with the wholesale sale of energy.

Adjustment No. 3, shown on page 4 of Rule 20:10:13:85, Statement I, includes the adjustments to total transmission and other operating revenues for a total reduction in revenue of $967,643. The specific details of each adjustment are shown on Workpaper Statement I, page 1.

- Seasonal Reconnect Fee, Joint Use Facilities, Miscellaneous Rental Revenue, Patronage Dividends, Joint Use Agreement, Big Stone Steam Sales, Coyote Miscellaneous Revenue and KVAR Penalty Revenue were adjusted to reflect a three-year average;

- Reconnect Fee for Non-payment, NSF Check Fees, and Sale of Junk Material was adjusted to reflect a two-year average;
- Work for Others remained the same as 2022;
- Energy Diversion was adjusted to reflect a 2022 booking error;
- Rent for buildings and parking, General Office, equipment, pole attachments, and street and yard lights were updated to reflect actual 2023 activity on an annualized basis;
- Miscellaneous other operating revenue was restated to a 3 year average after adjusting to for the FERC Schedule GG ROE true up.
- 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;
- The Sale of Renewable Energy Certificates (REC) revenue is based on the 2022 integrated system REC sales as allocated to South Dakota.
- The Capacity Sales Revenue is based on a capacity sale the Company entered into that is effective through May 2023.
- Revenue associated with the retirement of the Heskett and Lewis & Clark coal units and the MISO and SPP revenue to remain in the Transmission Rider has been excluded.

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

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

Fuel and purchased power is shown in Adjustment No. 4 on Rule 20:10:13:81, page 3 and reflects a decrease of $450,951. This is based on the pro forma generation and power purchase requirements and has been updated to reflect pro forma cost assumptions and purchased power prices, including a recent purchase power agreement (PPA). The PPA is fully supported in the testimony of Mr. Neigum.

Montana-Dakota is also proposing to move the PTC’s related to the Thunder Spirit Wind Facility (which are currently being recovered in the Infrastructure Rider) and the Diamond Willow Wind Facility (which are currently retained by the Company pursuant to Docket No. EL22-021), to become an offset to the fuel and purchase power costs in the FPPA. As shown on Statement Workpapers H, page 2, the cost per kWh is projected to reduce for Montana-Dakota customers from 2.280 cents per kWh in 2022 to 1.445 cents per kWh in the 2023 Pro Forma period.

Absent this PTC credit, Montana-Dakotas Pro Forma fuel and purchase power cost would be 2.164 cents per kWh as shown on Statement Workpapers H, page 4.

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 Heskett Units I & II 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 7. In addition, incentive compensation has been adjusted to reflect an average incentive level of 12.21% of straight time and vacation.

Furthermore, as described in detail by Mr. Anderson, an Outage Management Software will be implemented which will require additional employees. These new positions and the labor expenses associated are further defined in pages 5 and 6 of Statement H, Schedule H-1.

Adjustment No. 6 is an overall increase of $59,806 in benefits expense as shown on page 8 of Statement H, Schedule H-1 with additional support provided on page 9. The 2023 pro forma benefits expense reflects the removal of benefits associated with Heskett Units I & II. 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 credit to expense is increasing by 16.91 percent from 2022 levels results in an overall decrease in expense of $13,536. Pro forma 401(k) expense, workers compensation and other benefits are increasing consistent with the change in labor costs. Page 9 presents additional benefit information.

Finally, page 10 represents the additional benefits associated with the new positions associated with the Outage Management Software referenced above.

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

A. Yes. The subcontract labor expense shown on Statement H, Schedule H-1, Adjustment No. 7, page 11 is a decrease of $1,275,355. This reduction is driven primarily by the removal of transmission service charges which will continue to be recovered in the Transmission Rider. The 2022 subcontract labor was further adjusted to reflect Heskett Units I & II expenses due to retirement. These exclusions are slightly offset by the increase in the maintenance agreement for Thunder Spirit.

Big Stone and Coyote expenses shown on Statement H, Schedule H-1, page 12 as adjustment No. 8 reflects the anticipated expenses associated with those generating stations for the year ending December

31, 2023. The adjustment reflects the expected costs of operation and a normalized outage schedule.

Adjustment No. 9, for materials expense, shown on Statement H, Schedule H-1, page 13 reflects an adjustment excluding the costs associated with the retirement of Heskett Units I & II. Furthermore, based on information provided by the Company's major material supplier, an increase of 4.8 percent for production, distribution and transmission was added to the pro forma period resulting in an increase for materials of $2,414.

Adjustment No. 10, shown on page 14 for vehicles and work equipment, 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. The depreciation expense on these items is charged to a clearing account (rather than to depreciation expense), where it is then recorded in O&M expense as the vehicles or work equipment is used. The net adjustment is an increase of $32,443 for company vehicles and is solely related to the change in depreciation, largely the result of the updated depreciation studies. Absent the proposed depreciation study, the adjustment would have been an increase of approximately $3,700

Adjustment No. 11 for company consumption, on page 15 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 $2,310. The general utilities and electric components represent an increase of 4.23% to reflect volumes at current rates. The natural gas component is based on a decrease of 25.05% to reflect weather normalized volumes at current rates.

Adjustment No. 12 for postage expense is shown on page 16 of Statement H, Schedule H-1. The pro forma adjustment reflects the 13.18 percent increase in postage for 2022. Conversely, the additional postage savings for the year is calculated by considering the number of customers receiving their monthly billing via electronic format as of the December 2022. Adjustment No. 12 is a net increase of $3,364.

Uncollectible accounts expense (Adjustment No. 21) shown on page 17 of Statement H, Schedule H-1, is an increase of $12,148 from per books based on the five year average of net write-offs to sales revenues. This ratio was then applied to the pro forma sales revenues.

Adjustment No. 14 for advertising expense is shown on page 18 of Statement H, Schedule H-1, and reflects a decrease of $5,503. Promotional advertising expenses have been eliminated from the pro forma period and informational and institutional advertising is adjusted to exclude advertising that is not applicable to South Dakota electric 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?

Insurance expense, shown on page 19 of Statement H, Schedule H-1, (Adjustment No. 23) reflects an increase of $7,080. Insurance expense was adjusted to reflect anticipated 2023 expenses and increases to accommodate for the addition of Heskett Unit IV.

Adjustment No. 16, shown on page 20 for software maintenance expense, is an increase of $3,160 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 renewal serving various departments, including mandated security needs.

Adjustment No. 17, for Industry dues, is shown on page 21 of Rule 20:10:13:81, Statement H, Schedule H-1, and reflects a decrease of $1,409. This page shows 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. 18 for rent expense are shown on page 22 of Rule 20:10:13:81, Statement H, Schedule H-1. The net increase for rent expense is $3,315.

Annual easements are shown on page 23 of Statement H, Schedule H-1 as Adjustment No. 19, show an increase of $5,613. This adjustment includes Radio Tower leases in support of a new 2-way radio replacement project and wind farm easements reflective of contractual agreements.

Regulatory Commission Expense (Adjustment No. 20) reflects the expenses to be incurred in this filing, amortized over a five-year period, a three year average of ongoing regulatory commission expenses, and the expenses related to depreciation studies amortized over five years. The adjustment is an increase of $146,512. 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. 21 for office supplies expense, shown on page 25 of Statement H, Schedule H-1, reflects an increase of $2,263. This adjustment excludes the expenses related to Heskett Units I & II and 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.

The items adjusted individually above represent approximately 98 percent of total South Dakota electric O&M, as shown on page 26. The remaining O&M expenses, which make up approximately 2 percent of other O&M expenses, were adjusted to exclude those costs associated with Heskett Units I & II.

Q. What adjustments were made to depreciation expense?

A. The adjustment to depreciation expense is contained in Rule 20:10:13:86, Statement J. Adjustment No. 23 restates annual depreciation expense to the average pro forma level of plant in service including the addition of Heskett IV and the Diamond Willow repower. Concentric Advisors, ULC consultants prepared electric and common plant depreciation studies, at the Company’s request, for electric and common assets based on the plant balances on December 31, 2021. The electric study also contains an update to include the investment in the Diamond Willow repower which went into service in 2022. The depreciation studies are supported in the testimony of Mr. Kennedy. The depreciation rates are shown on Statement J, pages 2 through 5.

The adjustment to depreciation expense shown in Adjustment No. 23 as a decrease of $572,922. Absent the proposed deprecation studies, the adjustment would have been a decrease of approximately $1.0 million.

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, page 1 and Rule 20:10:13:95, Statement L, Schedule L-1, pages 1 through 4.

Adjustment No. 24 reflects South Dakota ad valorem taxes to the pro forma level of plant in service based on the 2022 ratio of ad valorem taxes to plant, excluding acquisition adjustments, Thunder Spirit Wind Farm (which is taxed on production per ND Century Code Chapter 57-33-2-04), and the depreciable plant for Coyote (which is taxed through coal conversion tax shown in Adjustment 27). The net result is an increase of $71,385.

Adjustment No. 25 for payroll taxes, shown on Statement L, Schedule L-1, page 2, is an increase of $14,975, calculated based on the ratio of payroll taxes to labor expense for 2022 applied to pro forma labor expense.

Adjustment No. 26 for the South Dakota Gross Receipt Tax is based on the Company’s revenue and the current Gross Receipts Tax rate of 0.15 percent. This results in an increase of $2,280.

Adjustment No. 27 for electric production taxes is summarized on page 4 of Statement L, Schedule L-1, Rule 20:10:13:95. Production taxes have been adjusted to reflect Pro Forma projected generation levels and applicable retail sales volumes.

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. 28 is 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 $311,287 from the per books level.

Adjustment No. 29, shown on page 10 is the adjustment for tax depreciation and deferred taxes on the pro forma plant additions.

Adjustment No. 30 is the pro forma adjustments to current income taxes on operating revenues and expenses as shown on page 11.

Adjustment No. 31, shown on page 12, reflects the production tax credits (PTC) related to energy produced at the Company's wind generating facilities. The pro forma adjustment is based on a PTC rate of $0.0260 cents per kWh of production for Thunder Spirit Wind Facility and $0.0275 cents per kWh for the Diamond Willow Wind Facility Repower project for a total increase in the federal income tax credit of $87,018. As I discussed earlier, the PTC's for these projects are proposed to now be credited to the monthly FPPA.

Shown on page 13, of Rule 20:10:13:88, Statement K, Adjustment No. 32 reflects an adjustment the per books 2022 actual results to reflect the impact of the federal tax rate on current and deferred income taxes.

Pro Forma Rate Base

Q. How was the rate base developed?

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 beyond December 31, 2022. The pro forma adjustments to rate base are summarized on Rule 20:10:13:96, Statement M, page 4.

Adjustment A, shown in Rule 20:10:13:54, Statement D, pages 1 through 6, annualizes the December 31, 2022 ending balance and includes known and measurable plant additions that will be in service by December 31, 2022. The pro forma adjustment of $10,589,777 includes additions to production, transmission, distribution, general and common plant.

Adjustment B, shown in Rule 20:10:13:64, Statement E, page 1, increases the average reserve for depreciation on the per books plant by $328,851. 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. EL15-024.

Q. How were the working capital items derived?

A. The working capital adjustments are summarized in Rule 20:10:16:68, Statement F, page 1.

Detailed information for Adjustments C through O is shown on Rule 20:10:13:69, Statement F, Schedule F-1, pages 1 through 13. Materials and supplies, fuel stores, prepaid insurance, and customer advances for construction were restated to a thirteen-month average on pages 1, 2, 3, and 12 reflecting actual balances through February 28, 2023. Materials and supplies and fuel stores project March 2023 through December 2023 based on prior period actual results. Prepaid Insurance pro forma March 2023 through December 2023 is based on expected expenses. Customer Advances on Construction remains constant from February 2023 through December 2023. Adjustments to materials and supplies and prepaid insurance results in an increase of $21,556 and $53,521, respectively. Fuel Stores results in a decrease of $13,680.

Adjustment F, G, H, and I reflect the unamortized loss on debt, decommissioning of retired power plants, unamortized redemption of preferred stock, and unamortized regulatory commission expense. These adjustments were calculated using the balance of December 31, 2022. The activity is shown on pages 4, 5, 6, and 7.

The regulatory asset associated with Lewis & Clark Unit I and Heskett Unit I & Unit II is shown as Adjustment L on page 11 through December 2022 assuming the proposed 3-year amortization. Effective with the implementation of final rates from this Case, the Company is proposing this regulatory asset be recovered through the Infrastructure Rider.

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 and post-retirement benefits regulatory assets 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 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 electric operations' share of the total pension regulatory asset is $1.4 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 electric rate case (Docket No. EL15-024) 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 its 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 20:10:13:69, Statement F, Schedule F-1, page 11, Adjustment J is the cash working capital adjustment. In Docket No. EL15-024, 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 $373,013 and a reduction in the revenue requirement of approximately $33,600.

Q. What are the additional revenue requirement calculated on Exhibit No.____(TRV-1) and Exhibit No.___(TRV-3)?

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 $2,593,434 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.

Furthermore, Montana-Dakota is proposing to amortize $392,292 per year associated with the regulatory asset established upon the closure of Lewis & Clark Unit I and Hesket Unit I & II coal units and that it will be included in the Infrastructure Rider. These are reflected on Exhibit No.___(TRV-3).

<u>Electric Fuel and Purchased Power Adjustment Cost Tracking</u>

Q. Would you describe the proposed fuel and purchased power adjustment presented in this filing?

A. Yes. Montana-Dakota is proposing to eliminate the creation of a base fuel cost and to create a historical summary. Currently the base fuel cost does not provide clarity to customers as to the monthly variance in fuel costs. The creation of the historical summary allows the customers to better understand how the rate changes monthly.

The proposed Rate 58 tariff and historical summary is included in Appendix B.

Q. Does this complete your direct testimony?

A. Yes, it does.