BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF THE APPLICATION OF MONTANA-DAKOTA UTILITIES CO. FOR APPROVAL OF A GENERAL RATE INCREASE IN ITS RETAIL NATURAL GAS SERVICE UTILITY RATES OF 14.29 PERCENT	)))))	Docket No. 30013-415-GR-24 (Record No. 17710)

PRE-FILED DIRECT TESTIMONY OF

Justin J. Ballard

On Behalf of the Office of Consumer Advocate

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INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Justin J. Ballard, and my business address is 2515 Warren Avenue, Suite 304, Cheyenne, Wyoming 82002.

Q. WHAT IS YOUR OCCUPATION?

A. I am currently employed as a Deputy Administrator for the Wyoming Office of Consumer Advocate (OCA). The OCA is a separate and independent division within the Wyoming Public Service Commission (PSC or Commission) with no reporting or supervisory links to the Commission. In my position, I analyze regulated utility requests and provide recommendations to the Commission related to utility matters such as rates of return, revenue requirements, class cost of service, rate design, and other areas as needed.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE?

A. I earned a Bachelor's of Science in Finance with a minor in Economics in 1996 from the University of Wyoming. In 1998, I was awarded a Master's of Science in Finance from the University of Wyoming. After graduating, I worked for fifteen years as an economist for the Wyoming Department of Administration, Economic Analysis Division. Subsequently, I served as a Senior Research Analyst for the Wyoming Lottery Corporation. Additionally, I have experience working in the accounting and financial department for a non-profit and as a finance specialist with a private wealth management firm. I joined the Wyoming OCA in May of 2023 as a Senior Economic Analyst, and in July 2024, I was promoted to my current role as Deputy Administrator.

During my time at the OCA, I have provided testimony on revenue requirements, class cost of service, and rate design. I also filed testimony related to the merger of a local gas distribution company serving Wyoming with a multinational energy infrastructure company. Furthermore, I have conducted analyses on various energy cost adjustments for both gas and electric utilities, as well as a variety of tariff and regulatory matters.

Q. WHOM DO YOU REPRESENT IN THIS PROCEEDING?

A. Pursuant to W.S. § 37-2-401, I represent the interests of all Wyoming citizens and utility rate payers in public utility matters. In this case, my testimony considers the relevant facts presented and how they contribute to the delivery of safe, adequate, and reliable utility service at just and reasonable prices. During my analysis, I have not represented the interests of the subject utility company, any individual person, or specific class of customer above any other.

PURPOSE AND ORGANIZATION

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide analysis and recommendations regarding Montana-Dakota Utilities' (MDU or the Company) Wyoming gas operations revenue requirement calculation in this general rate case proceeding. In addition, I am introducing the other witnesses whose testimony supports various aspects of this case. My testimony is presented in coordination with the following witnesses:

- **Anthony J. Ornelas**, Administrator of the Office of Consumer Advocate (OCA), provides testimony regarding the Company's class cost of service, rate design, and proposed tariff changes.
- **Chris Walters**, a consultant specializing in public utility regulation with Brubaker and Associates, Inc., who provides testimony regarding the OCA's recommendations for a reasonable return on equity, capital structure, and overall rate of return.
- **David J. Garrett**, a consultant with Resolve Utility Consulting specializing in technical analysis for utility rate proceedings, provides testimony on the Company's depreciation study.

I have incorporated the recommendations of Mr. Walters and Mr. Garrett into my revenue requirement analysis. Mr. Ornelas has utilized my revenue requirement analysis in his evaluation of the Company's class cost of service and rate design.

Q. PLEASE DESCRIBE THE PROCESS UTILIZED TO ANALYZE MDU's FILED GENERAL RATE CASE.

A. I began my analysis by reviewing the written testimony and supporting exhibits submitted by MDU in connection with their requested rate increase. Following this initial review, I conducted a regulatory audit of the filing at the Company's corporate offices in Bismarck, ND. Upon completing the audit, I issued multiple rounds of additional data requests to gain further clarity on several key issues. Throughout this process, I held several follow-up meetings with subject matter experts at MDU to address outstanding questions and gain a deeper understanding of the modeling the Company provided in support of its application.

Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

A. Following this introduction, I provide a brief overview of MDU's rate case and revenue requirement, including its proposed revenues, expenses, and rate base components. Additionally, I outline the OCA's recommended adjustments to the Company's proposed rate increase. Finally, I conclude with my overall observations and recommendations.

Q. WILL YOU BE SPONSORING ANY EXHIBITS IN SUPPORT OF YOUR TESTIMONY?

A. Yes. Along with my responsive testimony, I am submitting OCA Exhibits 200.1 through 200.13. These exhibits provide support for the OCA's recommendations related to MDU's requested increase in base retail rates in this general rate case.

BACKGROUND

Q. WHAT IS MDU REQUESTING IN THIS PROCEEDING?

A. MDU is requesting a final revenue requirement increase of $2,588,516, or approximately 14.3% annually. As part of this request, the Company proposes an overall rate of return of 7.823%, which is based on a capital structure consisting of 44.735% long-term debt, 5.088% short-term debt, and 50.177% equity. The proposed cost components include a return on equity of 10.8%, a short-term debt cost of 5.681%, and a long-term debt cost of 4.728%.

Additionally, the Company is proposing to update its deprecation factors based on new gas and common plant depreciation studies completed in April 2023. These studies were conducted by Mr. Larry Kennedy of Concentric Energy Advisors[1] and described in testimony.[2]

Q. WHAT TEST YEAR AND RATE EFFECTIVE DATE IS THE COMPANY SEEKING IN THIS PROCEEDING?

A. In its filing, the Company utilizes a 12-month base year ending December 31, 2023, and a pro forma test year covering the 12-month period from January 1, 2024, through December 31, 2024. As noted on page 5 of the Company's application, no specific effective date for the proposed rates has been requested. Instead, the Company proposes that the new rates become effective upon the Commission's final disposition of this docket.

Q. HOW DO THE BASE YEAR AND TEST YEAR INTERACT TO ESTABLISH THE COMPANY'S REVENUE REQUIREMENT?

A. The Company begins with the unadjusted cost of service for its Wyoming natural gas operations for the 12-month base year ending December 31, 2023. It then applies known and measurable pro forma adjustments to reflect anticipated changes through December

[1] MDU Exhibit (LEK-3) and MDU Exhibit (LEK-4).
[2] MDU Exhibit (LEK-1).

31, 2024. These adjustments result in an updated cost of service for the test year, which forms the basis for determining the Company's proposed revenue requirement.

Q. PLEASE DESCRIBE THE MAIN DRIVERS OF THIS RATE INCREASE.

A. The proposed rate increase in Wyoming is driven by higher operating and maintenance costs, increased infrastructure investments, and financial adjustments. Rising labor and benefit expenses, along with greater costs for software maintenance and equipment, contribute to the overall increase. Capital investments, including the System Safety Integrity Program (SSIP) and the Sheridan Town Border Station (TBS) upgrade, are intended to enhance system reliability and safety.

Q. CAN YOU DESCRIBE MDU'S ROLE AND OPERATIONS IN WYOMING?

A. MDU provides natural gas service to approximately 20,300 customers across nine communities in five Wyoming counties. In addition to its gas utility operations, MDU also supplies electric utility services within the state. As a subsidiary of MDU Resources Group, MDU operates alongside other natural gas distribution companies, including Great Plains Natural Gas Company, Cascade Natural Gas Corporation, and Intermountain Gas Company. Additionally, MDU Resources Group owns WBI Energy, which specializes in natural gas pipeline transportation.

Q. GIVEN THAT MDU OPERATES AS A SUBSIDIARY OF MDU RESOURCES GROUP, HOW ARE COSTS ALLOCATED TO WYOMING'S GAS OPERATIONS?

A. MDU Resources Group allocates costs to Wyoming's gas operations through direct assignment where applicable and allocated shared expenses based on assets, revenue, payroll, and customer count. Facility and asset costs are distributed using a cost-of-service approach, while state-level allocation considers factors like gas plant investment and sales volumes. Taxes are assigned based on labor, asset distribution, and revenue contribution, ensuring proportional cost distribution.

Q. HAS MDU RESOURCES GROUP EXPERIENCED ANY CORPORATE STRUCTURAL CHANGES SINCE ITS LAST RATE CASE?

A. Yes. MDU Resources Group has undergone significant structural changes since its last rate case. On June 1, 2023, the Company completed the sale of its construction materials subsidiary, Knife River Corporation. Subsequently, on November 1, 2024, MDU Resources completed the spinoff of its construction services subsidiary, Everus Construction Group. In response to these divestitures, the Company has revised its corporate allocation methodology to reflect the updated corporate structure.

Q. WHEN DID THE COMPANY LAST FILE A GENERAL RATE CASE?

A. MDU filed its most recent general rate case in 2019 (Docket No. 30013-351-GR-19), requesting an annual revenue increase of $1,052,167, or 6.96%. The OCA intervened in the case. MDU and the OCA subsequently reached a stipulated settlement agreement, which the Commission approved on January 15, 2020. The approved settlement authorized an annual revenue increase of $830,036, representing a 5.5% increase.

SUMMARY

Q. DOES THE OCA AGREE WITH THE RATE INCREASE OF APPROXIMATELY $2.6 MILLION, OR 14.3% ANNUALLY, PROPOSED IN MDU'S APPLICATION?

A. No, the OCA does not support a rate increase of approximately $2.6 million or 14.3% annually. Instead, based on its analysis and review of the general rate case, as detailed in OCA Exhibit 200.1, the OCA recommends an overall rate increase of approximately $1.9 million.

The OCA's recommended rate increase incorporates several adjustments, including:

- A return on equity of 9.45%, as recommended by OCA witness Christopher Walters, resulting in an overall rate of return of 7.146%.
- Adjustments to the Company's filed depreciation factors as recommended by OCA witness Mr. David Garrett.

- In addition to changes in the overall rate of return and depreciation factors, I have identified further adjustments to the Company's revenues, expenses, and rate base, which are summarized below and described in greater detail later in my testimony.

Q. DOES THE OCA PROPOSE ANY CHANGES TO THE COMPANY'S GAS PLANT IN SERVICE?

A. Yes. As part of its application, the Company proposed to exclude growth-related additions, such as mains, regulator stations, service lines, meters, and regulators from the plant-in-service. The OCA is recommending to including these items due to customer growth in MDU's Wyoming service territory. Unlike past cases where MDU experienced limited growth that did not significantly affect the revenue requirement, this case demonstrates meaningful expansion of the Company's operations, particularly in the Sheridan area. Recognizing growth-related plant is consistent with regulatory best practices and ensures alignment between system investment and cost recovery.

In addition to this adjustment, the OCA proposes to remove the Company's aircraft-related common plant from the Wyoming rate base, concluding that such costs do not provide a direct or demonstrable benefit to Wyoming ratepayers. This adjustment helps ensure that only prudent, jurisdictionally appropriate investments are reflected in the Company's requested rates.

Q. GIVEN THAT THE OCA IS PROPOSING TO INCLUDE ADDITIONAL PLANT-IN-SERVICE AMOUNTS ASSOCIATED WITH CUSTOMER GROWTH, IS THE OCA ALSO PROPOSING TO INCLUDE THE CORRESPONDING ADDITIONAL REVENUES FROM THIS GROWTH?

A. Yes. The OCA is also proposing to include additional revenues associated with the projected growth in residential and firm general service customers during the 2024 pro forma test year. This approach ensures consistency between the recognition of growth-related investments and the corresponding revenues, thereby aligning with sound ratemaking principles and providing a more accurate representation of the Company's financial outlook.

Q. WHAT ADJUSTMENTS ARE BEING PROPOSED BY THE OCA WITH RESPECT TO THE EXPENSES THE COMPANY IS SEEKING TO RECOVER?

A. The OCA is proposing several adjustments to ensure that only reasonable and appropriate expenses are recovered from Wyoming ratepayers. These include a revision to the Company's proposed rate case expense and incorporating an updated estimate of the overcollection from the 2019 rate case. The OCA also recommends adjustments to industry association dues, normalization of pension expense to reflect a representative annual level, and the removal of aircraft-related expenses that do not provide direct benefits to Wyoming customers.

Additionally, the OCA proposes that the cost of Board of Directors' liability insurance be shared between shareholders and ratepayers, reflecting the shared benefit of this expense. Collectively, these adjustments are intended to better align cost recovery with the public interest and ensure that the rates approved in this proceeding are just and reasonable.

COST OF CAPITAL

Q. WHAT IS MDU PROPOSING FOR ITS COST OF CAPITAL COMPONENTS IN THIS PROCEEDING?

A. The Company is proposing a return on equity (ROE) of 10.8%, a cost of long-term debt of 4.728%, and a cost of short-term debt of 5.681%. MDU also proposes a capital structure consisting of 50.177% common equity, 44.735% long-term debt, and 5.088% short-term debt. These components yield a proposed overall weighted average rate of return of 7.823%.

Q. WHAT IS THE OCA RECOMMENDING FOR AN APPROPRIATE RETURN ON EQUITY, CAPITAL STRUCTURE, AND OVERALL RATE OF RETURN IN THIS PROCEEDING?

A. As presented in the testimony of OCA witness Christopher Walters,[3] the OCA recommends a return on equity of 9.45% while accepting the Company's proposed capital structure and debt cost components. This results in an overall weighted average rate of return of 7.146%.

DEPRECIATION RATES

Q. DID THE COMPANY PROPOSE TO USE UPDATED DEPRECIATION RATES RELATIVE TO THOSE APPROVED IN ITS LAST RATE CASE?

A. Yes. The Company engaged Concentric Energy Advisors to conduct depreciation studies for its gas plant in service and common plant in service, based on asset balances as of December 31, 2021.

Q. HAS THE OCA PROPOSED ALTERNATIVE DEPRECIATION RATES FOR USE IN THIS RATE CASE PROCEEDING?

A. Yes. As detailed in the testimony of OCA witness David Garrett,[4] the OCA has proposed alternative depreciation rates that differ from those proposed by the Company. Mr. Garrett's analysis is based on a comprehensive review of the Company's system-wide plant balances and depreciation methodologies.

Q. **WHAT IS THE EFFECT OF THE OCA'S PROPOSED DEPRECIATION RATES ON THE COMPANY'S FILED DEPRECIATION CALCULATIONS?**

A. As detailed in OCA Exhibit 200.2, the OCA's proposed depreciation rates result in a reduction to the Company's total calculated depreciation expense of approximately $290,000. This decrease directly impacts the overall revenue requirement by lowering the amount the Company seeks to recover through rates.

[3] OCA Exhibit 202.
[4] OCA Exhibit 203.

Q. WHAT IS THE IMPACT OF THE OCA'S PROPOSED DEPRECIATION RATES ON THE COMPANY'S FILED REVENUE REQUIREMENT FOR WYOMING?

A. Applying the OCA's proposed depreciation rates results in a reduction of $300,194 to the Company's overall requested revenue requirement for Wyoming. While Mr. Garrett's testimony presents system-wide depreciation recommendations, this adjustment reflects the specific impact on Wyoming as calculated by the OCA.

PLANT IN SERVICE

Q. IS THE OCA RECOMMENDING ANY CHANGES TO THE COMPANY'S FILED PLANT IN SERVICE?

A. Yes. The OCA recommends including additional distribution plant related to system growth, specifically; mains, regulator stations, service lines, meters, and regulators, that the Company has proposed to exclude from rate base. In addition, the OCA proposes removing the portion of common plant associated with the Company's corporate aircraft, as it does not provide direct benefits to Wyoming customers. A summary of the OCA's proposed pro forma plant in service is provided in OCA Exhibit 200.3.

Q. REGARDING THE GROWTH ASSOCIATED WITH THE COMPANY'S DISTRIBUTION SYSTEM, WHY IS MDU PROPOSING TO NOT INCLUDE THIS ADDITIONAL PLANT IN SERVICE FROM RATE BASE?

A. According to the direct testimony of Company witness Tara Vesey, plant additions related to customer growth, referred to as "growth projects", were excluded from the Company's proposed rate base because MDU has historically experienced minimal and unpredictable customer growth.[5] The Company asserts that this variability has made it difficult to reliably incorporate growth into its cost recovery proposals.

[5] MDU Direct Testimony of Tara R. Vesey, page 16.

Q. WHY IS THE OCA RECOMMENDING THE INCLUSION OF GROWTH-RELATED PLANT AND VOLUMES IN THIS RATE PROCEEDING?

A. The OCA recommends including growth-related plant and volumes because there is evidence of ongoing customer growth in MDU's Wyoming service territory, particularly in communities like Sheridan. This growth appears to be contributing to increased system demand and has influenced some of the Company's recent infrastructure planning. Including these items in the rate base helps ensure that costs and revenues are more closely aligned with the current conditions reflected in the test year.

Q. WHAT EVIDENCE SUPPORTS THE CLAIM THAT CUSTOMER GROWTH IS IMPACTING MDU'S SYSTEM IN SHERIDAN?

A. According to the direct testimony of Company witness Shawn Nieuwsma, the primary Town Border Station (TBS) serving Sheridan is currently operating with a negative reserve margin and is not capable of meeting projected design day demand without additional capacity.[6] As seen on page 9 of Mr. Nieuwsma testimony, between November 2017 and July 2024, Sheridan experienced a 12.2% increase in residential customers and a 10.8% increase in commercial customers. This level of growth has contributed to increased system demand and was a key factor in the Company's decision to construct a new TBS facility in Sheridan to support system reliability and service continuity.

Q. WHY DOES THE OCA BELIEVE IT IS NOW APPROPRIATE TO INCLUDE GROWTH-RELATED ITEMS IN THE COMPANY'S RATE BASE AND COST OF SERVICE?

A. The OCA believes that the level of customer growth in MDU's service territory is no longer minimal or unpredictable. The growth is measurable and has already begun to impact system planning and investment decisions. Consistent with regulatory principles that support aligning cost recovery with assets that are used and useful during the test period,

[6] MDU Direct Testimony of Shawn Nieuwsma, page 4-5.

the OCA finds it reasonable to include the associated plant, revenues, and volumes in the rate base and cost of service calculation.

Q. PLEASE DESCRIBE THE ADJUSTMENT MADE BY THE OCA TO INCLUDE DISTRIBUTION PLANT GROWTH IN THIS PROCEEDING.

A. As shown in the Company's application on "Stmt B, Sch B-2, Pgs 2-4," the Company removed $665,843 in distribution plant additions associated with customer growth, including mains, regulator stations, service lines, meters, and regulators. The OCA recommends including $665,843 of these plant additions in the Company's pro forma gas plant in service, as detailed in OCA Exhibit 200.4. This adjustment reflects the infrastructure necessary to serve the projected increase in customers during the test year.

Q. DOES THE OCA HAVE ANY ADDITIONAL RECOMMENDED CHANGES TO THE COMPANY'S PLANT IN SERVICE?

A. Yes. The OCA proposes to reduce the Company's plant in service by approximately $173,000 to remove costs associated with MDU's corporate aircraft and related facilities.

Q. WHY IS THE OCA RECOMMENDING THE REMOVAL OF AIRCRAFT-RELATED ITEMS FROM RATE BASE?

A. The burden is on the utility to demonstrate that assets included in rate base are reasonable and provide a clear benefit to customers. In response to several OCA data requests,[7] MDU submitted information on its use of corporate aircraft. However, the Company did not establish that its use of the aircraft results in measurable benefits for Wyoming ratepayers. As shown in OCA Exhibit 200.5, MDU frequently used its aircraft when commercial travel would have been less expensive or failed to provide cost comparisons altogether. Because the Company has not demonstrated that these costs are prudent or that the aircraft use is beneficial to customers, the OCA recommends that the associated assets be excluded from rate base.

[7] OCA Data Requests 3.6, 3.7, 3.8, and 3.9.

Q. CAN YOU EXPLAIN THE TYPES OF AIRCRAFT-RELATED ITEMS INCLUDED IN RATE BASE?

A. Yes. As identified in the Company's response to OCA Data Request 3.9, two categories of assets were associated with the corporate aircraft: (1) aircraft equipment totaling $132,683, and (2) aircraft-related structures totaling $39,904. These assets are recorded under FERC Account 392.3 (Transportation Equipment – Aircraft) and FERC Account 390 (Structures and Improvements), respectively.

Q. HOW IS THE OCA PROPOSING TO ADJUST THE COMPANY'S RATE BASE TO REMOVE THESE AIRCRAFT-RELATED COSTS?

A. As reflected in OCA Exhibit 200.6, the OCA proposes to reduce FERC Account 392.3 by $132,683 to remove aircraft equipment and reduce FERC Account 390 by $39,904 to remove aircraft-related structures. These adjustments result in a total reduction of $172,587 to the Company's proposed plant in service.

REVENUES

Q. DOES THE OCA HAVE ANY RECOMMENDED CHANGES TO THE COMPANY'S FILED REVENUE POSITION?

A. Yes. The OCA recommends increasing the Company's pro forma revenues by $123,384 for residential sales and $67,873 for firm general service sales, resulting in a total revenue adjustment of $191,257 for the 2024 test year. A summary of this adjustment is provided in Table 1 below.

Table 1 - OCA ADDITIONAL REVENUE DUE TO INCLUSION OF GROWTH SUMMARY

Customer Class	Additional Customers	Additional Dekatherm (Dk)	Basic Service Charge	Distribution Charge	Cost of Gas	Total
Total Residential	312	11,679	$70,606	$5,922	$46,856	$123,384
Total Firm General	20	12,988	$8,603	$7,162	$52,108	$67,873
Total						$191,257

Q. WHY DOES THE OCA BELIEVE IT IS REASONABLE TO INCLUDE PRO FORMA CUSTOMER GROWTH IN MDU'S REVENUE REQUIREMENT CALCULATIONS?

A. As discussed in the plant in service section, the OCA finds it appropriate to incorporate growth-related variables because the Company has experienced measurable and sustained customer growth since its last rate case. Including corresponding revenues associated with this growth ensures consistency between projected capital investments, such as new distribution plant, and the increased customer usage that these investments are expected to support. This approach helps align the revenue requirement with current and anticipated system conditions.

Q. CAN YOU PLEASE DESCRIBE HOW YOU CALCULATED THE ADDITIONAL DEKATHERM USAGE ASSOCIATED WITH ESTIMATED NEW CUSTOMERS?

A. Certainly. For residential growth, I used customer count data provided in the Company's "Stmt F, Page 2" to calculate the average annual growth rate. As shown in OCA Exhibit 200.7, the Company has experienced an average annual growth of approximately 1.7% in residential customers over the past few years. I also calculated the average monthly usage per residential customer over the past three years and normalized it using the Company's weather-normalized usage figures.

Based on this analysis, the OCA estimates that MDU will add approximately 312 new residential customers during 2024. To reflect the fact that customer growth occurs throughout the year rather than all at once, I assumed a uniform monthly increase of twenty-six new customers. The cumulative monthly customer additions were then multiplied by the normalized average monthly usage to estimate the incremental increase in dekatherm consumption over the test year.

Q. ONCE YOU CALCULATED THE ANNUAL GROWTH IN DEKATHERMS, HOW DID YOU DETERMINE THE ADDITIONAL REVENUE?

A. The projected increase in annual dekatherm usage was input into the Company's revenue calculation model, provided in response to PSC CIR 1.2, specifically in the Excel file titled "Response No. PSC 1.2 WY Gas – Stmt F-2." Utilizing this model produced an estimated increase in residential revenues of $123,384. This model was selected because it utilizes the same billing determinants used in the Company's class cost of service study and provides the most accurate estimate of additional revenues resulting from customer and dekatherm growth.

Q. HOW DID YOU ESTIMATE GROWTH IN THE FIRM GENERAL SERVICE CLASS?

A. A similar methodology to that used for the residential class was applied. Customer account data for both Small Firm General and Large Firm General service categories were provided in "Stmt F, Page 5" and "Stmt F, Page 8." As shown OCA Exhibit 200.8, the average annual customer growth rate for the combined Firm General class over the past few years is approximately 0.8%.

Q. **DID YOU TREAT SMALL AND LARGE FIRM GENERAL CUSTOMERS SEPARATELY IN YOUR ANALYSIS?**

A. Yes. While Small and Large Firm General customers are served under the same tariff, they have distinct usage profiles and different normalized usage per customer. As such, dekatherm growth was calculated separately for each group and then combined for use in the revenue calculation.

Q. HOW DID YOU CALCULATE THE INCREASE IN DEKATHERM USAGE AND CUSTOMER COUNTS?

A. Based on historical growth rates and usage patterns, the Firm General customer class is projected to grow by 20 customers during the 2024 test year. These new customers are assumed to begin service at the start of the year. The total increase in usage across the class is estimated at 12,988 dekatherms.

Q. HOW WAS THE ADDITIONAL REVENUE FROM FIRM GENERAL CUSTOMER GROWTH ESTIMATED?

A. The combined growth in dekatherms and customer counts was entered into the Company's revenue model, provided in response to PSC CIR 1.2. As shown Table 1, the OCA estimates that the resulting increase in revenues from Firm General customers is $67,873 annually.

EXPENSES

Q. WHAT AMOUNT OF RATE CASE EXPENSE IS MDU SEEKING TO RECOVER IN ITS APPLICATION?

A. As detailed in Adjustment No. 18, "Stmt G, Sch G-1, Pg 17 – Reg Comm," the Company is requesting recovery of $78,106 annually for rate case expenses. This amount reflects the amortization of MDU's total estimated rate case expense of $234,319 over a three-year period, as further outlined on "Stmt G, Pgs 47–48." The total includes consulting costs related to depreciation, return on equity, and rate design, as well as legal fees, estimated travel expenses for the June 2025 hearing in Cheyenne, and projected costs for a public input meeting in Sheridan.

Q. DOES THE OCA BELIEVE THE COMPANY'S REQUESTED RATE CASE EXPENSE IS REASONABLE?

A. No. The OCA recommends several adjustments, which are detailed in OCA Exhibit 200.9. Based on a more accurate projection of actual and anticipated costs, the OCA estimates total rate case expense at $81,420, amortized over four years. This results in a proposed annual expense of $20,352.

Q. CAN YOU EXPLAIN THE ADJUSTMENTS THE OCA IS PROPOSING TO THE COMPANY'S RATE CASE EXPENSES?

A. Yes. Based on MDU's response to OCA Data Request 3.4 and supporting documentation in OCA Exhibit 200.10, the Company reported spending approximately $93,000 on rate case activities as of January 2025. The OCA projected additional costs for the remainder of the proceeding, including 30 additional hours each for consulting services on return on equity, depreciation, and rate design, and 40 hours of legal services. Hourly rates for each consultant were based on the Company's own weighted average costs, as presented in "Stmt G, Sch G-1, Pgs 16–17." These projections result in approximately $61,000 in remaining rate case related expenses.

Q. IS THE OCA PROPOSING ANY REDUCTIONS TO THE COMPANY'S FILED RATE CASE EXPENSE?

A. Yes. First, the OCA recommends removing $2,480 budgeted for a public input meeting in Sheridan, as the Company did not conduct this meeting. Additionally, consistent with the Commission's directive in the 2019 rate case (Docket No. 30013-351-GR-19), the Company must refund any over-collection of prior rate case expenses. Based on the current amortization schedule, the OCA estimates an over-collection of $69,462 through June 2025, which has been subtracted from the Company's requested amount.

Q. WHY DID THE OCA CALCULATE THE 2019 RATE CASE OVER-COLLECTION THROUGH JUNE 2025?

A. Because the Company has not requested a specific effective date for new rates and proposes that rates take effect upon the final order in this docket, the OCA reasonably assumes the 2019 rate case amortization will continue through June 2025. This corresponds with the timing of the scheduled hearing, which begins June 24, 2025.

Q. WHY IS THE OCA RECOMMENDING A FOUR-YEAR AMORTIZATION PERIOD INSTEAD OF THREE?

A. The OCA recommends a four-year amortization period based on MDU's historical pattern of general rate cases, which have occurred approximately every four to five years (2014, 2019, and 2024). Spreading the rate case expense over a longer period provides a more accurate match between cost recovery and the likely interval between rate filings.

Q. HAS THE OCA PROPOSED ANY ADJUSTMENTS TO THE COMPANY'S INDUSTRY DUES?

A. Yes. As shown in OCA Exhibit 200.11, the OCA proposes a reduction of $1,818 in industry dues by adjusting the amount recorded in FERC Account 930 – Miscellaneous General Expenses.

Q. WHAT IS THE BASIS FOR THE OCA'S PROPOSED REDUCTION TO INDUSTRY DUES INCLUDED IN RATES?

A. As shown in Table 2 below, the Company's pro forma industry dues include payments to local chambers of commerce and service organizations within its service territory. While these entities may contribute to broader economic development and community engagement, the associated dues are not directly related to the provision of regulated natural gas utility service

Consistent with regulatory cost recovery principles, the OCA recommends disallowing these expenses from rates. Accordingly, the OCA proposes an adjustment to reduce the recoverable industry dues from $11,846 to $10,028, reflecting the removal of $1,818 in dues unrelated to core utility operations.

Table 2 INDUSTRY DUES ADJUSTMENT

	Montana-Dakota Pro Forma	Difference	OCA Recommended
American Gas Association	$7,063	$0	$7,063
Buffalo Chamber of Commerce	$295	-$295	$0
Common Ground Alliance	$56	$0	$56
Downtown Sheridan Association	$100	-$100	$0
Energy Solutions Center	$446	$0	$446
Kaycee Area Chamber of Commerce	$75	-$75	$0
Lovell Area Chamber of Commerce	$110	-$110	$0
Midwest Energy Association	$622	$0	$622
National Safety Council	$16	$0	$16
North Dakota Safety Council	$37	$0	$37
North Dakota Petroleum Council	$17	$0	$17
One Call of Wyoming	$459	$0	$459
Our Nation's Energy Future COA	$195	$0	$195
Powell Valley Chamber of Commerce	$250	-$250	$0
Sheridan County Chamber of Commerce	$288	-$288	$0
Sheridan Rotary Club	$700	-$700	$0
Utility Solid Waste Activities Group	$374	$0	$374
Utility Telecom Council	$139	$0	$139
West Associates	$28	$0	$28
Western Energy Institute	$576	$0	$576
Total Industry Dues	**$11,846**	**-$1,818**	**$10,028**

Q. DOES THE OCA PROPOSE ANY ADJUSTMENTS TO THE COMPANY'S EMPLOYEE BENEFIT EXPENSES?

A. Yes. The OCA proposes to normalize the Company's pension expense. As shown in Table 3 below, this category has experienced significant year-over-year volatility, with values ranging from a nearly $19,000 credit to an annual increase exceeding $30,000. Due to this variability, the OCA recommends applying a five-year average to normalize the pensions expense. This approach provides a more consistent and representative level of cost for ratemaking purposes.

Table 3 - Volatility in Pension Expenses	
Year	Amt
2019	$30,074
2020	-$4,102
2021	-$16,637
2022	-$18,938
2023	$5,599
2024	$10,763
Five-Year Average (2020 to 2024)	-$4,663

Q. WHY DOES THE COMPANY'S PENSION EXPENSE EXHIBIT SUCH VARIABILITY?

A. According to the Company, pension expense is calculated in accordance with IRS accounting requirements and is determined by external actuaries. These calculations are based on various actuarial assumptions, such as discount rates, asset returns, and demographic changes, which can fluctuate annually. As a result, the pension expense can vary significantly from year to year.

Q. WHAT ADJUSTMENT IS THE OCA PROPOSING TO NORMALIZE THE COMPANY'S PENSION EXPENSE?

A. As detailed in OCA Exhibit 200.12, the OCA recommends modifying the Company's Adjustment No. 7, shown on "Stmt G, Sch G-1, Pg 5 Benefits", to reflect the five-year average pension expense of -$4,663. This results in a $15,425 reduction from the Company's filed position, providing a more stable and representative expense level for inclusion in the revenue requirement.

Q. DOES THE OCA HAVE ANY RECOMMENDED ADJUSTMENTS TO THE COMPANY'S CORPORATE AIRCRAFT USAGE?

A. Yes. As shown in OCA Exhibit 200.5, the OCA recommends removing approximately $944 in corporate aircraft-related expenses from the cost of service in this rate proceeding.

Q. CAN YOU EXPLAIN THE PROCESS UTILIZED TO ANALYZE THE COMPANY'S CORPORATE AIRCRAFT USAGE?

A. Certainly. In response to OCA Data Request 3.6, the Company provided detailed worksheets documenting corporate aircraft travel requests, which included alternative transportation cost analyses. Additionally, in response to OCA Data Request 3.7, the Company supplied general ledger entries for aircraft-related expenses. The OCA reviewed and compared the travel request data with the corresponding cost entries in the general ledger to assess the reasonableness of the expenses.

Q. HOW DID YOU DETERMINE THE VALUE OF RECOMMENDED REDUCTIONS RELATED TO AIRCRAFT EXPENSES?

A. As detailed in OCA Exhibit 200.5, for trips where the Company did not provide a cost comparison to commercial travel, the Wyoming-allocated portion of those aircraft-related expenses is recommended for removal. In cases where the use of corporate aircraft was shown to be more cost-effective than commercial alternatives, the associated expenses were retained. Based on this analysis, the OCA recommends a total disallowance of $943.85 in Wyoming-allocated aircraft-related costs.

Q. HOW DID THE OCA MODEL THIS REDUCTION IN AIRCRAFT EXPENSES.

A. The OCA incorporated this reduction within the Administrative and General expense category, using the labor expense allocation methodology proposed by the Company and detailed in the Company's "Stmt G, Sch G-1, Pg 4, Labor".

Q. IN REVIEWING THE COMPANY'S OPERATING EXPENSES, DOES THE OCA HAVE ANY RECOMMENDED ADJUSTMENTS RELATED TO INSURANCE?

A. Yes. The OCA has identified an adjustment to the Company's proposed recovery of Board and Director Liability Insurance. Specifically, the OCA recommends that the cost of this insurance be shared between ratepayers and shareholders.

Q. **WHAT AMOUNT OF BOARD AND DIRECTOR LIABILITY INSURANCE IS THE COMPANY PROPOSING TO RECOVER IN THIS PROCEEDING?**

A. As detailed in the Company's Adjustment No. 13, "Stmt G, Sch G-1, Pg 11 Insuranc" it is seeking to recover $13,632 annually.

Q. **WHAT IS THE PURPOSE OF BOARD AND DIRECTOR LIABILITY INSURANCE?**

A. The purpose of Board and Director Liability Insurance is to protect the company's directors and officers from personal financial liability arising from decisions made in the course of their corporate duties. It covers legal defense costs, settlements, or judgments resulting from lawsuits or regulatory actions related to their service on the board.

Q. WHY DOES THE OCA BELIEVE THIS TYPE OF INSURANCE SHOULD BE SHARED BETWEEN RATEPAYERS AND SHAREHOLDERS?

A. The OCA recommends that the cost of Board and Director Liability Insurance be equitably shared between ratepayers and shareholders. While the coverage may offer some indirect benefit to ratepayers by supporting stable utility leadership, its primary purpose is to protect directors and officers from personal liability related to corporate decisions, risks that largely serve shareholder interests. Sharing the expense equally between both parties ensures a fair allocation of costs and prevents ratepayers from bearing the full burden of an item not directly tied to utility service.

Q. PLEASE DESCRIBE THE BOARD AND DIRECTOR LIABILITY ADJUSTMENT THE OCA IS PROPOSING?

A. As shown in OCA Exhibit 200.13, the OCA proposes to allocate the Company's requested $13,362 in Board and Director Liability Insurance evenly between ratepayers and shareholders. This results in a recommended reduction of $6,681 to the amount recovered from ratepayers.

CONCLUSION

Q. PLEASE BRIEFLY SUMMARIZE YOUR TESTIMONY AND RECOMMENDATIONS IN THIS PROCEEDING.

A. The OCA respectfully recommends that the Commission adopt the adjustments presented in this testimony to ensure that Montana-Dakota Utilities Co.'s proposed rate increase is just, reasonable, and consistent with the public interest of Wyoming ratepayers. These adjustments address key areas, including return on equity, growth-related plant in service and associated customer revenues, operating and maintenance expenses, and capital expenditures. The recommended adjustments ensure that only costs providing direct benefits to Wyoming customers are included in the rate base. As a result, the proposed rate increase is reduced to $1,904,393, significantly lower than the $2,588,216 originally requested by the Company.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF THE APPLICATION OF MONTANA-DAKOTA UTILITIES CO. FOR APPROVAL OF A GENERAL RATE INCREASE IN ITS RETAIL NATURAL GAS SERVICE OF 14.29%	))))	Docket No. 30013-415-GR-24 (Record No. 17710)

AFFIDAVIT, OATH AND VERIFICATION

Justin J. Ballard (Affiant) being of lawful age and being first duly sworn, hereby deposes and says that:

Affiant is Deputy Administrator of the Wyoming Office of Consumer Advocate, which is a party intervener in this matter pursuant to its *Notice of Intervention* filed on December 2, 2024.

Affiant prepared and caused to be filed the foregoing direct testimony. Affiant has, by all necessary action, been duly authorized to file this testimony and make this Oath and Verification.

Affiant hereby verifies that, based on Affiant's knowledge, all statements and information contained within the testimony and all of its attached schedules are true and complete and constitute the recommendations of the Affiant in his official capacity as Deputy Administrator for the Wyoming Office of Consumer Advocate.

Further Affiant Sayeth Not.

Dated this 28th day of March 2025.

Justin J. Ballard, Deputy Administrator
Wyoming Office of Consumer Advocate
2515 Warren Avenue, Suite 304
Cheyenne, WY 82002
(307)777-5743

STATE OF WYOMING)
) SS:
COUNTY OF LARAMIE)

The foregoing was acknowledged before me by Justin J. Ballard on this 28th day of March 2025. Witness my hand and official seal.

Misti Mayes
Notary Public

My Commission Expires:

MISTI MAYES
NOTARY PUBLIC
STATE OF WYOMING
COMMISSION ID: 153587
MY COMMISSION EXPIRES: MAR. 18, 2031