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

400 North Fourth Street
Bismarck, ND 58501
(701) 222-7900

January 29, 2016

Mr. Thorvald A. Nelson
Holland & Hart, LLP
6380 South Fiddlers Green Circle, Suite 500
Greenwood Village, Colorado 8011

Re: General Electric Rate Application
Docket No. D2015.6.51

Dear Mr. Nelson:

Enclosed please find Montana-Dakota Utilities Co.'s responses to the Montana Large Customer Group's data requests LCG-085 through LCG-101 dated January 22, 2016.

Sincerely,

Tamie A. Aberle
Director of Regulatory Affairs

Attachments
cc: Service List

Montana-Dakota Utilities Co.
Docket No. D2015.6.51
Service List

Mr. Will Rosquist
Utility Division
Montana Public Service Commission
1701 Prospect Avenue
PO Box 202601
Helena, MT 59620-2601
kwhitney@mt.gov

Mike Green
900 N. Last Chance Gulch
Suite 200
Helena, MT 59601
mgreen@crowleyfleck.com

Thorvald A. Nelson
Holland & Hart LLP
6380 South Fiddlers Green Circle
Suite 500
Greenwood Village, CO 80111
tnelson@hollandhart.com

Nikolas S. Stoffel
Holland & Hart LLP
6380 South Fiddlers Green Circle
Suite 500
Greenwood Village, CO 80111
nsstoffel@hollandhart.com

Albert Clark
142 Buccaneer Drive
Leesburg, FL 34788
aclark154@yahoo.com

John Wilson
J W Wilson & Associates Inc.
1601 N. Kent Street, Suite 1104
Arlington, VA 22209-2105
john@jwwa.com

Robert Nelson
Dennis Lopach
Montana Consumer Counsel
111 N. Last Chance Gulch, Suite 1B
PO Box 201703
Helena, MT 59620-1703
robnelson@mt.gov

Charles Magraw
501 8th Ave
Helena, MT 59601
c.magraw@bresnan.net

David Wooley
Keyes, Fox & Wiedman LLP
436 14th Street, Suite 1305
Oakland, CA 94612
dwooley@kfwlaw.com

Kelly Crandall
Keyes, Fox & Wiedman LLP
1400 16th St
16 Market Square, Suite 400
Denver, CO 80202
kcrandall@kfwlaw.com

Jack Pous
14 Shell Avenue SE
Ft. Walton Beach, FL 32548
jpous@ducinc.net

Electronic Service Only:
ppenn@hollandhart.com
aclee@hollandhart.com
crmayers@hollandhart.com

MONTANA-DAKOTA UTILITIES CO.
MONTANA LARGE CUSTOMER GROUP
EIGTH DATA REQUEST
DATED JANUARY 22, 2016
DOCKET NO. D2015.6.51

LCG-085: RE: Rebuttal Testimony of Tamie Aberle (Cost Allocation)

a. **Regarding Ms. Aberle's opposition to the LCG's recommendation to allocate production related costs using a 12 CP allocation factor, please explain the justification for allocating total MDU costs among jurisdictions based on each jurisdictions'' contribution to the 12 monthly peaks.**

b. **Please admit that MDU Montana plans its system to meet the peak demands of its customers. If your response is anything other than an unqualified admission, please explain yours response, stating with particularity how the peak demands of its customers affect its system planning.**

c. **Please describe how Rate 35's peak demand affects the Company's system planning.**

Response:

a. Ms. Aberle's testimony highlighted the reasons why the AED allocator is more appropriate given the nature of the electric system. In addition, this allocator is consistent with the basis used in the last two rate cases, although a specific methodology has not been approved by the Commission because of settlement agreements in each of those cases. The application of the allocation factor is also not readily apparent in each of those cases because the allocation of the revenue increase has also been a part of the settlement agreements.

b. Yes. Montana-Dakota plans its system to meet the peak demands of its integrated system customers. This means different things from a resource adequacy standpoint that is based on average system peak demand and the need to meet customers' energy requirements.

c. The peak demand of the customers and facilities served under Rate 35 affects the overall planning and reserve requirements necessary for Montana-Dakota to have available throughout the entire year.

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LCG-086: RE: Rebuttal Testimony of Tamie Aberle, page 4, lines 8 through 12

a. **Please provide a complete explanation and support (including source documents) for her disagreement with Mr. Baron's calculation of deferred taxes and the production tax credit, as used in his exhibit SJB-9.**

b. **Please provide the Company's calculations for these two revenue requirement components, including all supporting documents, schedules and workpapers.**

c. **Please also provide the Company's calculation of the Wind project revenue requirements.**

Response:

a. First, the reference at Page 4, line 12 should have been to Exhibit SBJ-7 and not to SBJ-9. The changes made to Mr. Baron's calculation were to recognize that deferred income taxes associated with the existing wind projects would not be represented by the ratio of deferred taxes to all electric plant. The existing wind facilities are fully depreciated from a tax perspective. Also, the production tax credits should have been grossed-up for the inverse of the tax rate. There is a simple example that shows why this is required for proper revenue calculation in the electronic file entitled Response No. LCG-086.

b. Please see electronic file entitled Response No. LCG-086.

c. Please see the electronic file entitled Response No. LCG-086.

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LCG-087 RE: Rebuttal Testimony of Tamie Aberle, page 4, lines 8 through 12

Please provide a description of the methodology used by the Company in its class cost of service study to allocate deferred taxes to rate classes.

Response:

Deferred taxes, except for the deferred taxes associated with the new wind facilities, were allocated based on total electric plant in service as allocated to each rate class. The deferred taxes associated with the new wind production were separately identified in the revenue requirement and allocated to the classes based on Factor 49.

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LCG-088 RE: Rebuttal Testimony of Tamie Aberle, page 6, lines 1 through 2

Please provide a revised class cost of service study reflecting this change in the calculation of the AED allocation factor.

Response:

The referenced testimony is describing the allocation of distribution plant and would not affect the calculation of the AED factor.

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LCG-089 RE: Allocation of the Pro Forma Adjustment for Other Production O&M Expenses

a. **Please explain whether the Company agrees or disagrees with Mr. Baron's direct testimony at page 21, line 7 regarding the error in the Company's allocation of the Pro Forma Adjustment for Other Production O&M expenses?**

b. **Provide a complete explanation for your agreement or disagreement.**

Response:

a. The Company agrees that Other Production O&M expenses should have been allocated based on Operation and Maintenance expenses excluding the cost of fuel and purchased power.

b. Please see Response LCG-089 a.

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LCG-090	**RE:**	**Workpapers**
	Witness:	**J. Stephen Gaske**

On an electronic spreadsheet with all formulas intact, please provide a copy of all exhibits, analyses and workpapers used in support for Mr. Gaske's rebuttal testimony, including his charts and figures.

Response:

Please see Response No. MCC-234 Attachment A on the enclosed CD for the electronic versions of Schedules 1 through 6.

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LCG-091	**RE:**	**Workpapers**
	Witness:	**J. Stephen Gaske**

If not already provided in response to LCG-089, please provide all publications, articles, and studies referenced in the rebuttal testimony of Mr. Gaske.

Response:

Please see Response No. LCG–091 Attachments A through L on the enclosed CD for all publications, articles and studies referenced in Dr. Gaske's rebuttal testimony.

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LCG-092	**RE:**	**Workpapers**
	Witness:	**Garret Senger**

On an electronic spreadsheet with all formulas intact, please provide a copy of all analyses and workpapers used in support of Mr. Senger's rebuttal testimony.

Response:

Please see the Excel file titled 'Response No. LCG-092 Attachment A' on the enclosed CD.

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LCG-093 RE: Rebuttal Testimony of J. Stephen Gaske, page 2, lines 1-2.

Please state each and every fact relied upon in concluding that "Montana-Dakota's Montana electric operations face greater overall risk than the typical company in the proxy group." If the response includes references to Mr. Gaske's testimony, please identify the relevant portion(s) by page and line numbers.

Response:

Dr. Gaske's professional judgment is based on thousands of facts assimilated over the course of his career. However, please see pages 11 through 12 of Dr. Gaske's Rebuttal Testimony and pages 29 through 35 of Dr. Gaske's Direct Testimony for the primary facts relied upon for his conclusion.

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LCG-094 RE: Rebuttal Testimony of J. Stephen Gaske, page 2, lines 7-10.

Please identify all cases of which you are aware at present in which a state public utilities commission has approved a flotation adjustment regardless of whether the regulated company has incurred flotation costs in the past or can demonstrate that it will definitely incur such costs in the near future.

Response:

Dr. Gaske has not undertaken detailed research of this specific question, but he is aware of the following instances when Commissions have allowed flotation cost adjustments:

Texas

> *32. A market-to-book adjustment of 5 percent is proper because it allows existing shareholders' equity to remain undiluted.*

Southwestern Electric Power Company, Texas Public Utility Commission, 43 PUR 4^{th} 446 (1981).

Minnesota

Using the DCF method to calculate the appropriate ROE for NSP, the Commission finds that the appropriate dividend yield is 6.0%, the appropriate growth rate is 5.32%, and it is reasonable to add a flotation cost adjustment of 0.15%, for an ROE of 11.47%.

Northern States Power Company, Minnesota PUC Order After Reconsideration, Docket No. GR92-1186, Dec. 30, 1993, p. 6.

Federal Energy Regulatory Commission

At times in the past the FERC has allowed flotation cost adjustments. For example, in Opinion No. 158, 22 FERC at 61,189-90, the Commission added 0.24 percent to the allowed rate of return to compensate for flotation costs that were expected to occur in the future. This flotation cost adjustment was based on an estimate that common equity issuance costs would be 5 percent of proceeds and multiplied that times an expected 5 percent annual increase in new common stock. 19 FERC at 65,041. FERC also allowed a 3 basis point flotation cost adjustment in Order No. 461 (1986) in an electric generic rate of return proceeding. Similarly, in Opinion No. 411 FERC adopted a flotation cost adjustment of 11 basis points for Boston Edison Company. 77 FERC ¶ 61,272 at p. 62,172 (1996).

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LCG-095 RE: Rebuttal Testimony of J. Stephen Gaske, page 4, Figure 1.

Please provide the source data for the histogram of returns on common equity reflected in Figure 1.

Response:

Please see Response No. PSC-135 Attachment A on the enclosed CD for the back-up information used in developing Figure 1.

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LCG-096 RE: Rebuttal Testimony of J. Stephen Gaske (Proxy Companies)

a. Please produce all factual information you relied on in concluding that Montana-Dakota has greater exposure to coal fired-generation than any of the proxy companies.

b. Please state the basis for your opinion that Montana-Dakota's "greater exposure to coal-fired generation" increases its risk relative to the proxy companies.

c. Please provide the percent of coal-fired generation relative to total generation for each of the Company's in your proxy group.

d. Please identify all factors you considered, in addition to relative size and exposure to coal-fired generation, in assessing the risk of Montana-Dakota's Montana electric operations relative to the proxy group.

Response:

a. Please see Response No. LCG–096 Attachment A on the enclosed CD. The information included is a subset of information provided in Response No. MCC–086 Attachment A.

b. Please see response to LCG–096a.

c. Please see the response to LCG–096a.

d. Please see the response to LCG-093.

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LCG-097 RE: Rebuttal Testimony of J. Stephen Gaske, page 5, lines 16-18.

Please explain your focus on the median and third quartile return requirements indicated by the DCF analyses to the exclusion of the mean return requirements.

Response:

For relatively small sample sizes such as the proxy group the median (and quartile) is a preferred statistical measure because, unlike the average, it is not susceptible to bias that might be caused by outliers within a small sample set.

Dr. Gaske's testimony indicates that a return above the median reflects the appropriate rate of return for Montana-Dakota's Montana electric utility operations because those operations face greater overall risk than the typical company in the proxy group.

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LCG-098 RE: Rebuttal Testimony of Travis R. Jacobson, page 6, lines 3-8 and page 16, lines 5-16.

With respect to Mr. Jacobson's statement that MDU's net transmission expenses in 2015 were$1,268,300:

a. **Please clarify that this reference is to Montana jurisdictional costs. If this is a Total Company cost, please provide the Montana jurisdictional costs.**

b. **What is the Montana share of 2014 per-books basis net transmission expense, measured on an "apples-to-apples" basis? If this amount is anything other than $1,480,718 (as shown in Exhibit KCH-6, p. 2, by adding Line 1 Col. (B) + Line 11 Col. (B)) please show the derivation using the same cost categories that appear in Exhibit KCH-6, p. 2 and reconcile any differences. Please provide this derivation in Excel, with formulas intact.**

c. **What is the Montana share of MDU's 2015 pro forma net transmission expense included in MDU's direct filing, measured on an "apples-to-apples" basis? If this amount is anything other than $2,624,786 (as shown in Exhibit KCH-6, p. 2, by adding Line 1 Col. (C) + Line 11 Col. (C)) please show the derivation using the same cost categories that appear in Exhibit KCH-6, p. 2 and reconcile any differences. Please provide this derivation and reconciliation in Excel, with formulas intact.**

d. **What is Mr. Jacobson's understanding regarding the amount of Mr. Higgins' recommended Montana share of 2015 pro forma net transmission expense? If this amount is anything other than $1,643,402 (as shown in Exhibit KCH-6, p. 2, by adding Line 1 Col. (E) + Line 11 Col. (E)) please show the derivation using the same cost categories that appear in Exhibit KCH-6, p. 2. Please provide this derivation in Excel, with formulas intact.**

e. **Given that MDU's direct filing pro forma 2015 transmission expense is well in excess of the $1,268,300 in actual net transmission expenses incurred in 2015, please explain why Mr. Jacobson did not make an adjustment in his rebuttal testimony to recognize this fact?**

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Response:

a-e. Mr. Jacobson's rebuttal testimony has created some confusion regarding transmission expense. In order to reach clarity, a full explanation of transmission expense will be provided.

During 2015, the Company incurred total transmission function expense of $13,855,424, including $2,819,192 in Montana which compares to 2014 transmission function expense of $14,361,885 and $2,514,667 for the total Company and Montana, respectively. Transmission function expense includes charges to deliver electricity to customers (transmission service) and well as costs to operate and maintain the Company's transmission assets. Montana-Dakota requested total pro forma transmission function expense of $3,693,636 as shown on Rule 38.5.156, Statement G, page 1, which is $874,444 more than 2015 actual expense.

Mr. Jacobson's testimony provided Montana's share of net transmission expense in the amount of $1,268,300; however, Mr. Jacobson should have clarified the expense noted was related to transmission service only, on a net basis, and not the additional transmission expense incurred to operate and maintain the Company's transmission assets.

Mr. Higgin's reference to KCH-6, page 2 in the amount of $1,480,718 is inclusive of the information presented in the Company's pro forma Adjustments Nos. 11 and 12 only. In light of the fact that those two adjustments accounted for $1,151,521 of the total pro forma adjustment of $1,178,969 (Rule 38.5.156, Statement G, page 1) to transmission function expense, it seems appropriate to focus on the changes relative to those adjustments. One additional pro forma adjustment must also be considered to reach full clarity from a net transmission service perspective. Pro forma Adjustment No. 3 included a reduction in revenue that was also associated with the cessation of the joint use agreement with Basin. Please see Attachment A for a reconciliation of transmission expense as it relates to Adjustment Nos. 3, 11 and 12.

Mr. Jacobson does understand Mr. Higgin's net transmission expense is $1,643,402. And, Mr. Jacobson did provide updated net transmission service expense and Mr. Neigum provided an explanation that the Company's ongoing net transmission service expense is expected to increase approximately an additional $250,000 on a total Company basis.

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	2014 Actual	Pro Forma	Updated Pro Forma	2015 Actual
Total Transmission Function Expense 1/	$ 2,514,667	$ 3,693,636	$ 2,938,121	$ 2,819,192
Less:				
Pro Forma Adjustment No. 11 2/	179,131	-	-	180,115
Pro Forma Adjustment No. 12	1,294,134	2,624,786	1,869,271	1,632,531
All Other Trans. Function Expense	$ 1,041,402	$ 1,068,850	$ 1,068,850	$ 1,006,546
<u>Adjustment No. 12 (Transmission Function)</u>				
WAPA NITS	269,476	-	-	259,186
Transmission Service	142,343	1,762,962	760,554	245,470
MISO Schedule 26/26a	496,785	598,693	845,858	845,858
Transmission O&M - All Other Subcontract	385,530	263,131	263,131	282,017
Total Adjustment No. 12	$ 1,294,134	$ 2,624,786	$ 1,869,543	$ 1,632,531
<u>Net Transmission Service Expense</u>				
WAPA NITS	269,476	-	-	259,186
Transmission Service	142,343	1,762,962	760,554	245,470
MISO Schedule 26/26a	496,785	598,693	845,858	845,858
Total Adjustment No. 11	186,584	-	-	199,782
Less:				
Joint Use Revenue-Adjustment No. 3 3/	280,236	-	-	282,027
Net Transmission Service Expense	$ 814,953	$ 2,361,655	$ 1,606,412	$ 1,268,269

1/ 2014 and Pro Forma - Rule 38.5.156, Statement G, page 1.
2/ Adjustment No. 11 includes Distribution Expenses of $7,453 in 2014. The equivalent Distribution Expense in 2015 is $19,767.
3/ 2014 and Pro Forma - Rule 38.5.164, Statement H, page 7 - Joint Use Facilities only.

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LCG-099 RE: Rebuttal Testimony of Travis R. Jacobson, page 16, lines 5-16.

Please demonstrate mathematically Mr. Jacobson's statement on page that the 2015 actual transmission expenses of $1,268,300 are greater than the amount projected by Mr. Higgins, who projected $1,643,402.

Response:

See Response to LGC-098.

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LCG-100 RE: 2015 Pro Forma Net Transmission Expense

Please recalculate the 2015 pro forma net transmission expense presented by MDU for revenue requirement recovery in this case using the updated transmission pricing and contract information presented in Mr. Neigum's rebuttal testimony. Please show this recalculation using the cost categories that appear in Exhibit KCH-6, p. 2.

Response:

See Response to LGC-098.

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LCG-101 RE: Depreciation for Big Stone and Exhibit TRJ-6

Please refer to Exhibit TRJ-6. Why are there two entries for Big Stone – depreciation, each of which refers to life extensions from 2017 to 2046? Please fully explain the difference between these two entries.

Response:

The two lines were shown for the purpose of differentiating between the existing plant and the AQCS project, both of which fall under the same depreciation rates.