MONTANA-DAKOTA UTILITIES CO.

A Division of MDU Resources Group, Inc.

Before the South Dakota Public Utilities Commission

Docket No. NG15-___

Direct Testimony
of
Garret Senger

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

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

Q. Would you please describe your duties?

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

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

A. I graduated from the University of Mary with a Bachelor of Science degree in Accounting and a Master's in Business Administration. I started my career with Montana-Dakota in 1985 as a financial analyst in the

Financial Reporting area and during my tenure with the Company have held positions of increasing responsibility, including Supervisor of Financial Reporting, Manager of Financial Forecasting, Manager of Financial Reporting & Planning, Director of Accounting and Controller, and Chief Accounting Officer.

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

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

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

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

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

A. Yes, they were.

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

A. Yes, they are.

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

A. Statement A, pages 1 and 2 show Montana-Dakota's balance sheet as of December 31, 2013 and December 31, 2014 and March 31, 2014 and March 31, 2015 information is shown on pages 3 and 4, with notes to the financial statements following. Statement B consists of Montana-

Dakota's income statement for the twelve months ended December 31, 2014 and the three months ended March 31, 2015. Statement C presents the changes in retained earnings from December 31, 2013 to December 31, 2014. These statements have been prepared from the Company's books and records that are maintained in accordance with the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts.

Q. Would you please explain Statement G?

A. Statement G shows the average utility capital structure of Montana-Dakota for the twelve months ended December 31, 2014, and the projected capital structure for 2015. Statement G includes the associated costs of debt, preferred stock and common equity. This capital structure and the associated costs serve as the basis for the overall rate of return requested by Montana-Dakota in this rate filing of 7.588 percent. The Company continues its efforts to reduce the overall cost of debt. The basis for the requested 10.00 percent return on common equity contained within the overall requested rate of return is supported by the testimony of Dr. J. Stephen Gaske.

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

A. Statement G, Rule 20:10:13:72 summarizes the average of the actual gas utility capital structure at December 31, 2014 and the projected capital structure and the related utility costs of capital for 2015. As shown on page 1, the components of the 2015 projected overall annual rate of return, which are used by Mr. Jacobson to calculate the revenue requirement, are:

	Capital Ratio	Cost	Weighted Cost of Capital
Long Term Debt	41.135%	5.949%	2.447%
Short Term Debt	8.108%	1.631%	0.132%
Preferred Stock	1.242%	4.579%	0.057%
Common Equity	49.515%	10.000%	4.952%
Total	100.000%		7.588%

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

A. As a regulated public utility, the Company has a duty and obligation to provide safe and reliable service to its customers across its service territory while prudently balancing cost and risk. In order to fulfill its service obligations, the Company is making significant capital expenditures for new plant investment throughout its service territory, especially in mains, services and meters. These new investments also have associated operating and maintenance costs. Through its financial planning process, the Company determines the amounts of necessary financing required to support these activities. Montana-Dakota finances its operations with a target of 50 percent common equity. Capital expenditure investments are financed through a mix of internally generated funds, the utilization of the Company's short-term credit line and the issuance of additional debt and equity financing as required to maintain targeted capital ratios and finance the combined utility operations. In 2014, the Company obtained $82.0 million of common equity. The Company is projected to receive an additional $102.5 million in 2015 to achieve and maintain the targeted capital structure. Additionally, the Company is projected to issue $150.0 million of new debt in 2015.

Since 2006, the Company has refinanced essentially all of its long-term debt and has lowered its embedded weighted average debt cost from 8.713 percent at December 31, 2005 to a 5.949 percent at December 31, 2015. The mix of securities employs various maturity dates in order to provide flexibility and mitigate refinancing risks.

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

A. Page 1 is a summary showing the Company's long-term debt at December 31, 2013 and 2014 and associated cost of debt, and it shows the projected long-term debt and associated costs for 2015, as well as the average cost of debt for the two periods. Page 2 shows the cost and the debt balance by issue at December 31, 2014 and page 3 shows the projected cost and the debt balance by issue at December 31, 2015.

The debt costs reflected on Statement G, Rule 20:10:13:73, page 1 represent the actual weighted embedded costs of the long-term debt at December 31, 2013 and 2014, and those projected to be outstanding at December 31, 2015. In calculating the debt costs, the "Yield-to-Maturity" method (also referred to as the Internal Rate of Return (IRR) method) is used to determine the total cost for each respective debt issue as presented on Rule 20:10:13:73, pages 2 and 3. The yield-to-maturity calculation of each debt issue outstanding gives consideration to the stated rates of interest being paid on such debt, the timing of the interest payments, related issuance expenses, underwriters' commissions, the discount or premium realized upon issuance and the amortization of losses on bond redemption transactions.

Q. Would you please describe Statement G, Rule 20:10:13:73, page 4 and explain the amortization method utilized?

A. Page 4 reflects the annual amortization of the costs associated with the redemption of long-term debt. For this proceeding, the amortization has been computed on a straight-line basis over the remaining life of the issues. The Company uses the same calculation for accounting purposes.

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

A. Page 5 presents the average short-term debt balance for 2014 and projected for 2015 as well as the average cost of short-term debt. A twelve-month average of short-term debt is used in the cost of capital calculation to reflect the seasonality in the short-term debt balance. Short-term debt is historically at or near its peak in December and the twelve-month average calculation is more reflective of the borrowing level than a year-end balance.

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

A. Page 1 presents the preferred stock balances at December 31, 2013 and 2014, and the projected balances for December 31, 2015. The anticipated weighted cost of preferred stock is also shown. Page 2 sets forth the various preferred stock issues outstanding at December 31, 2014 and page 3 sets forth the projected issues outstanding at December 31, 2015.

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

A. Page 1 reflects the Company's utility common equity balance at December 31, 2013 and 2014, and the projected balance at December 31, 2015. The changes to the common equity balances reflect the normal changes, including projected earnings, as well as the effect of new capital / equity infusions.

Q. What does Statement G, Rule 20:10:13:75, pages 2 and 3 show?

A. The schedule shows the issuances of shares of common stock for the five-year period ending December 31, 2014.

Q. What does Statement G, Rule 20:10:13:76, Schedule G-1 show?

A. This schedule shows that there has been no stock split or stock dividend activity in the five years ended December 2014.

Q. Would you please describe Statement G, Rule 20:10:13:77, Schedule G-2?

A. This schedule presents various financial and market data relative to the Company's common stock for the years ended 2010 through 2014, and for each month of the twelve month period ended December 31, 2014.

Q. Would you please describe Statement G, Rule 20:10:13:78, Schedule G-3?

A. This schedule shows the reacquisition activity for long-term debt in the last five years and shows a summary of scheduled retirements of preferred stock for the five years ended December 31, 2014.

Q. Does this conclude your direct testimony?

A. Yes, it does.