Service Date: March 27, 2013

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER OF the Application of	)	REGULATORY DIVISION
Montana-Dakota Utilities Co. for Authority	)	
to Establish Increased Rates for Natural Gas	)	DOCKET NO. D2012.9.100
Service in the State of Montana	)	

RESPONSES OF THE MONTANA CONSUMER COUNSEL TO MONTANA PUBLIC SERVICE COMMISSION DATA REQUESTS PSC-149 THROUGH PSC-156

PSC-149

Regarding: Natural gas supply resources
Witness: Donkin

a. You testified "marginal cost studies may be relevant for assigning gas supply cost". (P.6) In your opinion, should marginal cost studies play a role in allocating the cost of utility-owned resources which provide natural gas supply, such as the Billings Landfill Project? Why or why not?

b. If the answer to part (a) is yes, please explain to what extent you believe a marginal cost study should be used to allocate the costs of an acquired natural gas supply resource.

c. The future output (and therefore average cost) of the Billings Landfill Project cannot be known. Should any of the costs of a utility-owned natural gas supply resource with variable output such as the Billings Landfill Project be integrated into the gas supply tracker? Please explain.

RESPONSE:

a. The Billings Landfill Project relates to MDU's production function; that is to say the costs related to the Billings Landfill Project are functionalized production costs. Consistent with traditional cost allocation principles and

PSC-149 continued

historical practice in the natural gas industry, all functional production costs, fixed and variable, are classified as commodity costs and allocated to customer classes on the basis of annual commodity quantities. Marginal cost considerations may be relevant in determining whether or not a cap or ceiling should be placed on the unit cost and therefore the total allowable costs of a gas supply resource such as the Billings Landfill Project that are to be recovered from ratepayers.

b. See the response to PSC-149(a), above.

c. Given the unique and extraordinary cost and performance characteristics of the Billings Landfill Project, as Mr. Clark has recommended, Billings Landfill Project recoverable costs should be included in MDU's gas cost tracker rates, not in base rates. MDU pays royalty to the City of Billings for Billings Landfill Project gas production by using the CIG index as the market price that reflects the market value of gas supply on the MDU system. That is the proper unit price for Billings Landfill Project gas supplies to be recovered from MDU's customers, and such costs should be recovered in the Company's gas supply tracker.

PSC-150

Regarding: Allocation method and rate design
Witness: Donkin

a. Do any of your cost allocation or rate design methods proposed in this Docket diverge from the methodologies approved by the Commission in Order No. 7132c in Docket No. D2010.9.90?

b. If the answer to part (a) is yes, please explain how your proposed allocation and rate design methods in this Docket differ from those approved in Order No. 7132c in Docket No. D2010.9.90.

c. If the answer to part (a) is yes, please explain why the Commission should accept your proposed methodologies in this Docket which differ from those approved in Order 7132c.

RESPONSE:

a. My class cost allocation recommendations in this case are consistent with the methodologies that the Commission approved in Order No. 7132c in Docket No.D2010.9.90. With respect to rate design, there is a difference.

b. In Order No. 7132c, the Commission's approved Residential monthly service charge is intended to recover 50% of the total approved Residential non-gas revenue requirement. In this case, at MCC's proposed total annual non-gas revenue requirement of nearly $20.5 million, I have recommended a Residential non-gas revenue requirement of $12,466,849 (see my Exhibit ___ (GLD-3), at Line No. 15). I have made two alternative recommendations regarding the Residential service charge. My first recommendation is to keep it at the present level of $6.35; that would produce annual non-gas revenue of $5,346,268. That amount is 42.9% of total Residential non-gas revenue at my recommended total Residential class non-gas revenue at MCC's proposed total non-gas revenue increase in this case. My alternative recommendation is to provide a percentage increase in the Residential service charge that is limited to the same percentage increase the Commission approves in this case

PSC-150 continued

for MDU's total annual non-gas revenue requirement. That limit is 2.1% under MCC's proposed total non-gas revenue requirement; it would produce an increase in the Residential service charge to $6.48 per month, with corresponding total annual non-gas revenue of $5,455,719. That would result in 43.8% of total Residential non-gas revenue being recovered by fixed monthly service charges. Both 42.9% and 43.8% are a bit below the $7.40 Residential service charge that would obtain if it were based on 50.0% of MCC's proposed total Residential non-gas revenue requirement of $12,466,849($12,466,849 times 0.5, divided by 70,161 customers, divided by 12).

c. My Residential service charge recommendation takes into account the adverse impacts of the present monthly service charge on small-volume Residential customers (see Exhibit ___ (GLD-4)), and the fact that MDU's customer-related O&M expenses per customer are significantly less than the current Residential service charge of $6.35 per month (see Exhibit ___ (GLD-5)). Under these circumstances, a Residential service charge of either $6.35 or $6.48 is preferable to a Residential service charge of $7.40, even if they produce annual non-gas revenue that is a bit below the 50.0% level the Commission approved in the recent EWM case.

PSC-151

Regarding: Allocation of service lines, meters
Witness: Donkin

a. Would you agree that meter cost tends to increase with the capacity of the meter, and therefore weighting allocation factor 10 with average meter costs by class implies that allocation factor 10 classifies some portion of meter costs capacity-related? If not, please explain.

b. In your experience, is it common practice to directly assign the cost of services and meters to each customer class?

c. In your experience, is it common practice to use the same allocation factor for both services and meters?

d. You testified that "many of the costs of gas pipelines do not vary much, if at all, in relation to alternative pipe size distinctions". (P. 20) Do you believe this statement to be true when applied to the cost of installing a service line? If so, does this contradict the assertion that a significant portion of service line costs should be classified capacity-related?

e. Would MCC support an allocation factor for service line costs based on the total distance of service lines installed for a particular customer class? Please explain why or why not.

RESPONSE:

a. Yes.

b. In my experience, it has been more common to observe that the cost of services and meters is allocated to customer classes.

c. Yes.

d. This data request has two parts. The answer to the first part is "Yes, " although for residential and small commercial customers, the variation in

PSC-151 continued

diameter size of service lines is usually not as large as is diameter size variation for gas pipelines, which will range between 3-inch pipe and 42-inch pipe. This suggests that other factors may have a relatively more significant impact on service installation costs than the diameter size of the service, in comparison with gas transmission pipelines or gas distribution mains. Nevertheless, the delivery of volumes of gas by pipes from the main to the customer – on peak day, during the heating season, and on an annual basis – is why service lines are installed, and therefore the cost of the pipe is partly responsible for total services costs. This "capacity-related" characteristic should be taken into account in classifying and then allocating the costs of service lines to customer classes. Therefore, the answer to the second part is "No."

e. Without having performed my own study or examined such a study that was performed by another person, I am not in a position to answer this question.

PSC-152

Regarding: Allocation of service lines, meters
Witness: Donkin

a. Can you provide a theoretical basis for the equal weights applied to customer numbers and design day volumes in the allocation of services and meters? If so, please describe this basis in detail.

b. Are you aware of any other cases in which services and meter costs were classified as 50% customer-related and 50% capacity-related? If so, please provide the docket number and jurisdiction of the case.

RESPONSE:

a. My recommendation regarding the allocation of services and meters costs is based on the combination of my judgment and what the Commission recently said in Order No. 7132c about allocating the costs of services and meters. In Order No. 7132c the Commission stated (1) it is not convinced that a 100% customer-related classification of services and meters is reasonable, and (2) some portion of services and meters costs should be classified as capacity-related.

   In that same case the Commission was aware of and did not take issue with my allocation of the costs of services pipelines, which was performed on the basis of 50% customers and 50% peak day demands. Accordingly, a reasonable approach in this case is to allocate services and meters costs on that same basis, given the Commission's recent determination that some portion of services and meters costs should be classified as capacity-related.

b. First, see my response to Data Request PSC-152 (a) above, for guidance as to how the Montana Commission thinks the costs of services and meters should be classified. I have not performed a survey or study of how the classification of services and meters costs has been formally approved in other cases, either in Montana or elsewhere. I do know that Montana PSC-approved settlements have resolved issues relating to the classification and allocation of non-gas costs for decades in Montana, without specifically addressing how services and meters costs should be classified and allocated to customer classes.

PSC-153

Regarding: Allocation of mains
Witness: Donkin

a. Please list every state regulatory commission of which you are aware that has established regulatory precedent employing your proposed method of allocating distribution mains on the basis of 50% design day and 50% annual dkt volumes.

b. For each jurisdiction in part (a) above, provide the docket number and, if possible, a copy of the Order adopting this recommended method.

RESPONSE:

a. I have not performed a survey or study of how the costs of distribution mains have been allocated in other jurisdictions. In the mid-1980s, I presented a *Seaboard* approach (50% peak and 50% annual) to allocating the fixed Transmission and Distribution Mains costs of Peoples Natural Gas Company, in Pennsylvania Public Utility Commission (PPUC), Docket R-850270. My recommendation in that case was adopted by the PPUC. I do not have a copy of the order in that case. Since then, in other cases, the PPUC has adopted the average and excess cost allocation methodology, which also recognizes that annual usage is a significant determinant of customer class cost and revenue responsibility.

b. Not applicable. See my response to Data Request PSC-153(a), above.

PSC-154

Regarding: Natural gas supply
Witness: Donkin

a. Do you accept MDU's analysis of the long-run marginal cost of gas supply?

b. If the answer to part (a) is no, please provide your analysis of the long-run marginal cost of gas supply relative to MDU, including any natural gas forecasts you believe to be relevant.

RESPONSE:

a. No. MDU's estimate of its marginal cost of gas supply is presented in Exhibit ___ (TAA-3) Page 3; it is based on Rule 38.5.157, Statement G, Page 3, which summarizes the Company's annual 2011 gas cost level, in average $/Dkt, by customer class, including transportation costs for the firm customer classes. That is not an accurate representation of either the short-run or long-run marginal cost of gas supply on the MDU system.

b. MDU's short-run marginal cost of gas supply is the current and expected near-term CIG index price. For this purpose the CIG bid-week price and near-term CIG futures prices are reasonable estimates of MDU's immediate and near-term marginal cost of gas.

   MDU's long-run marginal cost of gas supply is the estimated future CIG index price, plus transportation cost on Williston Basin Interstate Pipeline Company (WBI). The future CIG index price can be estimated by reference to the latest DOE/EIA Annual Energy Outlook projection of future Henry Hub spot gas prices, adjusted to reflect the estimated Henry Hub/CIG Hub basis differential. The estimated future cost of WBI transportation can be estimated by reference to WBI's current rates, plus estimated future changes in current rates.

PSC-155

Regarding: A&G expenses
Witness: Donkin

a. If you were to substitute Aberle's proposed allocation of A&G expenses into your own cost allocation proposal, would any of your recommendations change?

b. Did you consider allocating each account within MDU's A&G expenses to a particular cost function, as opposed to allocating all A&G expenses as a whole? Why do you believe your approach is preferable to allocating each A&G account individually?

RESPONSE:

a. No. A different result would obtain from substituting Miss Aberle's A&G expenses allocator for my own, but it would be the wrong result.

b. Yes. I specifically considered the composition of MDU's A&G expenses. The individual costs, by cost function, associated with MDU's A&G expenses are as follows:

920	A&G Salaries	$956,138
921	Office Supplies & Expenses	$548,659
923	Outside Services	$123,948
924	Property Insurance	$80,637
925	Injuries & Damages	$263,669
926	Employee Pensions & Benefits	$1,837,398
928	Regulatory Commission Expenses	$1,742
930	Miscellaneous General Expenses	$97,390
931	Rents	
935	Maintenance of General Plant	$102,194
	Total	$4,127,510

These costs relate almost totally to the infrastructure and manpower costs of running a natural gas company, like MDU. Miss Aberle's study is seriously flawed, because it allocates 72.8% of MDU's total A&G expenses as

PSC-155 continued

though they are customer costs. The management and administrative infrastructure-related costs of running a gas company are not customer-related, and they clearly should not be classified as customer costs or allocated on the basis of customer counts.

That leaves peak day, annual, or seasonal volumes as the only reasonable class allocators for A&G expenses. I chose the combination of peak day Dkt (50%) and annual Dkt (50%) as a reasonable basis for allocating these costs in my study. This produces a reasonable apportionment of A&G expenses across all customer classes being served by MDU's management and administrative infrastructure.

PSC-156

Regarding: Rate design
Witness: Donkin

a. On P. 33 of your testimony, you seem to argue that the residential basic service charge should not be increased because the current basic service charge is already in excess of the per customer average monthly customer-related O&M expenses. Is that correct? If so, are you arguing that the only expense which should be recovered in the fixed basic service charge is the customer-related O&M expense? If not, please explain.

b. If the answer to part (a) is yes, can you provide any cases or past Orders in any jurisdiction where this type of approach has been applied? If so please provide this information.

c. In general, would you support an equi-proportional adjustment to the rate elements for each customer class equal to the change in the respective class' revenue requirement? If not, please explain.

d. Do you oppose an increase in the basic service charge for all customer classes, or only the residential class? Please explain.

e. Do you have any specific recommendations for the rate design of customer classes other than the residential class which are not included in your testimony? If so, please explain.

RESPONSE:

a. As to the first question, the answer is "Yes," in part. Customer-related O&M expenses can be avoided if a customer location stops being served. This factor can be used to support limiting service charges to avoidable customer-related O&M expenses. Another reason to keep the Residential service charge at the current level is the adverse impact service charges have on small-volume Residential customers. "No" to the second question in this Data Request. The

PSC-156 continued.

fact that MDU's current Residential service charge is greater than its customer-related O&M expenses can be supported on the basis of either the revenue and earnings stability principle, or the rate moderation principle.

b. I have not performed a survey or study of how cost factors have been used to support the level of service charges that have been established in Montana or in other jurisdictions. I am familiar with this Commission's recent Order No. 7132c, which established service charges on the basis of non-gas revenue recovery, not customer-related costs.

c. With respect to Residential and Firm General Service, if service charges are increased in this case, the increases should be limited to the percentage increase MDU is awarded in its total non-gas revenue requirement.

d. With respect to both Residential and Firm General Service, I prefer that service charges be kept at the present levels. I have no opinion regarding the level of service charges for MDU's interruptible customer classes.

e. Please see my response to Data Request PSC-156(d) above.