

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

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IN THE MATTER OF the Application of) REGULATORY DIVISION
MONTANA –DAKOTA UTILITIES CO. for)
Authority to Increase Rates and Charges) DOCKET NO. D2012.9.100
For Water Service in Missoula, Montana)

**PREHEARING MEMORANDUM OF THE
MONTANA CONSUMER COUNSEL**

In accordance with the schedule provided in the procedural order in this docket, the Montana Consumer Counsel submits its prehearing memorandum.

I. UNCONTESTED ISSUES.

MDU's filing presents both embedded and marginal class cost of service studies. MCC has presented an embedded class cost of service study. Both MDU and MCC recommend that the Commission rely only on embedded class cost of service studies as guides in its evaluation of the class cost of service and rate design issues in this case.

II. CONTESTED ISSUES.

The contested issues in this docket are:

A. Cost of Capital and Capital Structure.

1. Issues include addressing what are the appropriate cost of equity capital and capital structure.
2. Whether Dr. Gaske's .625g adjustment overstates the reasonably expected dividend yield in the first year of his DCF calculation.
3. Whether a flotation cost adjustment should be added to the cost of equity.

4. Whether Dr. Gaske's consideration of only earnings growth and not dividend growth or book value growth is an appropriate application of the DCF model.

B. Revenue Requirement.

1. Issues include whether revenue requirement adjustments proposed by the Company based largely on its 2012 operating budget meet the requirement of being known with certainty and measurable with reasonable accuracy at the time of filing and in effect within 12 months after the end of the test year under Montana law.
2. Issues further include the level of post-test year plant and other rate base components that should be included in rate base.

C. Depreciation.

1. Issues include whether the Company's proposed 47R3 average service life-dispersion curve understates the realistic life expectations for Account 376 – Mains, the largest plant account, and whether the Company has met its burden of proof in support of its proposal.
2. And further include whether the Company's proposals for net salvage values as much as a negative 200%, are excessive (up to an additional \$2 of recovery for every \$1 invested), unsupported, and unrealistic.
3. And further include the appropriate level of the accumulated provision for depreciation as a result of the Company having booked unapproved depreciation rates between rate cases.

D. Cost Allocation and Rate Design.

1. Issues include the proper allocation factors to be used in allocating MDU's embedded cost of service to customer classes.
2. The proper allocation of MDU's total revenues to its various customer classes.
3. The proper level of the Residential service charge.

4. Issues also include whether the Commission should approve or reject MDU's proposed Distribution Delivery Stabilization Mechanism (DDSM).

III. OTHER ISSUES

On February 7, 2013, the MCC moved to strike the answers MDU filed in response to certain data requests regarding depreciation. A Notice of Commission Action was issued on June 21, 2013 suspending the procedural schedule and vacating the hearing; it does not appear as though any written decision was issued regarding whether the motion to strike was formally addressed. The basis of the MCC's motion was that MDU's expert on depreciation did not retain work papers associated with the analysis being advanced by MDU, eviscerating any opportunity for the MCC to duplicate and cross-check MDU's conclusions and proposals in this docket. As a sanction for MDU's failure, MCC requested that MDU's gas depreciation study and all associated testimony and recommendations be stricken. It does not appear that there is a written decision on this request and the MCC anticipates renewing its motion at the hearing.

The most recent responses to data requests were submitted on July 26, 2013. If necessary, the MCC will raise objections to those responses in accordance with the procedural schedule.¹

IV. WITNESSES.

MCC will present the testimony of its expert witnesses John W. Wilson, Albert Clark, George Donkin and Jack Pous.

V. EXHIBITS.

MCC will offer into evidence the February 25, 2013 Direct Testimony of: Dr. Wilson; George Donkin, Jack Pous and Albert Clark together with all exhibits thereto. The MCC reserves the right to offer other exhibits that may become necessary during the course of the proceeding.

The MCC anticipates requests to include all responses to data requests in the administrative record of this proceeding and does not anticipate objecting to such incorporation.

¹ Para. 10 of the Procedural Schedule provides seven calendar days to file an objection to discovery responses, which will be August 2, 2013. According to the NCA issued June 21, 2013 the Prehearing Memo is due on July 30, 2013.

VI. SPECIAL SCHEDULING NEEDS.

MCC requests that its witness on depreciation, Jack Pous, be allowed to testify before the end of the day on Tuesday, August 6, 2013, and that its witness on class cost of service, rate design, and MDU's proposed DDSM, George Donkin, be allowed to testify before the end of the day on Thursday, August 18, 2013. MCC has no other special scheduling needs.

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Respectfully submitted July 30, 2013.

Monica Tranel
Attorneys for the
Montana Consumer Counsel