

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

IN THE MATTER OF THE APPLICATION
OF DEACTIVATION OF PIPELINE
SERVICE FOR FIVE VALLEYS GAS CO.
AT SEELEY LAKE, MT

UTILITY DIVISION
Docket No. D2015.3.31

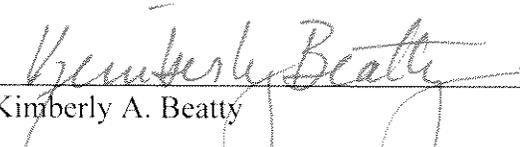
**FIVE VALLEYS GAS COMPANY'S NOTICE OF FILING PRE-FILED TESTIMONY
OF JERRY THORSTAD AND ED GUAY**

Five Valleys Gas Company's ("Five Valleys"), through its counsel, Browning, Kaleczyc, Berry & Hoven, P.C., hereby files this Notice of Filing Pre-Filed Testimony of Jerry Thorstad and Ed Guay. The Pre-Filed Testimony is attached hereto and was served together with this Notice of Filing on each individual listed in the Certificate of Service.

DATED this 12th day of June, 2015.

BROWNING, KALECZYC, BERRY & HOVEN, P.C.

By



Kimberly A. Beatty

Attorneys for Five Valleys Gas Company

CERTIFICATE OF SERVICE

I hereby certify that on the 12th day of June, 2015, a true and correct copy of the foregoing was this day e-filed and served as follows:

Kate Whitney
Public Service Commission
1701 Prospect Ave.
P.O. Box 202601
Helena, MT 59620-2601
Kwhitney@mt.gov

- E-Mail
- Hand Delivered
- First Class Mail
- Overnight

Robert A. Nelson
Monica Tranel
Montana Consumer Counsel
111 North Last Chance Gulch, Suite 1B
P.O. Box 201703
Helena, MT 59620-1703
robnelson@mt.gov
Mtranel@mt.gov

- E-Mail
- Hand Delivered
- First Class Mail
- Overnight



BROWNING, KALECZYC, BERRY & HOVEN, P.C.

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

IN THE MATTER OF THE APPLICATION OF DEACTIVATION OF PIPELINE
SERVICE FOR FIVE VALLEYS GAS CO. AT SEELEY LAKE, MT

DOCKET NO. D2015.3.31

**Pre-Filed Testimony of Jerry Thorstad in Support of Application for Deactivation
of Pipeline Service for Five Valleys Gas Co. at Seeley Lake, MT**

June 12, 2015

1 **Q. Please state your name, occupation, and business address.**

2 A. My name is Jerry Thorstad. I am the General Manager of Energy Partners, LLC
3 and Five Valleys Gas Company. My business address is 2500 W. Broadway, Missoula,
4 Montana 59808.

5 **Q. What is your educational background?**

6 A. I received my B.S. degree from North Dakota State University in 1982.

7 **Q. Would you please provide us with a summary of your employment
8 background?**

9 A. Yes, since 1986, I have held various General Manager positions for Farm
10 Cooperatives, Glen Ullin, ND; Kalispell, MT; Der River, MN; Gillette, WY.

11 **Q. What are your job responsibilities as the General Manager for Energy
12 Partners, LLC and Five Valleys Gas Company?**

13 A. I manage all aspects of the business operations for Five Valleys Gas Co and
14 Energy Partners.

15 **Q. How long have you been employed by Energy Partners, LLC and Five
16 Valleys Gas Company?**

17 A. I have been employed as the General Manager for these companies for the past 12
18 years.

19 **Q. Have you ever testified to the Montana Public Service Commission before?**

20 A. No, I have not.

21 **Q. What is the purpose of your testimony in this docket?**

22 A. I am testifying in support of the Application to deactivate the pipeline system. I
23 will discuss the status of our current operations, the reasons we would like to deactivate

1 our system, our plans for how to safely shut down the system and transition our
2 customers to other fuel sources, and the impact of this transition on our customers.

3 **Q. Which of your employers operates the pipeline system and is the regulated**
4 **utility?**

5 A. Five Valleys Gas Company.

6 **Q. What is the relationship between Five Valleys Gas Company and Energy**
7 **Partners?**

8 A. Five Valleys Gas is a wholly owned subsidiary of Energy Partners, LLC.

9 **Q. How long has Five Valleys Gas Company operated the pipeline system?**

10 A. Five Valleys has been the operator since acquiring the system in 1999.

11 **Q. Did Five Valleys Gas Company design and install the pipeline system?**

12 A. No. The system was designed and constructed in the mid 1990s by Arno Pulici,
13 who then operated the system for 4 or 5 years. Mr. Pulici then sold the system to Cenex
14 of Missoula. Energy Partners was formed in 2001, and some of the assets that Cenex
15 owned, including the pipeline system, was transferred to Energy Partners.

16 **Q. Where is the system located?**

17 A. In the Seeley Lake, Montana area, on the eastside of Highway 83. We have
18 provided a map of the system in response to one of the data requests asked by the
19 Commission.

20 **Q. How many customers do you have?**

21 A. Presently, we have between 110-117 customers. Most of those customers are
22 residential customers.

23

1 **Q. Do you have the ability to expand your customer base?**

2 A. No. Any significant number of new customers are across Highway 83. It would
3 be cost-prohibitive for us to attempt to connect those customers to our system.

4 **Q. Are there alternate fuel sources currently available to your customers?**

5 A. Yes. There are five other competitors who provide propane delivery service by
6 trucks and tanks to this service area. In addition, certain residents use electric, solar, and
7 wood to fuel their homes and buildings.

8 **Q. What are the costs of service charged by your competitors?**

9 A. I cannot tell you with certainty, as my propane supplier competitors are not
10 regulated and do not have published rates for service. Plus, propane is a commodity
11 which periodically changes based on numerous and unpredictable market forces.
12 Generally speaking, however, I believe the cost to deliver a gallon of propane to
13 customers in our service area is approximately \$0.99 to \$1.39 per gallon.

14 **Q. What are the rates you currently charge?**

15 A. Presently, Energy Partners charges \$1.09/gallon, plus \$75.00/ yr for rental of a
16 500 gallon tank. Five Valleys Gas Company charges \$1.20 per gallon to its pipeline
17 customers.

18 **Q. Do you presently recover all of your operating costs and recover your
19 authorized rate of return?**

20 A. No. Our, Controller, Ed Guay, has also submitted testimony in this Docket and
21 his testimony details our current financial status and recovery of costs.

22

23

1 **Q. Why do you want to deactivate the pipeline system?**

2 A. For many years, our rates have been insufficient to cover our full costs of
3 operations or to earn a rate of return, and therefore have operated at a loss. Our
4 companies cannot continue to subsidize the operation of this system with no reasonable
5 expectation of a return on our investment. However, the rate increase that would be
6 required would make us un-competitive in the local area marketplace. Not only would
7 our unaffiliated competitors beat our prices, our pipeline rates would exceed the prices
8 charged by our own Energy Partners' truck delivery system. Since we are not a monopoly
9 in the area, our pipeline customers can and would opt for services at lower rates. We
10 believe our customer base would crumble if we were to significantly increase our rates.
11 In addition, we are faced with relatively high costs of regulation and extra safety
12 compliance requirements mandated for operators of pipelines, as compared to our
13 competitors, all of whom are not regulated. Finally, since we did not design and install
14 the pipeline system and we have limited information about the system and mapping of the
15 system, we have lingering concerns about maintaining its safety and ensuring full
16 compliance with all present and future regulations.

17 **Q. What will happen to your customers should you deactivate the pipeline**
18 **system?**

19 A. Our customers would not suffer any harm, and would still be able to obtain heat
20 and power for their homes and businesses through a variety of options. First, they can
21 elect to receive propane service from us through Energy Partners by installing a tank on
22 their property and contracting for the delivery of propane by truck. Current charges for
23 that service by Energy Partners is \$1.09 per gallon, while our pipeline rate (May price)

1 was \$1.20 per gallon. Second, they can elect to receive propane delivery service by any
2 one of our 4 or 5 other competitors who serve the Seeley Lake area. Third, they can
3 switch to alternative sources of power, light and heat, such as electricity, solar, wind, and
4 wood-burning stoves.

5 **Q. Do you have a plan to transition your customers to other services?**

6 A. Yes; we are willing to switch all services to tanks in the yards of the customers
7 and to continue to deliver propane by trucks.

8 **Q. Are you currently in compliance with all pipeline safety requirements?**

9 A. Yes.

10 **Q. Do you have any concerns about the continued safety of the system if the**
11 **Commission requires its continued operations?**

12 A. Yes. As I mentioned above, we did not design or install the system and we have
13 limited information about the system and the mapping of the system. While we are
14 vigilant with safety compliance, we have concerns about our ability to fully meet new
15 and revised pipeline safety requirements in the future. Plus, the general nature of pipeline
16 services contains risks not present with the delivery by trucks and tanks.

17 **Q. Is it possible to address or fix those safety concerns?**

18 A. Yes, but not likely at an economically feasible cost. Again, we do not believe our
19 customers are willing to pay those costs as the size of our system is so small, passing
20 these costs onto customers in rates would require a significant rate increase that would
21 make us un-competitive in the local marketplace and would result in a significant eroding
22 of our customer base.

23

1 **Q. Are you presently recovering all of your operating costs in your current**
2 **rates?**

3 A. No. Mr. Guay's testimony provides additional detail and analysis.

4 **Q. Are you presently earning your authorized rate of return in your current**
5 **rates?**

6 A. No, we are not. Again, Mr. Guay's testimony addresses this point in greater
7 detail.

8 **Q. If you are permitted to deactivate the pipeline system, how will you safely**
9 **shut down the pipeline system?**

10 A. First, we will have to install tanks at the customer's locations, then their homes
11 and business would be connected to the tank for the delivery of propane. When all
12 services are switched, we will cap the pipeline fuel source and the pipeline will be
13 purged. The pipeline will then be disconnected from the main fuel supply. We will
14 strictly comply with all safety requirements including 49 CFR 162.727 (10-1-13 edition).

15 **Q. How will you notify your customers that you intend to deactivate the pipeline**
16 **and the options they have for securing propane or other fuel services?**

17 A. We plan to conduct a direct mail campaign and have face to face meetings with
18 our customers. We plan to give our customers a date certain when our pipeline service
19 will cease, and will provide our customers able time to switch their fuel source.

20 **Q. Do any of your customers know of your transition plans already?**

21 A. Yes. All of our customers were mailed a letter in April describing our intent and
22 so have heard of our plans from a variety of sources and have begun to contact our office
23 with their questions.

1 Q. How have they reacted?

2 A. Most have questions related to heating requirements and alternative fuel source
3 opens. A few have already requested termination of their pipeline service immediately
4 and a switch to delivery of propane by trucks and tanks.

5 Q. Will any harm come to your customers with this transition in services?

6 A. No. Our customers who elect to receive propane service from us, will continue to
7 receive propane through trucks and tanks with no interruption of service. All of our
8 customers will receive ample notice prior to the cessation of pipeline service so they can
9 make alternative arrangements.

10 Q. Does this conclude your testimony?

11 A. Yes, it does.

12

13

14 Submitted by:

15 Jerry Thorstad Jerry Thorstad
16

17 Jerry Thorstad
18 General Manager
19 Energy Partners, LLCs and Five Valleys Gas Company
20

21

22 Subscribed and sworn to me this 12 day of June, 2015.

23

24

25

26

27

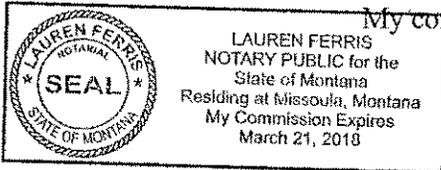
28

Lauren Ferris
NOTARY PUBLIC FOR THE STATE OF MONTANA

(Notarial Seal) Printed Name: Lauren Ferris

Residing at: _____ Montana

My commission expire _____



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

IN THE MATTER OF THE APPLICATION OF DEACTIVATION OF PIPELINE
SERVICE FOR FIVE VALLEYS GAS CO. AT SEELEY LAKE, MT

DOCKET NO. D2015.3.31

**Pre-Filed Testimony of Edward J. Guay in Support of Application for Deactivation
of Pipeline Service for Five Valleys Gas Co. at Seeley Lake, MT**

June 12, 2015

1 **Q. Please state your name, occupation, and business address.**

2 A. My name is Edward J. Guay. I am the Controller for Energy Partners, LLC and
3 Vice President of Five Valleys Gas Company. My business address is 2500 W.
4 Broadway, Missoula, Montana 59808.

5 **Q. What is your educational background?**

6 A. I have an under graduate degree in Political Science with a pre law emphasis from
7 Montana State University achieved in 1985. I have a business degree with and accounting
8 emphasis from the University of Montana achieved in 1988. I obtained my CPA license
9 in 1992. I received an MBA from the University of Montana in 2000.

10 **Q. What are your job responsibilities as Controller for Energy Partners and**
11 **Vice President of Five Valleys Gas?**

12 A. I oversee and perform the accounting and Human Resource functions for both
13 companies.

14 **Q. How long have you been employed by Energy Partners, LLC and Five**
15 **Valleys Gas Company?**

16 A. Since June 7, 2004.

17 **Q. Have you held any other positions for the company other than those**
18 **mentioned above?**

19 A. No, I have not.

20 **Q. Have you ever testified to the Montana Public Service Commission before?**

21 A. No, I have not.

22

23

1 **Q. What is the purpose of your testimony in this docket?**

2 A. I am testifying in support of the Application to deactivate the pipeline system. I
3 will discuss the current financial status of the operations and what it would cost to make
4 the current system profitable and a comparison of the proposed rate increases for Five
5 Valley Gas customers and the rates charges by Energy Partners for providing similar
6 propane services.

7 **Q. What are the current rates charged by Five Valleys Gas Company to its**
8 **customers?**

9 A. The rates charged vary considerable. Currently a monthly tariff is filed and a
10 annual true up is performed. The price varies so much since there are three distinct
11 aspects to a consumer's price. A non gas constant, which essentially is intended to cover
12 the overhead costs of the company. That component is constant until there is another rate
13 increase filed and approved. There is a current cost of propane component. The rate
14 varies monthly based on the price of the commodity. The final aspect is a tracker
15 adjustment based on the annual true up. To simplify this I will address my financial
16 responses on a per customer basis.

17 **Q. Were these rates previously approved by the Commission?**

18 A. Yes, they were approved on or about January 1, 2012 in Docket No. D2012.1.11.
19 This is the most recent propane cost tracker adjustment.

20 **Q. What was the capital structure and debt to equity ratio used by the**
21 **Commission in setting your rates?**

22 A. I can not answer that since Five Valleys Gas has never had a profit rate base
23 established by the Public Service Commission It has never been profitable.

1 **Q. What is the rate of return you are authorized to earn?**

2 A. Since Five Valleys Gas does not have the normal debt and equity structures
3 associated with other utility companies this is difficult to answer. Five Valley Gas does
4 have a very small bank loan outstanding. That interest rate is 7%. Cost of capital should
5 include this cost of debt plus a reasonable amount of profit. I would like to see a return of
6 10% of sales considered reasonable. A rate of return has never been established by the
7 Public Service Commission.

8 **Q. Do your current rates permit you to recover all of your costs?**

9 A. No, for the last audited period, Five Valleys Gas lost \$.01097 per cubic foot sold,
10 or an average of \$342.70 per customer. At an average of approximately 110 customers,
11 \$37,697

12 **Q. What costs do you not recover currently?**

13 A. Approximately 20% of sales for the last audited financial statements.

14 **Q. Do your current rates permit you to earn your full entitled rate of return?**

15 A. No.

16 **Q. Do you presently earn any rate of return?**

17 A. No, the current equity position for the company is a negative \$281,614 as of the
18 date of the last audited financial statements.

19 **Q. What would you have to charge in rates per customer in order for Five
20 Valleys Gas Company to fully recover your costs and earn the rate of return
21 authorized?**

22 A. The non-gas constant would have to increase from \$.01356 to \$.05568 per cubic
23 foot, which is a 311% increase in rates. We could also do a combination of increasing the

1 current month meter reading charge and lowering this slightly. Regardless of the
2 combination this will cost the average customer about \$892.50 per year or \$74.37 per
3 month, which is an average increase of 311% over current rates.

4 **Q. Does Five Valleys Gas Company have any competitors?**

5 A. Yes, we have numerous competitors.

6 **Q. Who are those competitors?**

7 A. Energy Partners, Amerigas Propane, Axmen Propane, Mountain View
8 Cooperative and 406 Propane all provide propane delivery service in the area. Our
9 consumers have many viable options.

10 **Q. What do your competitors charge for propane services?**

11 A. Propane is a commodity and prices vary constantly so I really can not give a
12 specific answer. Plus, none of our competitors are regulated and therefore their rates are
13 not published. I believe generally our competitors charge \$25.00 for delivery.

14 **Q. How does that compare to the rates you currently charge?**

15 A. Again, this is very difficult to answer since the prices vary so much, the range is
16 between \$1.09 per gallon to \$1.39 per gallon. They all have an additional trip charge as
17 well.

18 **Q. How do your competitors rates compare to the rates you would have to
19 charge to fully recover your costs and earn your entitled rate of return?**

20 A. The competitors are not subject to the Public Service Commission so I can not
21 answer that. To the best of my knowledge only the pipeline owned by Five Valleys Gas is
22 subject to Public Service Commission regulation.

1 **Q. Do you think you will retain your customers if you seek the \$99.63 average**
2 **customer per month increase in your rates you need to fully recover your costs and**
3 **earn your entitled rate of return?**

4 A. No; I suspect we will only retain a very limited number of customers, but I cannot
5 estimate the percentage of customers we will likely retain. Obviously, as our customer
6 base dwindles, the costs per customer will have to increase in order for us to cover our
7 overall costs. Additional increases would drive additional customers away. As an
8 example of one half of the customer left the pipeline the amount per remaining customer
9 would double to \$ 199.26 per month.

10 **Q. Why do you suspect only a limited number of customers will remain with**
11 **you?**

12 A. I believe initially some customers will simply absorb a large rate increase since
13 many are summer homes with very little usage. However it is difficult to believe they
14 would not all switch to other propane providers who offer the same product at lower
15 rates.

16 **Q. If you were to see such a rate increase, do you have any estimate of the cost of**
17 **that regulatory proceeding?**

18 A. Yes, we believe the legal and other professional expert analysis and expenses will
19 exceed \$100,000.

20

21

1 **Q. If you were permitted to recover these costs in rates over 3 years, how much**
2 **would your rates have to increase for you to recover those regulatory proceeding**
3 **costs?**

4 A. Assuming the regulatory proceedings cost \$100,000, the answer become much
5 more complicated. The simple, and probably best answer is to say these projected
6 additional regulatory fees would cost each consumer approximately \$909. This assumes
7 our customer base stays constant at 110 customers. This would be and additional \$303
8 per year or about \$25.25 per month for just the additional regulatory proceedings costs.

9 **Q. When you add the cost of the regulatory proceeds for a rate case, to the**
10 **increase necessary to recover your costs and earn your entitled rate of return, what**
11 **is the approximate amount of the new rate you would have to charge your**
12 **customers?**

13 A. Like the previous question this is very complicated so I will try to simplify. I have
14 attached as Exhibit 1, a spreadsheet detailing the costs. As shown on those spreadsheets,
15 and as noted in the previous question the additional regulatory costs would be \$303 per
16 current customer annually or \$25.25 per month. The necessary change in the operation
17 cost would be an increase of \$188.79 or \$15.73 per month. The necessary change in the
18 profit structure to obtain profit of 10% of sales would be \$703.71 annually or \$58.64. In
19 total the average customer would have to pay \$1,195.53 more annually or \$ 99.63 per
20 month.

21 **Q. How does that compare to the costs charged by your competitors?**

22 A. I can not answer that since I do not all the competitor pricing. I can testify that as
23 of this date Energy Partners is charging \$1.09 per gallon. With only the necessary costs

1 included a Five Valleys Gas customer would pay \$1.195 per gallon. If the mentioned
2 regulatory fees are incurred the cost per gallon would be \$1.544 per gallon.

3 **Q. Do you have an opinion as to what would happen to your customer base if**
4 **you were to seek that kind of rate increase?**

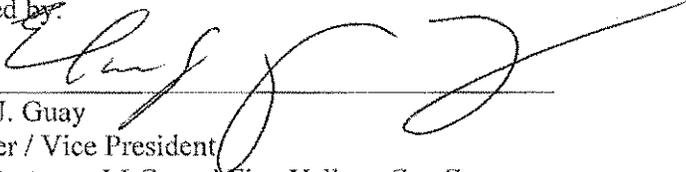
5 A. I believe our customer base would reduce rapidly. I believe the larger commercial
6 accounts and the public school would leave the quickest since they are the largest users.
7 Though, I believe all customers would leave the pipeline within a short period of time.

8 **Q. Does this conclude your testimony?**

9 A. Yes, it does.

10
11

12 Submitted by:



13
14
15 Edward J. Guay
16 Controller / Vice President
17 Energy Partners, LLCs and Five Valleys Gas Company

18
19
20 Subscribed and sworn to me this 12 day of June, 2015.



21
22
23 NOTARY PUBLIC FOR THE STATE OF MONTANA

24 (Notarial Seal)

Printed Name: Lauren Ferris

Residing at: _____ Montana

My commission expires _____



25
26
LAUREN FERRIS
NOTARY PUBLIC for the
State of Montana
Residing at Missoula, Montana
My Commission Expires
March 21, 2018

Summary of additional necessary expenses for the 5 Valley Gas rate increase

The non gas constant

Employee Benefits	4,800	
Vehicle	8,000	(Annual Depreciation)
Safety Clothing	700	
Annual Audit	5,000	
Annual Leak Survey Costs	3,000	
Professional Service	3,000	(Ordering and maintaining inventory)
Insurance for Vehicle	5,400	
Accounting Software	2,000	
Operational safety training	3,600	
Additional commercial insurance	3,500	
Total Expenses Increases	39,000	



Notes on propane consumption for Five Valley Gas

Month

Sep-13	94,701
Oct-13	262,339
Nov-13	388,306
Dec-13	565,313
Jan-14	506,285
Feb-14	575,847
Mar-14	381,773
Apr-14	264,206
May-14	157,462
Jun-14	100,477
Jul-14	70,965
Aug-14	68,403

3,436,077

Five Valley Gas
Comparison Income Statements

	August 2014 Audited	Necessary Charges	Revised Income
Sales	\$ 189,422	-	\$ 189,422
Total Sales	\$ 189,422		\$ 189,422
Propane Cost	133,979	-	\$ 133,979
Total Product Costs	133,979		133,979
Gross Profit	\$ 55,443	-	\$ 55,443
Gross Profit Percent	29%		
Wages Expense	36,000	-	36,000
Depreciation Expense	9,951	8,000	17,951
Payroll Tax Expense	4,464		4,464
Employee Benefits	-	4,800	4,800
Amortization Expense	4,032	-	4,032
Utilities Expense	3,494		3,494
Insurance Expense	2,407	8,900	11,307
Safety Training	2,033	4,300	6,333
Professional Services	1,250	8,000	9,250
Truck Expense	1,200	2,000	3,200
Other Expenses	1,112		1,112
Tax and License Expense	1,076		1,076
Supplies and Repairs	703		703
Office Expense	674	2,000	2,674
Bad Debt Expense	151		151
Propane Incident costs	-	3,600	3,600
Leak Survey	-	3,000	3,000
Total Operating Expense	\$ 68,547	\$ 44,600	\$ 113,147

Interest Expense	\$	(760)		(760)
Income Tax Expense	\$	(23,833)	23,833	-
Total Other Income	\$	(24,593)	\$ 23,833	\$ (760)
Net Income (Loss)	\$	(37,697)	\$ (20,767)	\$ (58,464)
Tariff increase for profitability (10% of Sales)	\$	(342.70)		77,408
Final Net Income	\$	(37,697)	\$	18,944
Cubic Feet sold		3,436,077		3,436,077
Non Gas per C/F (To cover operating costs)	\$	0.01356	\$	0.03315
Increase for minimum Profitability	\$		\$	0.02253
Total Non Gas constant	\$	0.01356	\$	0.05568
Change per Gallon - August	\$	0.02793	\$	0.02793
Total charge per C/F	\$	0.04149	\$	0.08361
Per Gallon	\$	1.51	\$	3.04
Increase in Professional fees of		100,000		100,000
Increase in expenses				20,767
Necessary profit				77,408
				198,175
Cubic Feet		10,308,231		
				310.61%
				101.51%
				101.51%