

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

IN THE MATTER OF THE APPLICATION OF)
MONTANA-DAKOTA UTILITIES CO., a) REGULATORY DIVISION
Division of MDU Resources Group, Inc., for)
Authority to Establish Increased Rates for Electric) DOCKET NO. D2015.6.51
Service in the State of Montana)

**MONTANA LARGE CUSTOMER GROUP'S RESPONSES
TO THE MONTANA PUBLIC SERVICE COMMISSION'S
DATA REQUESTS PSC-139 THRU PSC-142**

Montana Large Customer Group ("LCG") provides the attached response to the Montana Public Service Commission's Data Requests PSC-139 thru PSC-142.

Respectfully submitted this 29th day of January, 2016.

MONTANA LARGE CUSTOMER GROUP

s/ Nikolas S. Stoffel

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DATA REQUESTS

PSC-139: RE: A&G Expenses
Witness: Baron

Do you agree the method MDU used to allocate A&G expenses in its ECOS analysis is consistent with A&G expense cost classification/allocation methods discussed in the 1992 NARUC Electric Utility Cost Allocation Manual?

Response to PSC-139:

Yes, it is consistent with one of the methods discussed in the NARUC manual.

PSC-140: RE: Rate Design
Witness: Baron

Do you have a specific recommendation with respect to the rate design the Commission should approve to collect the revenue requirement from the LCG? If so, please describe the specific rate design proposal you believe to be appropriate for the LCG.

Response to PSC-140:

LCG supports the rate design (*i.e.*, relative increases in the customer, demand and energy charges) proposed by MDU for Rate 35 and Rate 30 (Primary and Secondary), as adjusted to reflect LCG's recommended revenue increases for these rate schedules.

PSC-141: RE: Deferred PSC and MCC taxes
Witness: Baron

- a. Please clarify your proposal to collect deferred PSC and MCC taxes on a uniform percentage factor applied to customer base rate revenues. Do you propose to allocate the deferred taxes among customer classes based on the revenue requirement of each customer class and collect the required revenues on a \$/kwh basis thereafter? Or do you propose to apply the uniform percentage factor to the dollar amount owed on each individual customer bill?

Response to PSC-141:

- a. LCG's proposal is to apply a uniform percentage factor to the base rate revenue portion of each customer's individual bill.

PSC-142: RE: MCC Adjustments, 4 Major Plant Additions, Bonus Depreciation
Witness: Higgins

- a. Is it the position of the LCG that the LCG and MCC adjustments should be added together and the appropriate revenue requirement for MDU is (\$649,222)?
- b. Is the appropriate ROE for the MDU the 9.35% recommended by the LCG or the 8.50% recommended by the MCC?
- c. Administrative Rule of Montana 38.5.106 allows known and measurable changes to be entertained if they become effective within 12 months of the last month of the test period. You disagree with the MCC's decision not to challenge MDU's proposal to recover the costs of, and earn a return on, the four major 2015 plant additions on an end-of-period basis rather than using an average 2015 amount of plant in service. The purpose of a rate case is to set rates prospectively. The final rates that will go into effect in this case will do so in 2016, when the major plant additions will be in service for the entire year. Would not only allowing a fraction of the plant for these four major additions into rate base lead to rates that are inadequate to operate those plant additions and earn an appropriate return?
- d. As discussed above, if only a fraction of the plant in service for the four major plant additions is allowed into rate base, would this not then require MDU to immediately file another rate case and request for interim rates in 2016 in order to run and operate these plant additions and earn an appropriate return on them?
- e. Has the LCG made an estimate of the revenue requirement impact of the Protecting Americans from Tax Hike Act of 2015 and the extension of bonus depreciation? If so, please explain the estimated revenue requirement impact. Please provide all work papers.

Response to PSC-142:

- a. Not necessarily. LCG has not taken a formal position regarding MCC's adjustments. However, because some of MCC's and LCG's adjustments overlap, LCG believes it was useful to present the revenue requirement that results from a combination of LCG's and MCC's cases.
- b. LCG witness Michael Gorman has not changed his recommendation for a 9.35% ROE.
- c. No, not in the context of the timing of MDU's filing. The insertion of selected end-of-period rate base items (and annualized expenses for said items) creates a fundamental mismatch when they are included in a test period that is otherwise structured on an average-of-period basis. Such a mismatch is particularly problematic when it occurs at the end of the post-test-year period, because end-of-period measurement for post-test-period items then will be dramatically out-of-synch with the rest of the case. Logically, it makes no sense for the bulk of the items considered in the test period (revenues, expenses, rate base) to be measured

on an average basis while allowing selected items to be cherry-picked and included on an end-of-post-test-period basis.

The premise of the question appears to be that with ratemaking being a prospective exercise, and with the new plant additions having come into service by January 1, the approved revenue requirement should provide recovery of a return on the January 1, 2016 value of the new plant in service rather than on the average value of this plant measured during the test period. This argument is essentially the same argument used for using a future test period, which in this case would correspond to a calendar year 2016 test period. However, with a future test period, the *revenues from load growth in 2016* would be used to help offset the cost of the new plant additions. In contrast, in this case, MDU has proposed an ad hoc end-of-period measurement for the post-test-year additions (essentially a 2016 calendar year rate base) *with no offsetting revenues*. The revenues in this case are the per-books 2014 revenues with one small adjustment. This is the worst of all worlds for customers: effectively a future test year rate base combined with historical test year revenues. To avoid this gross mismatch, the post-test period plant additions should be measured using an average-of-period (2015) value.

The approach taken by Mr. Higgins is completely consistent with Administrative Rule of Montana 38.5.106. This rule allows for known and measurable changes to be entertained if they become effective within 12 months of the last month of the test period, but does not specify that such known and measurable changes should be measured on an end-of-period basis. Consistent with what is permitted under Rule 38.5.106, Mr. Higgins does not propose to disallow the post-test-period plant or expenses, but rather proposes to measure them on an average-of-period basis. Mr. Higgins' application of this principle is consistent with Administrative Rule of Montana 38.5.125, which states that "Working papers shall show plant balances on a beginning and end of period basis averaged for the test period representing functional classifications and total plant. The effect of proposed adjustments, if any, on the average plant balances, shall also be shown." [Emphasis added.]

Mr. Higgins' approach is also completely consistent with the Commission's findings in Order No. 5856b issued in Docket No. D 95.7.90. In that case, MCC had challenged the inclusion in rate base of certain post-test-year plant proposed by MDU for its gas utility. As described by the Commission in Paragraph 38 of that Order:

"MDU's proposed rate base of \$19,955,349 for its Montana gas operations is an *average of its December 31, 1994, and December 31, 1995, balances*. The 1995 rate base balances are pro forma balances constructed from company budget information. MDU asserts that the proposed 1995 post-test-year rate base adjustments are known with certainty and measurable with reasonable accuracy and, therefore, acceptable. MDU further asserts that the proposed rates will not become effective until April, 1996, and therefore, to provide a better match

between cost levels being experienced during the rate effective period, the post-test-year adjustments should be accepted by the Commission.” [Emphasis added.]

In that case, the *average* rate base proposed by MDU (inclusive of post-test-period plant) for Calendar Year 1995 for rates effective April 1996 is the functional equivalent of the average rate base proposed by Mr. Higgins (inclusive of post-test-period plant) for Calendar Year 2015 for rates effective in April 2016.

If MDU intended to benefit from an end-of-period treatment of its four major plant additions, MDU had the opportunity to do so by filing its case pursuant to Rule 38.5.606, which provides for an *optional* filing procedure that includes an end-of-period rate base provision. However, MDU has not filed its case pursuant to this optional filing standard, citing instead to Rule 38.5.101, et seq. [MDU Application at 1.] The optional filing standard contains certain requirements that are completely absent from MDU’s filing, such as updating test year revenues to reflect end-of-period customer counts and annualization of known changes in revenues occurring during the test year. Instead, MDU seeks ratemaking treatment that would provide it the “best of both worlds” by requesting end-of-period rate base without submitting to the requirements of Rule 38.5.606 to also recognize end-of-period customer counts and annualization of known changes in revenues occurring during the test year.

The importance of proper matching between revenue and expense for post-test-period adjustments is also emphasized in Order 5856b. In Paragraph 46, the Commission elaborated on this point:

“The Commission includes in “measurable” the aspect of *matching*. For post-test-year adjustments *appropriate matching adjustments to revenue and expense* must be included. To support its proposal to include post-test-year plant additions in the rate base calculation MDU has made adjustments to *revenue* and expense associated with the additions. Matching is a point where MDU’s proposal differs from previous post-test-year adjustment presentations where companies have requested the inclusion of “ongoing” capital maintenance in rate base. The Commission’s previous denials regarding post-test-year plant additions generally centered around the failure of the utility to make clearly appropriate adjustments to its revenues and expenses associated with the post-test-year additions. In this docket MDU has made matching adjustments to revenues and expenses for the post-test-year additions by adjusting such items as *operating revenues for customer growth*, salary and wage expense, depreciation expense, and cost of gas.” [Emphasis added.]

Thus, there is a consistent emphasis on the matching principle in both Rule 38.5.606 and the Commission’s Order 5856b: inclusion of post-test year plant (whether at end-of-period or average-of-period) must be accompanied by recognition of revenues from load growth, something that is completely lacking in MDU’s Application in this case. In such a circumstance, it is inappropriate to allow post-test-period plant additions to be measured on an end-of-period basis.

Finally, with respect to the timing of the case and recovery of the four major plant additions, MDU controls the timing of its general rate case applications and it was MDU's decision to file for recovery knowing that its major additions were not entering service until the final days of the twelve-month-period following its historical test period. Moreover, MDU could have availed itself of ratemaking tools that allowed for end-of-period rate base treatment if properly paired with matching revenues, but chose not to do so.

- d. If the four major plant additions are approved in rates at their average 2015 rate base amounts it is certainly possible that MDU would make a subsequent filing for further recovery. However, in these circumstances a second filing in which rate base properly reflected its average value during the test period and properly matched revenues would better serve the public interest than setting rates based on a single filing that violates the matching principle and produces an excessive increase.
- e. No.

CERTIFICATE OF SERVICE

I hereby certify that on this, the 29th day of January, 2016, the **MONTANA LARGE CUSTOMER GROUP'S RESPONSE TO THE MONTANA PUBLIC SERVICE COMMISSION'S DATA REQUESTS PSC-139 THRU PSC-142** was e-filed with the Commission and served via U.S. mail and e-mail, unless otherwise noted, to the following:

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s/ Adele C. Lee _____