

STATE OF NORTH DAKOTA  
PUBLIC SERVICE COMMISSION

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MONTANA DAKOTA UTILITIES )  
CO., A DIVISION OF MDU )  
RESOURCES GROUP, INC. )  
NATURAL GAS SERVICE RATE )  
INCREASE APPLICATION )

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CASE NO. PU-15-90

OAH FILE NO. 20150091

Direct Testimony and Exhibit of

**Brian C. Collins**

On behalf of

**Federal Executive Agencies**

August 7, 2015



Project 10090



STATE OF NORTH DAKOTA  
PUBLIC SERVICE COMMISSION

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| MONTANA DAKOTA UTILITIES | ) | CASE NO. PU-15-90     |  |
| CO., A DIVISION OF MDU   | ) |                       |  |
| RESOURCES GROUP, INC.    | ) |                       |  |
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Direct Testimony of Brian C. Collins

1 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A Brian C. Collins. My business address is 16690 Swingley Ridge Road, Suite 140,  
3 Chesterfield, MO 63017.

4 Q WHAT IS YOUR OCCUPATION?

5 A I am a consultant in the field of public utility regulation and an Associate of Brubaker  
6 & Associates, Inc., energy, economic and regulatory consultants.

7 Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

8 A This information is included in Appendix A to my testimony.

9 Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

10 A I am appearing on behalf of the Federal Executive Agencies ("FEA"). FEA consists of  
11 certain agencies of the United States Government which have offices, facilities,  
12 and/or installations in the service area of Montana-Dakota Utilities ("MDU" or  
13 Company). Chief among the Federal customers served by MDU is Minot Air Force

1 Base ("AFB"). Minot AFB is a major consumer of gas purchased from MDU and an  
2 increase in rates could affect the ability of Minot AFB to operate many of its loads to  
3 the fullest extent possible, and thereby affect the military mission of Minot AFB.

4 **Proposed Rate Stabilization Mechanism ("RSM")**

5 **Q IS THE COMPANY PROPOSING AN RSM BE IMPLEMENTED AS RATE**  
6 **SCHEDULE 89 IN THIS PROCEEDING?**

7 **A** Yes. Company witnesses Tamie A. Aberle and Nicole A. Kivisto describe this  
8 mechanism in their testimony. Ms. Kivisto describes the proposed RSM as follows:

- 9 1. The Company will establish a return on equity ("ROE") target mechanism that will  
10 allow for rate increases and decreases over a five-year period beginning in 2016.
- 11 2. Rate increases will be performed as follows:
  - 12 a. If the actual ROE is more than 50 basis points above the allowed ROE  
13 ("AROE"), the Company will provide credits to customers equal to 50% of the  
14 difference between the actual earnings and the AROE plus 50 basis points.
  - 15 b. If the actual ROE is below the AROE, the Company will collect additional  
16 revenues from customers in order to bring its actual ROE up to the AROE.
- 17 3. The RSM will include a maximum annual escalation for operation and  
18 maintenance ("O&M") expense of at least 5% a year above the non-gas O&M  
19 expense levels approved in this proceeding. This will produce some constraints  
20 on the actual earnings used to compare the earned ROE against the AROE in  
21 determining whether or not rate increases are permitted.
- 22 4. The RSM will be in effect for a five-year period with a review of the mechanism at  
23 the end of the third year.
- 24 5. The initial basing of the RSM is proposed to be the 12-month period ending  
25 December 31, 2015.
- 26 6. MDU will file an RSM application at least 60 days prior to the proposed effective  
27 date of rate changes. The filing will include a report demonstrating the  
28 Company's financial performance and a detailed calculation with explanations  
29 showing the reasons for rate changes. The application will also include a  
30 projected earnings level for projected rate base and an income statement for the  
31 current year to ensure that the revenues are sufficient to meet an AROE on a  
32 projected basis subject to the O&M expense limitations and true-ups.

1 7. MDU proposes to adjust rates across each rate class on an equal percent change  
2 basis to the non-gas rate components, and all adjustments will be separately  
3 stated in a line item on the customers' bills.

4 **Q DOES THE COMPANY STATE A REASON WHY THE RSM SHOULD BE**  
5 **IMPLEMENTED?**

6 A Yes. Company witness Ms. Kivisto states that the Company is making significant  
7 capital investments in order to meet increasing demand on the system, which is  
8 causing its rate base to increase over time.<sup>1</sup> Ms. Aberle states that the RSM provides  
9 a better means of recognizing changes in system growth, customer usage and  
10 potential for increased conservation than traditional ratemaking principles provide.  
11 She opines that customers benefit by allowing the Company to share efficiency  
12 savings on a timely basis while eliminating the need for multiple rate cases, resulting  
13 in less regulatory costs.<sup>2</sup>

14 **Q DO YOU BELIEVE THE COMPANY'S PROPOSED RSM IS BALANCED AND**  
15 **REASONABLE?**

16 A No. The Company's proposed RSM is not balanced and reasonable, and will not  
17 benefit customers. Rather, it will allow for rate changes on a more frequent basis,  
18 thereby increasing customers' cost of service, and also potentially eroding the  
19 Company's economic incentive to improve efficiencies and manage costs.

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<sup>1</sup>Direct Testimony of Nicole A. Kivisto at 6-8.

<sup>2</sup>Direct Testimony of Tamie A. Aberle at 10.

1 Q WHY DO YOU BELIEVE THAT THE PROPOSED RSM IS NOT BALANCED AND  
2 REASONABLE?

3 A The Company's proposed RSM is not balanced and reasonable for several reasons.  
4 First, the earnings bandwidth is not symmetrical. The Company will be allowed to  
5 increase revenues to increase its actual earnings up to the AROE. These increased  
6 earnings will be funded by increases in customers' rates. However, customers will  
7 not get the full benefit of the Company over-earning if its earnings exceed its AROE.  
8 In this instance, customers will get a credit only if the actual earnings exceed the  
9 AROE by more than 50 basis points, and at that point customers will only receive half  
10 of the excess earnings (AROE plus 50 basis points). Hence, the proposed RSM is  
11 designed in order to produce windfall opportunities for the Company based on the  
12 comparison of actual ROE to AROE.

13 Second, the Company's proposal to allow for a 5% increase in O&M expenses  
14 in measuring the actual earnings eliminates its incentive to manage its O&M costs.  
15 As shown by Ms. Kivisto at page 10 of her testimony, the Company's actual O&M  
16 cost per customer has been relatively flat to declining over the 10-year period ending  
17 in 2014. This strong track record in O&M expense management would be replaced  
18 by an effort to limit O&M expense growth, rather than manage it in a way that tries to  
19 produce an efficiency gain to offset inflationary escalators. Further, the proposed 5%  
20 annual increase in non-fuel O&M expenses is more than two times the expected  
21 inflation outlook over the five-year period starting in 2016. Hence, the Company's  
22 proposed RSM includes an O&M expense escalator that is substantially higher than  
23 the general inflationary outlooks going forward. The RSM provides far more flexibility  
24 in the O&M expense escalator, with no impact on the Company's earnings, than what  
25 the Company has operated under historically. As such, the Company's RSM will

1 eliminate or severely reduce the Company's economic incentive to manage O&M  
2 expense escalation under the RSM relative to traditional ratemaking.

3 **Q PLEASE DESCRIBE WHY INCREASING PLANT INVESTMENT CAN IMPACT THE**  
4 **COMPANY'S RSM.**

5 A Increasing plant investment can impact the amount of outstanding capital, and the  
6 earned ROE for the Company. As its plant investment grows, its capital investment  
7 grows, and its earned ROE will be increased by its growing capital base. As such,  
8 increasing rate base will likely result in increases to customers' rates under the RSM  
9 without a detailed review of the prudence, reasonableness and necessity of the plant  
10 investment made by MDU.

11 **Q SHOULD THE COMPANY'S PROPOSED RSM BE APPROVED?**

12 A No. For the reasons described above, the Company's proposed RSM is not a  
13 balanced and reasonable regulatory mechanism, it is not necessary to provide the  
14 Company reasonable assurance of fully recovering its cost of service, and will result  
15 in an excessive frequency of rate changes, without a detailed review of changes in  
16 cost of service that justify those rate changes. For all these reasons, the Company's  
17 proposed RSM should be denied.

18 **Q DO YOU HAVE ANY RECOMMENDATIONS IF THE COMMISSION APPROVES**  
19 **THE COMPANY'S PROPOSED RSM?**

20 A Yes. If the Commission approves the Company's proposed RSM, I recommend that  
21 the following modifications to the Company's RSM proposal be made. First, I  
22 recommend that the proposed ROE band be symmetrical. If the actual ROE is more

1 than 50 basis points above the AROE, then 100% of the difference between actual  
2 earnings and the AROE plus 50 basis points should be credited to customers. If the  
3 actual ROE is below the AROE less 50 basis points, then the Company would collect  
4 additional revenues from customers in order to bring its actual ROE up to the AROE  
5 less 50 basis points.

6 Second, I also recommend that the O&M expense escalator should be no  
7 greater than the Consumer Price Index ("CPI") rate of inflation in measuring the actual  
8 ROE.

9 It should be noted that if the Company's proposed RSM is adopted by the  
10 Commission, the Company's cost recovery risk is lowered with the RSM in place.  
11 Therefore, this lower cost recovery risk should be reflected in the ROE approved by  
12 the Commission for MDU.

13 **Proposed Revenue Allocation**

14 **Q HAVE YOU REVIEWED THE RESULTS OF THE EMBEDDED CLASS COST OF**  
15 **SERVICE STUDY PERFORMED BY THE COMPANY?**

16 **A** Yes, I have reviewed the results of the Company's embedded class cost of service  
17 study. The results indicate that the current distribution rates for several classes result  
18 in those classes paying more than their respective allocated cost of service and,  
19 therefore, are deserving of a decrease in current distribution revenues. This is shown  
20 at page 2 of Statement P filed by the Company. The classes whose current  
21 distribution rates collect more revenue than their allocated cost of service indicated in  
22 the Company's cost of service study include the Firm General Service, Air Force,  
23 Large Interruptible, and Minot Air Force Base Distribution classes. The Company's

1 study also indicates that the current distribution rates paid by the Residential and  
2 Small Interruptible classes under collect their respective allocated cost of service.

3 **Q FOR WHAT PURPOSE HAVE THE EMBEDDED CLASS COST OF SERVICE**  
4 **STUDY RESULTS BEEN USED?**

5 A According to the direct testimony of Company witness Ms. Sara J. Cardwell at  
6 page 10, the embedded class cost of service study results have been used to guide  
7 the allocation of the Company's proposed revenue requirement to the Company's  
8 classes.

9 **Q HAVE YOU ALSO REVIEWED THE COMPANY'S PROPOSED CLASS REVENUE**  
10 **ALLOCATION?**

11 A Yes. I have reviewed Statement P filed by the Company which includes the  
12 Company's proposed class revenue allocation. Based on the results of the  
13 Company's class cost of service study, the Company proposes no increase in the  
14 distribution rates for the Firm General Service, Air Force, Large Interruptible, and  
15 Minot Air Force Base Distribution classes, while the Company proposes a 20.2%  
16 increase in Residential distribution revenues and a 26.1% increase in Small  
17 Interruptible distribution revenues. The Company's proposed class revenue  
18 allocation is shown at page 3 of Statement P filed by the Company and summarized  
19 in my Exhibit No. \_\_\_\_ (BCC-1).

1 Q DO YOU HAVE ANY RECOMMENDATIONS REGARDING HOW THE COMPANY'S  
2 PROPOSED REVENUE REQUIREMENT IS ALLOCATED TO ITS CLASSES?

3 A Yes. Since the Company's cost of service study indicates that the Firm General  
4 Service, Air Force, Large Interruptible, and Minot Air Force Base Distribution classes  
5 should actually see a reduction in their current distribution rates, I would recommend  
6 that the Company move all class distribution rates to cost of service. Moving to cost  
7 of service based rates would result in a 24.4% increase in Residential distribution  
8 revenues (1.90 times the system average increase of 12.8% in non-fuel revenues)  
9 and a 26.2% increase in Small Interruptible distribution revenues (2.04 times the  
10 system average increase of 12.8% in non-fuel revenues).

11 Q WHAT IS YOUR SPECIFIC RECOMMENDATION FOR CLASS REVENUE  
12 ALLOCATION?

13 A My specific class revenue allocation is shown in Exhibit No. \_\_\_\_ (BCC-1).

14 Q WHAT IS THE BASIS FOR YOUR REVENUE ALLOCATION PROPOSAL?

15 A Moving class revenue allocations to their respective indicated cost of service will  
16 result in class distribution rates that reflect cost causation for all classes. Distribution  
17 rates that reflect cost causation for all customers will send proper price signals to all  
18 customer classes. The movement to cost-based rates will also put the Company in a  
19 better position to collect each respective class cost of service from all of its customer  
20 classes and eliminate revenue subsidies between rate classes.

1 Q WOULD YOUR PROPOSED REVENUE ALLOCATION RESULT IN  
2 EXTRAORDINARY COST IMPACTS ON THE RESIDENTIAL AND SMALL  
3 INTERRUPTIBLE CUSTOMERS?

4 A No. My proposed revenue allocation would result in additional monthly costs of 74¢  
5 and 78¢ for the average Residential customer and the average Small Interruptible  
6 customer, respectively, as compared to the Company's proposed revenue allocation.

7 Q COULD THE COMMISSION MAKE A GRADUAL MOVEMENT TO COST OF  
8 SERVICE BASED RATES WHEN DETERMINING PROPOSED CLASS REVENUE  
9 ALLOCATIONS?

10 A Though I recommend moving all classes to cost of service based rates, the  
11 Commission may desire to make a partial movement to cost of service at this time,  
12 recognizing the principle of gradualism. If the Commission decides in favor of a  
13 gradual move to cost of service based rates, I would recommend moving the  
14 proposed distribution revenues for the Firm General Service, Air Force, Large  
15 Interruptible, and the Minot Air Force Base Distribution classes halfway to their  
16 respective cost of service which would still result in a decrease in distribution rates for  
17 these classes. This alternative revenue allocation would result in a 22.3% increase  
18 for the Residential class and a 26.2% increase for the Small Interruptible Class. This  
19 alternative revenue allocation is also shown in Exhibit No. \_\_\_ (BCC-1).

20 Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

21 A Yes, it does.

**Qualifications of Brian C. Collins**

1   **Q    PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2   A    Brian C. Collins. My business address is 16690 Swingley Ridge Road, Suite 140,  
3        Chesterfield, MO 63017.

4   **Q    WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?**

5   A    I am an Associate in the field of public utility regulation with the firm of Brubaker &  
6        Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

7   **Q    PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

8   A    I graduated from Southern Illinois University Carbondale with a Bachelor of Science  
9        degree in Electrical Engineering. I also graduated from the University of Illinois at  
10       Springfield with a Master of Business Administration degree. Prior to joining BAI, I  
11       was employed by the Illinois Commerce Commission and City Water Light & Power  
12       ("CWLP") in Springfield, Illinois.

13           My responsibilities at the Illinois Commerce Commission included the review  
14       of the prudence of utilities' fuel costs in fuel adjustment reconciliation cases before  
15       the Commission as well as the review of utilities' requests for certificates of public  
16       convenience and necessity for new electric transmission lines. My responsibilities at  
17       CWLP included generation and transmission system planning. While at CWLP, I  
18       completed several thermal and voltage studies in support of CWLP's operating and  
19       planning decisions. I also performed duties for CWLP's Operations Department,  
20       including calculating CWLP's monthly cost of production. I also determined CWLP's

1 allocation of wholesale purchased power costs to retail and wholesale customers for  
2 use in the monthly fuel adjustment.

3 In June 2001, I joined BAI as a Consultant. Since that time, I have  
4 participated in the analysis of various utility rate and other matters in several states  
5 and before the Federal Energy Regulatory Commission ("FERC"). I have filed or  
6 presented testimony before the Arkansas Public Service Commission, Florida Public  
7 Service Commission, the Idaho Public Utilities Commission, the Illinois Commerce  
8 Commission, the Indiana Utility Regulatory Commission, the Minnesota Public Utilities  
9 Commission, the Missouri Public Service Commission, the Public Utilities  
10 Commission of Ohio, the Rhode Island Public Utilities Commission, the Public Service  
11 Commission of Wisconsin, the Washington Utilities and Transportation Commission,  
12 and the Wyoming Public Service Commission. I have also assisted in the analysis of  
13 transmission line routes proposed in certificate of convenience and necessity  
14 proceedings before the Public Utility Commission of Texas.

15 In 2009, I completed the University of Wisconsin – Madison High Voltage  
16 Direct Current ("HVDC") Transmission Course for Planners that was sponsored by  
17 the Midwest Independent Transmission System Operator, Inc. ("MISO").

18 BAI was formed in April 1995. BAI and its predecessor firm has participated in  
19 more than 700 regulatory proceeding in forty states and Canada.

20 BAI provides consulting services in the economic, technical, accounting, and  
21 financial aspects of public utility rates and in the acquisition of utility and energy  
22 services through RFPs and negotiations, in both regulated and unregulated markets.  
23 Our clients include large industrial and institutional customers, some utilities and, on  
24 occasion, state regulatory agencies. We also prepare special studies and reports,  
25 forecasts, surveys and siting studies, and present seminars on utility-related issues.

1                   In general, we are engaged in energy and regulatory consulting, economic  
2                   analysis and contract negotiation. In addition to our main office in St. Louis, the firm  
3                   also has branch offices in Phoenix, Arizona and Corpus Christi, Texas.

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## MONTANA DAKOTA UTILITIES

| FEA Recommended Revenue Allocation |                              |  |                                      |                 |              |
|------------------------------------|------------------------------|--|--------------------------------------|-----------------|--------------|
| Line                               | Rate Class                   | Present<br>Distribution<br>Revenues<br>(1) | Cost of Service<br>@7.59% ROR<br>(2) | Increase<br>(3) | Index<br>(4) |
| 1                                  | Residential                  | \$ 19,483,416                              | \$ 24,237,650                        | 24.4%           | 1.90         |
| 2                                  | Firm General Service         | \$ 10,623,436                              | \$ 10,249,731                        | -3.5%           | (0.27)       |
| 3                                  | Air Force                    | \$ 163,465                                 | \$ 77,123                            | -52.8%          | (4.11)       |
| 4                                  | Small Interruptible          | \$ 1,415,956                               | \$ 1,787,353                         | 26.2%           | 2.04         |
| 5                                  | Large Interruptible          | \$ 1,342,831                               | \$ 1,069,680                         | -20.3%          | (1.58)       |
| 6                                  | Air Force Minot Distribution | \$ 456,000                                 | \$ 364,565                           | -20.1%          | (1.56)       |
| 7                                  | <b>Total</b>                 | <b>\$ 33,485,104</b>                       | <b>\$ 37,786,101</b>                 | <b>12.8%</b>    | <b>1.00</b>  |

| Company Proposed Revenue Allocation |                              |  |  |                 |              |
|-------------------------------------|------------------------------|--|--|-----------------|--------------|
| Line                                | Rate Class                   | Present<br>Distribution<br>Revenues<br>(1) | Co. Proposed<br>Revenue<br>Allocation<br>(2) | Increase<br>(3) | Index<br>(4) |
| 1                                   | Residential                  | \$ 19,483,416                              | \$ 23,415,476                                | 20.2%           | 1.57         |
| 2                                   | Firm General Service         | \$ 10,623,436                              | \$ 10,623,436                                | 0.0%            | 0.00         |
| 3                                   | Air Force                    | \$ 163,465                                 | \$ 163,465                                   | 0.0%            | 0.00         |
| 4                                   | Small Interruptible          | \$ 1,415,956                               | \$ 1,785,411                                 | 26.1%           | 2.03         |
| 5                                   | Large Interruptible          | \$ 1,342,831                               | \$ 1,342,831                                 | 0.0%            | 0.00         |
| 6                                   | Air Force Minot Distribution | \$ 456,000                                 | \$ 456,000                                   | 0.0%            | 0.00         |
| 7                                   | <b>Total</b>                 | <b>\$ 33,485,104</b>                       | <b>\$ 37,786,619</b>                         | <b>12.8%</b>    | <b>1.00</b>  |

| FEA Alternative Revenue Allocation |                              |  |                              |                 |              |
|------------------------------------|------------------------------|--|------------------------------|-----------------|--------------|
| Line                               | Rate Class                   | Present<br>Distribution<br>Revenues<br>(1) | Revenue<br>Allocation<br>(2) | Increase<br>(3) | Index<br>(4) |
| 1                                  | Residential                  | \$ 19,483,416                              | \$ 23,825,851                | 22.3%           | 1.74         |
| 2                                  | Firm General Service         | \$ 10,623,436                              | \$ 10,436,584                | -1.8%           | (0.14)       |
| 3                                  | Air Force                    | \$ 163,465                                 | \$ 120,294                   | -26.4%          | (2.06)       |
| 4                                  | Small Interruptible          | \$ 1,415,956                               | \$ 1,787,353                 | 26.2%           | 2.04         |
| 5                                  | Large Interruptible          | \$ 1,342,831                               | \$ 1,206,256                 | -10.2%          | (0.79)       |
| 6                                  | Air Force Minot Distribution | \$ 456,000                                 | \$ 410,282                   | -10.0%          | (0.78)       |
| 7                                  | <b>Total</b>                 | <b>\$ 33,485,104</b>                       | <b>\$ 37,786,619</b>         | <b>12.8%</b>    | <b>1.00</b>  |