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March 15, 2017

Darrell Nitschke
Executive Secretary
North Dakota Public Service Commission
600 E Boulevard Ave, # 408
Bismarck, ND 58505

Re: **Case No. PU-16-666**
Montana-Dakota Utilities Co. -- 2016 Electric Rate Case

Executive Secretary Nitschke:

Please accept for filing an original and 10 copies of a testimonial filing in the above-referenced rate case on behalf of Intervenor AARP—the **Rebuttal Testimony of Nancy Brockway**.

An electronic copy has been served upon all parties of record. Please contact me, if you have any questions.

Sincerely,

/s/ John B. Coffman

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Also Sent Via E-Mail: dnitschk@nd.gov
cc: Parties of Record

**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION**

**Montana-Dakota Utilities Co.,
a Division of MDU Resources Group, Inc.
2016 Electric Rate Increase Application**

Case No. PU-16-666

REBUTTAL TESTIMONY AND EXHIBITS

OF

NANCY BROCKWAY

On behalf of AARP

March 15, 2017

1 **Q. Are you the same Nancy Brockway whose Direct Testimony was filed on February**
2 **24, 2017 by AARP?**

3 A. Yes.

4 **Q. What are the topics of your rebuttal testimony?**

5 A. In this Rebuttal, I will address the rate design proposals of Staff Witness Thomas
6 regarding residential rates. I will also touch on the capital structure testimony of Staff
7 Witness Polich.

8 **Q. What does Staff Witness Thomas recommend for the design of residential rates?**

9 A. Mr. Thomas accepts the MDU proposal regarding customer charges, and proposes that
10 the winter rate for residential customers be made a flat rate instead of the current
11 declining block rate. Thomas Direct, page 17, lines 3-4.

12 **Q. Do you agree with Mr. Thomas' treatment of residential customer charges?**

13 A. No. As I testified at length in my Direct Testimony, the MDU proposal to increase
14 customer charges by over 80% would not be good regulatory policy. It amounts to
15 charging customers whether or not they use the equivalent amount of usage. This is
16 typically perceived as unfair and unacceptable by residential customers, as witness the
17 statements at the Commission's listening opportunities. It violates principles of
18 gradualism. It places an undue burden on low-usage customers, raising their effective
19 rates by a much higher percentage than customers of average or high usage. It sends the
20 wrong price signal in light of the increasing marginal costs.

21 **Q. Does Mr. Thomas address these customer charge issues?**

22 A. No. Mr. Thomas accepts without discussion the MDU proposal for the 80% residential
23 customer charge increase.

24 **Q. Does Mr. Thomas address any of the underlying factors you recommend should**
25 **guide the determination of the customer charge?**

1 A. Yes. Mr. Thomas recognizes the adverse impact of the MDU customer charge increase
2 on lower-usage customers. Thomas Direct, 18, lines 18-20.

3 **Q. Will the flat-rate proposal be sufficient to mitigate the adverse impacts of raising the**
4 **customer charge?**

5 A. No. Lower usage customers will still face unreasonable effective rates. The flat rate
6 does not eliminate the regressive nature of the increased customer charge, even in the
7 winter.

8 **Q. Turning to return on rate base, what the resulting capital structure used by Mr.**
9 **Polich in his estimation of return requirements?**

10 A. Mr. Polich uses the following capital structure in his estimation of returns on rate base:

11	Long Term Debt	42.673%
12	Short Term Debt	4.840%
13	Preferred Stock	1.084%
14	Common Equity	51.403%

15
16 Polich Direct, page 26, Table 1.

17 **Q. What capital structure did MDU witness J. Stephen Gaske use in his estimation of**
18 **the MDU return requirements:**

19 A. Mr. Gaske used the following capital structure in his estimation of MDU in his estimation
20 of the MDU return requirements:

21	Long-Term Debt	41.31%
22	Short-Term Debt	7.42%
23	Preferred Stock	1.03%
24	Common Equity	50.23%

25
26 Gaske Direct, page 2, Table 1. As can be seen, Mr. Gaske's assumed common equity
27 percent is 1.173% lower than that used by Mr. Polich.

28 **Q. Does it make sense for a higher capital structure be assumed in estimating MDU's**
29 **return requirements?**

1 A. No. First, for a traditional vertically integrated utility, a 50% equity portion is typical. In
2 this case, a lower equity portion is also suggested if the customer charge for small
3 customers is increased. Pushing more costs into the unavoidable customer charge
4 reduces utility risk. The equity percentage should be reduced as the utility's risk is
5 reduced.

6 **Q. Does this conclude your Rebuttal testimony?**

7 A. Yes.