



DEPARTMENT OF THE AIR FORCE  
HEADQUARTERS AIR FORCE LEGAL OPERATIONS AGENCY

BEFORE THE  
NORTH DAKOTA PUBLIC SERVICE COMMISSION

MONTANA-DAKOTA UTILITIES CO., A DIVISON )  
OF MDU RESOURCES GROUP, INC. )  
2017 NATURAL GAS RATE INCREASE APPLICATION )  
\_\_\_\_\_ )

Case No. PU-17-295

January 17, 2018

Darrell Nitschke, Executive Secretary  
North Dakota Public Service Commission  
State Capital Building  
600 E. Boulevard Avenue  
Bismarck, ND 58505-0480

Secretary Nitchke:

Enclosed for filing on behalf of Federal Executive Agencies (“FEA”) is the Rebuttal Testimony of Michael P. Gorman.

Thank you for your assistance. If you should have any question about this filing, please do not hesitate to contact me.

Sincerely,

**Attorneys for Federal Executive Agencies**

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cc: Rebuttal Testimony of Michael P. Gorman  
Counsel for Parties of Record (w/enc)

**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the foregoing has been furnished by electronically and/or by or U.S. mail 17<sup>th</sup> day of January, 2018 to the following:

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STATE OF NORTH DAKOTA  
PUBLIC SERVICE COMMISSION

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MONTANA DAKOTA UTILITIES )  
CO., A DIVISION OF MDU )  
RESOURCES GROUP, INC. 2017 )  
NATURAL GAS RATE INCREASE )  
APPLICATION )

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CASE NO. PU-17-295

Rebuttal Testimony of

**Michael P. Gorman**

On behalf of

**Federal Executive Agencies**

January 17, 2018



STATE OF NORTH DAKOTA  
PUBLIC SERVICE COMMISSION

_____	)	
MONTANA DAKOTA UTILITIES	)	CASE NO. PU-15-90
CO., A DIVISION OF MDU	)	
RESOURCES GROUP, INC.	)	
NATURAL GAS SERVICE RATE	)	
INCREASE APPLICATION	)	OAH FILE NO. 20150091
_____	)	

**Rebuttal Testimony of Michael P. Gorman**

1 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A Michael P. Gorman. 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 a Managing Principal of  
6 Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

7 Q ARE YOU THE SAME MICHAEL P. GORMAN WHO PREVIOUSLY FILED  
8 TESTIMONY IN THIS PROCEEDING?

9 A Yes. On December 18, 2017 I filed Direct Testimony on behalf of the Federal  
10 Executive Agencies ("FEA").

1 Q WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

2 A The purpose of my rebuttal testimony is to reply to the class cost of service and class  
3 revenue allocation testimony presented by AARP and the Advocacy Staff of the North  
4 Dakota Public Service Commission (“Commission”).

5 Q HAVE YOU REVIEWED THE DIRECT TESTIMONY OF MR. SCOTT J. RUBIN ON  
6 BEHALF OF AARP?

7 A Yes, I have reviewed Mr. Rubin’s direct testimony. He presents testimony with  
8 respect to class cost of service, class revenue allocation, and rate design.

9 Q WHAT IS HIS RECOMMENDATION REGARDING CLASS REVENUE  
10 ALLOCATION?

11 A At page 3 of his testimony, Mr. Rubin accepts Montana Dakota Utilities’ (“MDU” or  
12 “Company”) proposed allocation of revenue deficiency across rate classes, and  
13 recommends to the Commission that it is reasonable and be adopted. I agree with  
14 his recommendation here. However, Mr. Rubin also takes issue with the Company’s  
15 Embedded Cost of Service Study (“ECOSS”). The ECOSS is used to allocate cost of  
16 service across rate classes, and to establish class cost of service. On establishing an  
17 appropriate ECOSS, I disagree with many of Mr. Rubin’s positions.

18 Q WHAT IS MR. RUBIN’S PRIMARY DISAGREEMENT WITH THE COMPANY’S  
19 ECOSS?

20 A Mr. Rubin has concerns with the Company’s determination of the customer  
21 component of distribution mains based on its minimum size study. He attempts to  
22 support his concerns through a citation from the NARUC Gas Manual which states at

1 page 22 that “[a] portion of customer costs associated with the distribution system  
2 may be included as customer costs. However, the inclusion of such costs can be  
3 controversial.”

4 **Q SHOULD THE COMMISSION CONSIDER ACCURATE ASPECTS OF AN ECOSS**  
5 **WHICH MAY BE CONTROVERSIAL AS REASONS TO NOT RELY ON THE**  
6 **DEVELOPMENT OF THE MOST ACCURATE ECOSS?**

7 A No. Minimum distribution aspects of an ECOSS can be disputed by certain witnesses  
8 without reasonable and accurate justification. The fact that this component of an  
9 ECOSS can be controversial does not mean it is not accurate and reliable. More  
10 importantly, most issues in a major rate case are controversial. That fact, standing  
11 alone, is irrelevant. Importantly, Mr. Rubin confirms a minimum-size system analysis  
12 is a recognized method for classifying a portion of distribution costs as being  
13 customer related. And it is reasonable and appropriate for MDU to employ this  
14 method of allocating distribution main costs across rate classes in its jurisdiction.

15 **Q DOES THE ADVOCACY STAFF OF THE NORTH DAKOTA PUBLIC SERVICE**  
16 **COMMISSION DISAGREE WITH THE COMPANY’S DETERMINATION OF THE**  
17 **CUSTOMER COMPONENT OF DISTRIBUTION MAINS?**

18 A Staff appears to not disagree with the Company’s determination. This issue is  
19 discussed in the direct testimonies of Mr. Karl R. Pavlovic and Ms. Sara Cardwell.

1 Q HAVE YOU REVIEWED THE TESTIMONY OF MS. SARA CARDWELL ON  
2 BEHALF OF THE ADVOCACY STAFF OF THE NORTH DAKOTA PUBLIC  
3 SERVICE COMMISSION?

4 A Yes, I have.

5 Q WHAT IS HER CONCLUSION WITH RESPECT TO THE MINIMUM SIZE SYSTEM  
6 APPROACH FOR CLASSIFYING A PORTION OF DISTRIBUTION MAINS AS  
7 CUSTOMER RELATED?

8 A With respect to the minimum size system approach, she appears to favor the facilities  
9 charge approach as described in her direct testimony for determining the customer  
10 component of distribution mains costs. However, she indicates in her testimony that  
11 the minimum size system approach is an attempt to come to similar conclusions as  
12 with the facilities charge approach without having to expend the level of effort that is  
13 necessary to develop facilities charges.

14 Q PLEASE RESPOND TO MS. CARDWELL'S FACILITIES CHARGE APPROACH.

15 A In order to accurately estimate the customer functionalized cost of service, it is  
16 appropriate to develop a cost of service study that properly distinguishes the utility's  
17 cost of service by costs functionalized as demand, customer and throughput. As  
18 such, developing a cost of service study that accurately distinguishes the  
19 functionalization of distribution mains by demand and customer is an appropriate step  
20 in order to functionalize each utility's costs, and to properly allocate costs across rate  
21 class. The facilities charge then is an issue that follows the class cost of service  
22 study, and deals with developing an appropriate rate structure that both reflects cost  
23 of service, revenue stability to the utility, and rate equity to customers. Therefore, I

1 believe the Company's cost of service study is appropriate because it provides the  
2 proper functionalization in the cost of service study to allow informed decisions on  
3 appropriate rate designs for customers. The Company's use of the minimum  
4 distribution system should continue to be approved by this Commission, and  
5 appropriate facilities charge rates should be based on this cost of service analysis.

6 **Q HAVE YOU REVIEWED THE TESTIMONY OF MR. KARL R. PAVLOVIC ON**  
7 **BEHALF OF THE ADVOCACY STAFF OF THE NORTH DAKOTA PUBLIC**  
8 **SERVICE COMMISSION?**

9 A Yes, I have.

10 **Q WHAT IS HIS RECOMMENDATION REGARDING THE CLASSIFICATION OF A**  
11 **PORTION OF DISTRIBUTION MAINS COSTS AS CUSTOMER RELATED?**

12 A With respect to the Company's determination of the customer component of  
13 distribution mains, Mr. Pavlovic states that if the Commission accepts the Company's  
14 minimum system approach for determining the customer component of distribution  
15 mains, he does not disagree with the manner in which MDU has applied it in this  
16 case.

17 **Q WHY DO YOU BELIEVE CLASSIFYING DISTRIBUTION MAIN CAPACITY COSTS**  
18 **ON BOTH A CUSTOMER AND DEMAND COMPONENT IS APPROPRIATE AND**  
19 **REASONABLE FOR DEVELOPING AN ECOS?**

20 A As indicated in my direct testimony, classifying and allocating a portion of distribution  
21 mains costs on a customer basis is appropriate because it best reflects cost  
22 causation. This is because the Company builds its system both to meet design day

1 demand and to connect customers to the system. In other words, while design day  
2 demands influence the diameter of the mains installed, the linear feet of mains and  
3 associated costs depend on the number of customers being served. As an  
4 illustration, a much greater level of investment is needed to serve 10,000 customers  
5 with individual peak demands of 1 Mcf at various geographical locations than what is  
6 required to serve one customer with a peak demand of 10,000 Mcf at a single  
7 location. As Mr. Rubin acknowledges, the partial classification and allocation of  
8 distribution main costs on a customer basis is recognized by NARUC.

9 **Q WHY DO YOU AGREE THAT THE COMPANY'S CLASS REVENUE ALLOCATION**  
10 **PROPOSAL SHOULD BE ADOPTED BY THE COMMISSION AS ALSO**  
11 **RECOMMENDED BY MR. RUBIN IN HIS DIRECT TESTIMONY?**

12 A As indicated in my direct testimony, the Company's proposal for class revenue  
13 allocation is reasonable. As a result, it should be adopted by the Commission. Even  
14 though certain classes are deserving of a rate decrease as indicated by the  
15 Company's ECOSS, holding those classes at current rate levels is reasonable. By  
16 doing so, this provides the Company the opportunity to provide rate mitigation to the  
17 Residential class.

18 As stated in my direct testimony, mitigation of the Residential class increase  
19 recognizes the principle of gradualism and prevents the Residential class from  
20 experiencing rate shock in the form of a rate increase nearly double the system  
21 average increase of 5.4% under the Company's proposed revenue requirement.

1 Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

2 A Yes, it does.