

STATE OF NORTH DAKOTA
BEFORE THE NORTH DAKOTA PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF
MONTANA-DAKOTA UTILITIES CO., A DIVISION
OF MDU RESOURCES GROUP, INC., FOR
AUTHORITY TO ESTABLISH INCREASED RATES
FOR NATURAL GAS SERVICES

Case No. PU-17-295

**SURREBUTTAL TESTIMONY OF
KARL R. PAVLOVIC**

**Submitted on Behalf of
the Advocacy Staff of the
North Dakota Public Service Commission**

May 1, 2018

1 **SURREBUTTAL TESTIMONY OF**

2 **KARL R. PAVLOVIC**

3 **QUALIFICATIONS**

4 **Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.**

5 A. My name is Karl Richard Pavlovic. My business address is 22 Brookes Avenue,
6 Gaithersburg, MD 20877. I am a Senior Consultant with and the Managing Director of
7 PCMG and Associates LLC.

8 **Q. ARE YOU THE SAME KARL RICHARD PAVLOVIC WHO SUBMITTED**
9 **DIRECT TESTIMONY IN THIS PROCEEDING ON DECEMBER 18, 2017?**

10 A. Yes. Attachment A to my direct testimony summarizes my qualifications and experience.

11 **Q. HAVE YOU PREPARED A SUMMARY OF YOUR QUALIFICATIONS AND**
12 **EXPERIENCE?**

13 A. Yes. Attachment A to my testimony summarizes my qualifications and experience.

14
15 **I. PURPOSE AND ORGANIZATION**

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

17 A. The purpose of this surrebuttal testimony is to respond the rebuttal testimony of Patrick C.
18 Darras to my direct testimony regarding MDU's proposed System Safety and Integrity
19 Program (SSIP)¹ and the rebuttal testimony of Jordan R. Hatzenbuhler MDU's cost study
20 classification and allocation of distribution mains.²

¹ Darras Rebuttal, pages 2-7.

² Hatzenbuhler Rebuttal, pages 2-3.

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Q. HOW IS YOUR SURREBUTTAL TESTIMONY ORGANIZED?

A. My testimony is organized into sections. In Section A I address Mr. Darras’ rebuttal testimony regarding MDU’s SSIP and in Section B I address Mr. Hatezenbuhler’s rebuttal testimony regarding the classification and allocation of MDU’s distribution mains.

II. SUMMARY OF TESTIMONY AND CONCLUSIONS

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. My testimony finds the following.

- MDU has not demonstrated that the proposed 2018 SSIP projects are reasonable, necessary and prudent;
- MDU has not demonstrated that there is a causal relationship between number of customers and distribution main footage.

I recommend that the Commission:

- Remove from the 2018 Test year \$5,553,154 Plant in Service investment for 2018 SSIP projects;
- direct that MDU’s cost study classify and allocate distribution mains as 100% demand related.

III. DISCUSSION

A. SYSTEM SAFETY AND INTEGRITY PROGRAM (SSIP)

Q. WHAT IS MR. DARRAS’ REBUTTAL TESTIMONY REGARDING MDU’S PROPOSED SSIP?

1 A. Mr. Darras (1) provides two additional documents regarding the SSIP,³ (2) acknowledges
2 that MDU has not demonstrated that its low pressure systems are at high risk,⁴ and (3) states
3 that MDU is moving forward on the 2018 SSIP projects.⁵

4 **Q. PLEASE DESCRIBE THE ADDITIONAL SSIP DOCUMENTS MR. DARRAS**
5 **PROVIDED WITH HIS REBUTTAL TESTIMONY?**

6 A. Mr. Darras provides two documents titled “System Safety & Integrity Program (SSIP)”
7 dated 3/15/2018 (“SSIP Program”) and “Early Vintage Steel & Plastic Piping SSIP Project
8 Plan” dated March 19, 2018 (“SSIP Plan”).⁶ The first document sets forth several of the
9 parameters typically found in accelerated infrastructure replacement programs. The second
10 document is a replacement plan for the identification and replacement of early vintage steel
11 and early vintage plastic facilities that are demonstrated through sample testing to be high
12 risk as defined by MDU’s Distribution Integrity Management Plan. This second document
13 appears to replace the low-pressure system and Aldyl-A documents initially provided by
14 MDU in response to discovery. The first of those documents, which identified MDU low
15 pressure systems for replacement, Mr. Darras now says was not a plan but simply provided
16 as a breakdown of the costs of the SSIP projects MDU proposed for 2018⁷ and is no longer
17 relevant since low pressure systems are not named or defined in the SSIP Program or the
18 SSIP Plan. The second of the initial documents was a plan for replacement of Aldyl-A
19 plastic facilities that apparently is subsumed within the SSIP Program and SSIP Plan as
20 “early vintage plastic.”

³ Darras Rebuttal, page 6, lines 10-17.

⁴ Darras Rebuttal page 5, lines 13-19 and page 6, lines 6-10.

⁵ Darras Direct, page 7, lines 4-17.

⁶ Exhibit No. _____(PCD-2).

⁷ Darras Direct, page

1 **Q. DO THE PROGRAM AND PLAN DOCUMENTS PRESENTED IN**
2 **EXHIBIT ____ (PCD)-2 MITIGATE THE DEFICIENCIES YOU NOTED IN YOUR**
3 **DIRECT TESTIMONY?**

4 A. The documents mitigate some of the deficiencies I noted. The Program document defines a
5 rolling 5-year replacement timetable and defines a facilities selection and prioritization
6 process, but does not provide replacement performance metrics, define and justify the cost
7 recovery mechanism, demonstrate customer benefit, or demonstrate that the SSIP is the
8 least-cost option for achieving that benefit. Most importantly, neither the Program
9 document nor the Plan document demonstrate that the specific facilities MDU proposes to
10 replace in 2018 meet the SSIP eligibility criteria – early vintage steel and plastic pipe
11 identified as high risk in MDU’s DIMP.⁸ MDU’s failure to actually demonstrate that the
12 specific facilities to be replaced are at high risk is not addressed at all in the Program
13 document. The Plan document actually acknowledges the deficiency with regard to plastic
14 by defining that plastic pipe replacements will be selected based on a sample testing
15 program, but this program is for future selection of SSIP replacement facilities.

16
17 **Q. BASED ON MR. DARRAS’ REBUTTAL TESTIMONY, HAVE YOU REVISED**
18 **YOUR RECOMMENDATION THAT THE 2018 SSIP PROJECTS BE SHOULD BE**
19 **EXCLUDED FROM RECOVERY THROUGH BASE RATES?**

20 A. No. MDU’s proposed 2018 SSIP projects consist of (1) low pressure system replacements
21 in New Salem, Taylor, Bismarck and Mandan and (2) Aldyl-A plastic replacements in
22 Barlow, Cleveland and Eldridge. Mr. Darras’ rebuttal testimony acknowledges that MDU

⁸ Kivisto Direct, page 8, lines 8-13; Pavlovic Direct, page 10, line 16 to page 13, line 4.

1 has not demonstrated that these are replacements of high-risk facilities eligible for cost
2 recovery under MDU's SSIP program should the Commission approve the SSIP in this
3 proceeding. Replacement projects should be reviewed on a reasonable, necessary, and
4 prudent standard if the costs are to be recovered from customers. MDU's 2018 SSIP
5 replacement projects do not conform to this standard because MDU has not demonstrated
6 that the 2018 replacement projects are reasonable, necessary, and prudent under the SSIP.
7

8 **B. CLASSIFICATION AND ALLOCATION OF DISTRIBUTION MAINS**

9
10 **Q. WHAT IS MR. HATZENBUHLER'S REBUTTAL TESTIMONY REGARDING**
11 **YOUR RECOMMENDATION THAT MDU'S DISTRIBUTION MAINS BE**
12 **CLASSIFIED AND ALLOCATED AS 100% DEMAND-RELATED?**

13 A. Mr. Hatzenbuhler responds that classifying and allocating distribution mains as 100%
14 demand-related ignores that there are two cost factors that influence the level of investment
15 in distribution mains facilities: (1) installed footage of mains which is caused by the number
16 of customers and (2) the size or diameter of mains which is caused by the peak demand
17 customers place on the system.⁹ On that basis Mr. Hatzenbuhler states that "the widely used
18 and accepted minimum system method" is required to account for the customer-caused
19 footage portion of distribution mains facilities investment.¹⁰

20 **Q. HAS MR. HATZENBUHLER PROVIDED ANY SUPPORT FOR HIS CLAIM**
21 **THAT THE MINIMUM SYSTEM METHOD IS WIDELY USED AND**
22 **ACCEPTED?**

⁹ Hatzenbuhler Rebuttal, page 2, line 12 to page 3, line 5.

¹⁰ Hatzenbuhler Rebuttal, page 3, lines 5-17.

1 A. No.

2 **Q. IS THERE A CAUSAL RELATIONSHIP BETWEEN THE NUMBER OF**
3 **CUSTOMERS AND THE FOOTAGE OF INSTALLED DISTRIBUTION MAIN**
4 **FACILITIES?**

5 A. No. As Bonbright, the authoritative regulatory ratemaking treatise, states there is a “very
6 weak correlation between the area (or mileage) of a distribution system and the number
7 of customers served ... if the company’s entire service area stays fixed, an increase in
8 number of customers do not necessarily betoken any increase whatever in the costs of a
9 minimum-sized distribution system.”¹¹ It is on that basis that Bonbright refers to “this
10 phantom, minimum-sized distribution system” and concludes that “the inclusion of the
11 costs of a minimum-sized distribution system among the customer-related costs seems to
12 us clearly indefensible.”¹²

13 **Q. DOES MR. HATZENBUHLER PROVIDE A DEMONSTRATION THAT THERE**
14 **IS A CORRELATION BETWEEN THE NUMBER OF CUSTOMERS AND**
15 **MAINS FOOTAGE ON MDU’S DISTRIBUTION SYSTEM?**

16 A. No.

17 **Q. IN LIGHT OF MR. HATZENBUHLER’S REBUTTAL TESTIMONY HAVE YOU**
18 **REVISED YOUR CONCLUSION AND RECOMMENDATION REGARDING**
19 **THE CLASSIFICATION AND ALLOCATION OF DISTRIBUTION MAINS?**

20 A. No. My recommendation to the Commission remains that MDU’s distribution mains
21 should be classified and allocated as 100% demand related.
22

¹¹ Principles of Public Utility Rates, Bonbright et al. 1988, pages 491.

¹² Principles of Public Utility Rates, Bonbright et al. 1988, pages 491-492.

1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

2 A. Yes.

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