MDU Rate Case: Key Issues for AARP

Witness: Scott J. Rubin

AARP's Major Issues

- Fair allocation of revenue increase to customer classes
- Residential rate design that is fair to all customers
- Avoid single-issue ratemaking
- Returned check charge should be cost-based

Fair Allocation of Revenue Increase to Customer Classes

MDU Proposal: Statement N, p. 1

MONTANA-DAKOTA UTILITIES CO.
REVENUES UNDER CURRENT AND PROPOSED RATES
GAS UTILITY - NORTH DAKOTA

Customer Class/Rate	Projected 2018 1\ Customers	Dk	Revenue	Total Proposed Revenue	Proposed Revenue Increase	Percent Increase
Residential - Rate 60	96,792	8,826,214	$58,201,289	$61,660,006	$3,458,717	5.9%
Firm General Service - Rate 70	15,560	8,035,663	44,071,987	46,481,691	2,409,704	5.5%
Air Force - Rate 64						
Firm	1	32,523	143,249	143,249	0	0.0%
Interruptible	2	457,577	1,461,611	1,461,611	0	0.0%
Total Air Force	3	490,100	1,604,860	1,604,860	0	0.0%
Small Interruptible						
Sales - Rate 71	92	572,872	2,532,810			0.0%
Transport - Rate 81	63	1,104,513	870,115			0.0%
Total Small Interruptible	155	1,677,385	3,402,925	3,402,754	(171)	0.0%
Large Interruptible						
Sales - Rate 85	0	0	0			
Transport - Rate 82	6	4,321,943	1,327,781			
Total Large Interruptible	6	4,321,943	1,327,781	1,327,920	139	0.0%
Total North Dakota	112,516	23,351,305	$108,608,842	$114,477,231	$5,868,389	5.4%

1\ Statement K, page 5.

Rate 60: 58.9%
Rate 70: 41.1%
of revenue increase

AARP and Air Force Agree with MDU's Proposal

- AARP: Rubin Direct, p. 23

> prefer. As a result, I consider the Company's class revenue allocation proposal to be reasonable under any of the COSS methodologies, and I recommend its adoption by the Commission, as adjusted for the ultimate revenue requirement determination made by the Commission.

- Air Force: Gorman Direct, p. 3

> I also find that the Company's proposed spread of the revenue deficiency across rate classes reasonably aligns with a movement toward cost of service while mitigating impact on each rate class. Therefore, I support the Company's proposed class revenue spread.

Residential Rate Design that is Fair to All Customers

- MDU Cost-of-Service Study, Statement M, p. 1

		Residential			
	Total North Dakota	Demand	Energy	Customer	Total Residential
Projected Rate Base	135,451	30,924	40	53,702	84,666
Operating Income for Proposed Return	10,216	2,332	3	4,051	6,386
Projected Operating Income	6,569	(2,085)	(137)	5,112	2,890
Increase in Operating Income	3,647	4,417	140	(1,061)	3,496
Related Taxes for Increase					
Federal Income	2,216	2,684	85	(645)	2,124
Total Increase in Revenue	5,863	7,101	225	(1,706)	5,620
Projected Revenue Before Increase	112,137	12,840	23,600	23,602	60,042
Total Cost of Service Required from Rates:	114,928	18,942	23,822	21,057	63,821
Less Projected Cost of Gas	70,913	11,841	23,598	0	35,439
Net Distribution Cost of Service	43,911	7,101	224	21,057	28,382
Return on Rate Base Before Increase	4.850%				3.413%
Projected Billing Units	112,516			96,792	
Bills	1,350,192			1,161,504	
Dk	23,351,305	8,826,214	8,826,214		
Unit Cost of Service					
Energy cost per Dk			$0.03		
Demand cost per Dk		$0.800			
Customer Cost Per Month				$18.13	
Cust and Demand cost per month				$24.24	

~75% of residential costs are customer-related

Diversity of Residential Demand

- **Rubin direct testimony, pp. 29-30**

For both groups, the peak month was January. The 109 largest customers used a total of 9,075 Dk during the month (an average of 83 Dk per customer), while the 999 smallest customers used a total of 1,037 Dk during the same month (an average of 1 Dk per customer). That is, during the peak month, each of the large customers used more gas in 10 hours than one of the small customers used during the entire month. It is mathematically and practically impossible for the largest and smallest customers to have the same peak-period demand for natural gas.

Aging Infrastructure: The Facts

- MDU's Depreciation Study (EMR-1), Table 5

Table 5

Montana-Dakota Utilities Company
Gas Division

Summary of Original Cost of Utility Plant in Service as of December 31, 2015 and Present and Proposed Parameters

			Present Parameters						Proposed Parameters				
Account No.	Description	Original Cost 12/31/15	Net Salvage W/ COR %	Net Salvage W/O COR %	Gross COR %	A.S.L./ Survivor Curve	Present Depr Rate-%	Average Remaining Life	Net Salvage W/ COR %	Net Salvage W/O COR %	Gross COR %	A.S.L./ Survivor Curve	Average Remaining Life
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(o)	(p)
	DEPRECIABLE PLANT												
	Distribution Plant												
374.20	Rights of Way	431,148.22	0%	0%	0%	65-R3	1.39%	49.3	0%	0%	0%	65-R3	53.4
375.00	Distr. Meas & Reg Station Structures	842,394.15	-50%	0%	-50%	60-R3	2.30%	29.9	-50%	0%	-50%	60-R3	37.4
	Mains												
376.10	Mains-Steel	69,466,300.96	-50%	0%	-50%	47-R4	2.15%	21.4	-50%	0%	-50%	62-R3	42.5
376.20	Mains-Plastic	133,632,165.42	-50%	0%	-50%	47-R4	2.15%	33.7	-50%	0%	-50%	47-R4	33.1
376.30	Mains-Valves	2,585,180.49	-50%	0%	-50%	40-R2.5	2.15%	30.4	-50%	0%	-50%	40-R3	37.1
376.40	Mains-Manholes	3,287.49	-50%	0%	-50%	47-R4	2.15%	29.9	-50%	0%	-50%	55-R3	36.4
376.50	Mains-Bridge & River Crossings	92,766.81	-50%	0%	-50%	47-R4	2.15%	3.1	-50%	0%	-50%	45-R3	35.3
	Total Mains	205,779,701.17											

Steel & plastic mains:
$200 million in plant out of
$438 million in total plant

Typical life: 47-62 years
Remaining life: 33-42 years

Avoid Single-Issue Ratemaking

- Proposed System Safety and Integrity Program surcharge would adjust rates annually for one broadly defined issue.
- Proposed Rate 94 (Tariff ND PSC Vol. 7, Sheet 37):

Applicability:

This rate schedule provides for a System Safety and Integrity Program Adjustment (SIA) and specifies the procedure utilized to recover the revenue requirement associated with the Company's additions and/or replacement of natural gas distribution facilities in compliance with operational, state, or federal pipeline safety programs deemed prudent by the Commission and not currently recovered through the Company's retail rates.

- Includes O&M costs and overheads (MDU response to PSC 2.55, Exh. ___(SJR-14), p. 3):

b) If there are O&M expenses and overheads specifically related to the SSIP, they too will be identified and tracked separately.

Returned Check Charge Should be Cost-Based

- MDU acknowledges that proposed $40 returned check charge is punitive and bears no relationship to its costs. Response to PSC data request 2-9 (Exh. __(SJR-15, p. 3):

The Company did not propose a cost-based Returned Check Charge. The level of the proposed charge is such that it's intent is to serve as a deterrent to customers to not write that check in which there are insufficient funds in the account to cover the amount of the check.

Charge	Cost/ Transaction	# 1/	Total Cost
Returned Check Charge	$4.00	458	$1,832
Returned Check - Special Instructions	$10.00	8	80
Redeposited Check	$2.00	615	1,230
ACH Return	$2.75	3,873	10,651
Unauthorized ACH Return	$6.00	29	174
		4,983	13,967
Average Cost/Returned Item			$2.80

1/ Reflects the total number of transactions for all Montana-Dakota for January through August 2017. The number of returned items specific to North Dakota is 2,842.