

MONTANA DAKOTA UTILITIES CO.

Before the North Dakota Public Service Commission

Case No. PU-20-379

Rebuttal Testimony
of
Larry D Oswald Jr.

1 **Q. Would you please state your name and business address?**

2 A. Yes. My name is Larry Oswald, and my business address is 400
3 North Fourth Street, Bismarck, North Dakota 58501.

4 **Q. By whom are you employed and what is your position?**

5 A. I am the Director of Business Development and Energy Services for
6 Montana-Dakota Utilities Co. (Montana-Dakota).

7 **Q. What are your duties and responsibilities?**

8 A. I am responsible for leading the Company's Business Development
9 and Energy Services department which provides the economic analysis
10 for all new customer growth projects.

11 **Q. Would you please outline your educational and professional
12 background?**

13 A. Yes. I have Bachelor of Science Degree from Moorhead State
14 University in Energy Management, with a Minor in Finance. I am also a
15 Certified Energy Manager (CEM) and Certified Demand-Side
16 Management (CDSM) professional with the Association of Energy
17 Engineers (AEE). I have 21 years of experience with the Company

1 primarily in the Marketing and Energy Services department.

2 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

3 **A.** The purpose of this rebuttal testimony is to address
4 recommendations and testimony of Messrs. Joel F. Jeanson and James
5 A. Heidell, PA Consulting, testifying on behalf of the Advocacy Staff of the
6 North Dakota Public Service Commission (Commission or NDPSC).
7 Specifically, I will address the recommendations and testimony of Mr.
8 Jeanson starting on page 23 regarding the Company's Firm Gas Service
9 Extension Policy. I will also address the recommendations and testimony
10 of Mr. Heidell starting on page 21 regarding line extensions.

11 **Q. Describe a customer growth project and the application of the**
12 **Company's Firm Gas Service Extension Rate 120.**

13 **A.** Many of the Company's growth projects are to serve new residential
14 subdivisions. When a developer contacts the Company to bring natural
15 gas service to a new subdivision, the Company develops a cost estimate
16 for the project. The Company then develops an estimate of the revenue
17 that will be generated by the project. For a new subdivision, the revenue
18 is calculated by estimating the number of new homes that will be served
19 by natural gas three years after the project has been installed. The
20 estimated revenue is divided by the Company's approved Levelized
21 Annual Revenue Requirement (LARR) to determine the Company's
22 Maximum Allowable Investment (MAI) for the project. The developer's
23 contribution is calculated by taking the estimated project cost minus the

1 Company's MAI. Once this work has been completed, the Company
2 explains the project costs, revenue, and required contribution to the
3 developer, enters into a Rate 120 agreement, and collects the required
4 contribution from the developer. The natural gas infrastructure is then
5 installed to serve the new subdivision. After the project is installed, the
6 Company reviews the actual cost of the project to the estimated project
7 cost. If the actual cost of the project is greater than the estimated cost,
8 the developer would be billed for the additional costs. If the actual cost of
9 the project is less than the estimated cost, the developer would be sent a
10 refund for the difference. The Company then reviews the project for a
11 period of five years after the project is in-service to ensure the actual
12 number of customers meets the projection. If the number of actual
13 customers exceeds the projection, the developer may be due an additional
14 refund as the revenue, and therefore the Company's MAI, would be
15 greater than originally estimated.

16 **Q. Is the Company's standard practice to install mains that are sized**
17 **larger than is needed?**

18 A. No, the Company's standard practice is to install mains that are properly
19 sized to meet the expected load of the customer or customers. However,
20 there are instances where the Company installs mains that are larger than
21 the customer requesting service needs. The Company installs these
22 larger mains if the main being extended has been identified as a trunk line
23 that is the backbone of the system, if there is a high likelihood of future

1 growth in the area being served by the main, or if there could be an
2 opportunity to loop the system to increase resiliency and capacity to the
3 entire system.

4 **Q. Does installing mains sized at a capacity greater than needed to**
5 **provide gas service to only those customers requesting service have**
6 **upward pressure on rates in the early years?**

7 A. Yes, in the early years it may have upward pressure; however, in
8 the long term all customers will benefit from lower overall system cost
9 because the incremental cost of installing the larger capacity pipe is
10 significantly less than replacing the smaller pipe in later years due to
11 continued distribution system expansion. The Company's engineering
12 department reviews all customer requests for main extensions to ensure
13 we have system capacity to serve new customers while maintaining
14 reliable service to all customers connected to the distribution system. This
15 engineering review considers how we expect the system to grow over the
16 next several years so that safe and reliable service can be maintained to
17 all customers in the future. Depending on the system modeling and future
18 growth expectations of the distribution system it may be determined that a
19 larger size pipe should be installed along arterial corridors even though
20 the immediate customers requesting service can be served with the
21 smaller sized pipe. This orderly planning of gas distribution systems
22 allows the Company to keep overall system costs lower for all customers
23 in the long term.

1 **Q. Is exclusion of the cost of meters and regulators from the Firm Gas**
2 **Service Extension Policy Rate 120 reasonable?**

3 A. Firm Gas Service Extension Policy Rate 120 excludes the cost of
4 customer meters and regulators from the total cost of the extension when
5 calculating the customer advance. The exclusion of meters and regulators
6 from the cost of firm gas extensions has been a part of the Company's
7 tariff since 1986.

8 Meters and regulators can be repurposed at another location if a
9 customer discontinues service, whereas mains and service lines are
10 specific to providing service only to a specific customer or group of
11 customers.

12 **Q. What is the purpose of the Incremental Expansion Surcharge option**
13 **under the Firm Gas Service Extension Policy Rate 120?**

14 A. The Incremental Expansion Surcharge payment option is for cases
15 when the upfront cost to provide natural gas service to an area of new or
16 existing homes discourages customers from participating thereby resulting
17 in insufficient load to make the project viable or a practical investment for
18 the Company or the potential new customers. The Incremental Expansion
19 Surcharge provides an option that may make the required contribution
20 more palatable to the new customers while still ensuring that existing
21 customers are not subsidizing the extension required for serving the new
22 customers. Extensions that would not otherwise be made will also serve
23 to benefit existing customers by spreading the system fixed costs over

1 additional customers and sales volumes.

2 The majority of the Company's extensions can be cost-effective for
3 the Company and the customers with the other customer advance
4 payment options available under the Gas Extension Policy which are
5 easier to administer. The Incremental Expansion Surcharge is typically
6 only used on large projects that require substantial customer advances
7 that would otherwise make the investment uneconomical for the customer
8 and Company. The Company believes that allowing it to continue to use
9 the payment option under the Extension Policy that works best for the
10 Company, the customers, and will allow the project to move forward
11 economically is the best interest of all customers.

12 **Q. Should the language in Section (A) 2 of the Firm Gas Extension**
13 **Policy Rate 120 be modified from "may" to "shall"?**

14 A. The Company agrees that the purpose of the line extension policy
15 is to ensure that extending firm service to new customers is done
16 economically and therefore currently does require cost participation on all
17 customer or developer extensions that are determined to be not cost
18 justified as per Section (A) 3. The Company does not see a need for the
19 recommended language change

20 **Does this conclude your rebuttal testimony?**

21 A. Yes, it does.