# BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF COMMISSION STAFF'S PETITION FOR DECLARATORY RULING REGARDING FARM TAP CUSTOMERS NG16-014

# PETITION FOR REHEARING

Pursuant to ARSD 20:10:01:29 and 20:10:01:30:01, Intervenor Northern Natural Gas Company ("Northern") petitions for reconsideration of the Public Utilities Commission of the State of South Dakota's ("PUC") Declaratory Ruling Regarding Farm Taps dated January 24, 2017 ("Declaratory Ruling"). Reconsideration of the Declaratory Ruling should be granted because: (1) the PUC issued the Declaratory Ruling without holding a proper, contested case hearing, which created a multitude of procedural defects; (2) the PUC erroneously concluded that NorthWestern Corporation d/b/a NorthWestern Energy ("NorthWestern") can terminate service to farm tap customers without holding a proper hearing or considering evidence on the issue; and (3) the PUC erred when concluding that the farm tap facilities downstream of the Northern Facilities are not subject to state jurisdiction for the purpose of pipeline safety pursuant to SDCL Ch. 49-34B.

#### PROCEDURAL BACKGROUND

On November 9, 2016, the Staff of the PUC ("Staff") petitioned the PUC for a declaratory ruling addressing three questions. Staff's petition resulted in the opening of a new docket, NG16-014. Along with the petition for declaratory ruling ("the Petition"), Staff submitted a memorandum that describes various alleged facts. Staff did not pre-file testimony or offer any other "evidence" along with the Petition.

On November 21, 2016, Northern petitioned to intervene in this matter. The PUC granted Northern's intervention in an Order Granting Intervention dated November 23, 2016.

The PUC issued an Order For and Notice of Hearing ("Notice of Hearing") dated November 30, 2016. Among other things, the Notice of Hearing scheduled a hearing for December 14, 2016, at 10:00 a.m. in Pierre, South Dakota. According to the Notice of Hearing, "[a]t the hearing, each party will be permitted to present an oral argument." The Notice of Hearing did not state the hearing was adversarial in nature.

A hearing was held December 14, 2016 on the Petition. At the hearing, no testimony was presented, and no evidence was admitted as exhibits. Although the various parties to the docket submitted prehearing briefs with attachments, none of the attachments were offered or accepted as evidence. All parties to the docket presented oral argument during the December 14, 2016, hearing. A transcript of that hearing is attached hereto as Exhibit A. As reflected in the transcript, there is no offer and no ruling on the admissibility of any evidence.

On December 30, 2016, the PUC entered an Order Setting Final Motion Hearing and Decision Date ("December 30, 2016 Order"). In the December 30, 2016 Order, the PUC ruled that the PUC would make its decision on the petition for declaratory judgment during a hearing January 17, 2017. Consistent with the December 30, 2016 Order, the PUC held the January 17, 2017, hearing. A copy of the transcript from this hearing is attached as Exhibit B. Again, no testimony or evidence was presented or received. Instead, after various comments, the commissioners voted on the three questions posed in the Petition.<sup>1</sup>

<sup>&</sup>lt;sup>1</sup> The PUC also ruled on three other motions during the January 17, 2017, hearing.

On January 24, 2017, the PUC issued the Declaratory Ruling, which is the PUC's written decision on the Petition. The Declaratory Ruling does not contain any findings of fact or conclusions of law. Northern now petitions for reconsideration of the Declaratory Ruling.

#### STANDARD FOR PETITION FOR REHEARING

Northern, as a party to this docket, can seek rehearing of the Declaratory Ruling because the PUC has adopted an administrative rule allowing any party to seek rehearing of any matter:

A party to a proceeding before the commission may apply for a rehearing or reconsideration <u>as to any matter determined by the commission</u> and specified in the application for the rehearing or reconsideration. The commission may grant reconsideration or rehearing on its own motion or pursuant to a written petition if there appears to be sufficient reason for rehearing or reconsideration.

ARSD 20:10:01:29 (emphasis added). The administrative rule governing the contents of a petition is ARSD 20:10:01:30.01, which states:

An application for a rehearing or reconsideration shall be made only by written petition by a party to the proceeding. The application shall be filed with the commission within 30 days from the issuance of the commission decision or order. An application for rehearing or reconsideration based upon claim of error shall specify all findings of fact and conclusions of law claimed to be erroneous with a brief statement of the ground of error. An application for rehearing or reconsideration based upon newly discovered evidence, upon facts and circumstances arising subsequent to the hearing, or upon consequences resulting from compliance with the decision or order, shall set forth fully the matters relied upon. The application shall show service on each party to the proceeding.

Invoking ARSD 20:10:01:29 and 20:10:01:30.1, Northern submits this petition for rehearing of the Declaratory Ruling.

#### **ARGUMENT**

The PUC should grant rehearing for three independent reasons: (1) the PUC committed multiple procedural errors when issuing the Declaratory Ruling; (2) the PUC erred in ruling NorthWestern could terminate its service to farm tap customers after December 31, 2017,

without holding a proper hearing; and (3) the PUC erred in ruling it lacked pipeline safety jurisdiction over the farm taps.

## I. This Docket and the Declaratory Ruling are Rife with Procedural Deficiencies.

As an initial matter, the Petition seeking a declaratory ruling pursuant to SDCL 1-26-15 commenced a contested case proceeding. Under the Administrative Procedures Act, an action for a declaratory ruling is a contested case proceeding. Specifically, SDCL 1-26-1(2) defines a contested case:

"Contested case," a proceeding, including rate-making and licensing, in which the legal rights, duties, or privileges of a party are required by law to be determined by an agency after an opportunity for hearing but the term does not include the proceedings relating to rule making other than rate-making, proceedings related to inmate disciplinary matters as defined in § 1-15-20, or student academic proceedings under the jurisdiction of the Board of Regents.

Notably, SDCL 1-26-1(2)'s broad definition of a contested case expressly excludes any "proceeding relating to rule making." In turn, SDCL 1-26-1(8)(b) expressly states that a declaratory ruling is not a "rule" adopted through formal rule making process. By excluding "rule making" but not "declaratory relief" from the definition of contested case, SDCL 1-26-1(2) confirms that declaratory judgment proceedings, including this docket, are a contested case proceeding.

Indeed, the language of the Declaratory Ruling itself confirms this docket is a contested case proceeding. In the portion of the Declaratory Ruling providing notice of entry and advising the parties of their appeal rights, the PUC cites, among other things, SDCL 1-26-32 addressing the procedure for a stay of the Declaratory Ruling. By its plain language, this statute only applies to stays pending appeals from contested case proceedings. See SDCL 1-26-32 ("Any agency decision in a contested case is effective ten days after the date of receipt or failure to accept

delivery of the decision by the parties. . . ."). See also Dale v. Young, 2015 SD 96, ¶ 6, 873 N.W.2d 72, 74 (stating that statutes are interpreted based upon their plain language).

As a contested case proceeding, there are specific procedural requirements that must be satisfied before ruling on the Petition. Because it failed to treat this docket as a contested case, the PUC committed three procedural errors. First, the PUC failed to provide the proper hearing notice. Second, the PUC issued the Declaratory Ruling without presenting the parties an opportunity to complete discovery or present evidence. Finally, the PUC issued the Declaratory Ruling without issuing the required Findings of Fact and Conclusions of Law.

### 1. The Notice of Hearing Violated the Statutory Notice Requirements.

The notice of hearing on the Petition must contain specific information because the Petition commenced a contested case. SDCL 1-26-17 addresses the contents for a notice of hearing in a contested case proceeding. Among other things, that statute requires the notice to include "[a] statement that the hearing is an adversary proceeding...." SDCL 1-26-17(6). The Notice of Hearing in this case did not contain this disclosure, which in turn affected the entire docket because it was not treated like a contested case.

### 2. Parties were Deprived the Right to Discovery and to Present Evidence.

Second, as a contested case proceeding, the parties to this docket are entitled to discovery and to present evidence at the contested case hearing in this docket. The Legislature has adopted specific statutes authorizing discovery and controlling the admission of evidence in contested case proceedings. *See*, *e.g.*, SDCL 1-26-19; 1-26-19.1; 1-26-19.2. Moreover, the PUC has adopted administrative rules permitting discovery and governing the admission of evidence. *See*, *e.g.*, ARSD 20:10:01:01.02; 20:10:01:22:06; 20:10:01:22:07. Administrative rules in South

Dakota are "binding and have the force of law." *Duffy v. Mortenson*, 497 N.W.2d 437, 439 (S.D. 1993).

In this case, none of the parties were advised they had the ability to engage in discovery. More importantly, the PUC did not advise the parties they could present evidence or testimony at the hearing. Instead, the Notice of Hearing informs the parties they will be allowed to present "oral argument" at the hearing. Consistent with that notice, the PUC proceeded to hear oral argument only without taking any testimony or evidence.

Moreover, the administrative record does not indicate what, if any, evidence was actually admitted in this proceeding. Nothing in the transcript for the December 14, 2016, and January 17, 2017, hearings indicates whether any evidence was considered. Without some indication of what "evidence" was actually admitted, there is no way to determine whether the PUC properly applied the rules of evidence applicable to contested case proceedings. *See* SDCL 1-26-19. Moreover, without a clear record of what "evidence" was actually admitted into the administrative record, the Circuit Court could not perform its appellate responsibilities to determine whether there is substantial evidence to support the PUC's factual determinations made in the Declaratory Ruling. *See Abild v. Gateway 2000, Inc.*, 547 N.W.2d 556, 558 (S.D. 1996) (stating that clearly erroneous standard of review for agency factual findings inquires "whether there is substantial evidence" to support the findings).

# 3. The Declaratory Ruling Violates the Statutory Requirement that the PUC Issue Separately Stated Findings of Fact and Conclusions of Law.

When ruling on a contested case proceeding, the PUC is statutorily required to enter findings of fact and conclusions of law. Specifically, SDCL 1-26-25 requires a written decision including separately stated findings of fact and conclusions of law:

A final decision or order adverse to a party in a contested case shall be in writing or stated in the record. It may affirm, modify, or nullify action previously taken or may direct the taking of new action within the scope of the notice of hearing. <u>It shall include findings of fact and conclusions of law, separately stated.</u> Findings of fact, if set forth in statutory language, shall be accompanied by a concise and explicit statement of the underlying facts supporting the findings. If, in accordance with agency rules, a party submitted proposed findings of fact, the decision shall include a ruling upon each proposed finding. Parties shall be notified either personally or by mail of any decision or order. Upon request a copy of the decision or order shall be delivered or mailed forthwith to each party and to his attorney of record.

SDCL 1-26-25 (emphasis added). Written findings of fact and conclusions of law are required so that a court can properly review a PUC decision on appeal. See Dep't of Public Safety v. Eastman, 273 N.W.2d 159, 161 (S.D. 1978) (stating that a Court cannot review an agency decision without findings of fact and conclusions of law). In turn, when the PUC fails to enter findings of fact and conclusions of law, the Circuit Court on appeal must remand the matter to the PUC for entry of findings of fact and conclusions of law. Id.

Here, the PUC entered the Declaratory Ruling January 24, 2017. The Declaratory Ruling does not, however, contain any findings of fact or conclusions of law. Instead, it simply stated how the PUC voted on each of the three questions. There is no articulation of how the PUC reached those decisions, or how the factual determinations made by the PUC shaped those decisions. Without these findings of fact and conclusions of law, the Declaratory Ruling violates SDCL 1-26-25 and prevents a proper review by the appellate court. As a result, if the Declaratory Ruling is appealed, the Circuit Court will be required to remand for entry of findings of fact and conclusions of law. *See Eastman*, 273 N.W.2d at 161. Rather than waiting for remand from the Circuit Court, the PUC should grant rehearing at this time.

In short, the PUC engaged in a fundamental procedural mistake by failing to treat this docket as a contested case proceeding. This error affected all the procedural aspects of the

docket, including the notice, discovery, presentation of evidence, and written decision. Because the Declaratory Ruling is procedurally defective, the PUC should grant rehearing, properly notice an evidentiary hearing, and issue a proper written decision containing findings of fact and conclusions of law.

II. The PUC Committed Additional Procedural Error when Deciding NorthWestern can Terminate its Service to Farm Tap Customers After December 31, 2017, Without Accepting Evidence and Holding a Proper Contested Case Hearing.

As part of the Declaratory Ruling, the PUC apparently<sup>2</sup> concluded that NorthWestern could terminate its provision farm tap services to customers after December 31, 2017.<sup>3</sup> This decision, which was made without any supporting evidence, violates the statutory scheme for terminating a utility's service.

As an initial matter, the PUC concluded in the Declaratory Ruling that NorthWestern is a public utility subject to SDCL Ch. 49-34A. As a public utility, NorthWestern cannot terminate service to any customer without prior permission of the PUC:

No public utility may, except in cases of emergency, fail to provide, discontinue, reduce or impair service to a community, or a part of a community, except for nonpayment of account or violation of rules and regulations, unless permission has been first obtained from the Public Utilities Commission to do so. An intentional violation of this section is a petty offense. Each day's violation is a separate offense.

SDCL 49-34A-2.1. The PUC has adopted specific regulations governing the discontinuance of gas services. ARSD 20:10:20:01 to 20:10:20:11. Among other things, the PUC's regulations specifically state the reasons for which utility service can be discontinued. ARSD 20:10:20:03

<sup>&</sup>lt;sup>2</sup> The written Declaratory Ruling does not expressly address whether NorthWestern has an obligation to provide gas utility services to farm tap customers after December 31, 2017. Nevertheless, two commissioners orally stated that NorthWestern could discontinue services after December 31, 2017. (Exhibit B, at pp.15, 20-21). Based upon these oral comments, it is unclear whether the PUC in fact decided NorthWestern could discontinue service. If the PUC did in fact reach this issue, then rehearing is appropriate for the reasons argued in this Petition.

and 20:10:30:04. Moreover, before terminating the service, the utility must provide notice containing specific information to the customer. *See* ARSD 20:10:20:04.

Here, the PUC apparently authorized NorthWestern to terminate service to farm tap customers without determining if "evidence" supported termination of service under SDCL 49-34A-2.1 or the applicable regulations. As noted above, no evidence was offered or received at the hearings in this docket. Instead, the PUC just concluded that NorthWestern had no contractual obligation to provide farm tap services after December 31, 2017. And, because the PUC never prepared findings of fact or conclusions of law, it cannot be determined how the PUC reached its decision authorizing NorthWestern to terminate utility service or whether that decision complies with the applicable regulations. Procedurally, the decision to terminate service must be made after proper hearing involving the presentation of testimony and evidence, and the PUC should grant rehearing on this issue.

Although it is uncertain without findings of fact and conclusions of law, the PUC apparently concluded that NorthWestern can terminate service to farm tap customers based upon the "term" in the 1987 contract between Northern and Peoples Natural Gas Company ("1987 Agreement"). The PUC also apparently concluded that Peoples Natural Gas Company's ("Peoples") obligation to serve farm tap customers will terminate on December 31, 2017, under the 1987 Agreement, and that because it was a subsequent assignee of Peoples' responsibility, NorthWestern's obligation to service farm tap customers will similarly terminate on December 31, 2017.

Based upon the record as developed, the PUC cannot determine that Peoples' (and NorthWestern's) obligation to serve farm tap customers will terminate on December 31, 2017.

<sup>&</sup>lt;sup>4</sup> On rehearing, the evidence will show that there was an intervening entity between Peoples Natural Gas Company and Northern, namely Minnesota Energy Resources Corporation.

Although the 1987 Agreement was attached to briefs, there was no "testimony" about the 1987 Agreement or the relationship between Peoples and Northern. This single agreement was taken out of context as the basis for concluding Peoples' (and in turn NorthWestern's) obligations to serve customers will end on December 31, 2017.

Upon rehearing, Northern should be permitted to complete discovery and present evidence regarding whether Peoples' obligation to farm tap customers was intended to continue past December 31, 2017. Northern believes the evidence, after proper discovery, will show that Peoples assumed the entire obligation to serve the farm tap customers through a 1985 acquisition, and that Minnesota Energy Resources Corporation subsequently assumed all of Peoples' obligation to serve these farm tap customers, including the obligation to serve those customers after December 31, 2017. Then, Minnesota Energy Resources Corporation, in whole or in part, transferred that obligation to NorthWestern.

Reconsideration is needed because additional discovery is needed on these transactions and relationships. After this discovery is completed, then the PUC should hold a proper hearing and receive evidence. After consideration of this evidence, the PUC can issue a proper decision, including findings of fact and conclusions of law, addressing whether NorthWestern can terminate service to farm tap customers under the applicable statute and regulations.

III. The Declaratory Ruling's Decision that the PUC Does Not Have Safety Jurisdiction Over Farm Taps Downstream from the Northern Facilities Should Be Reheard Because There Are Substantial Safety Consequences Arising from Compliance with the Declaratory Ruling.

The third question posed to the PUC in the Petition was "[A]re the farm taps in whole or in part subject to state jurisdiction for the purpose of pipeline safety pursuant to SDCL Chapter 49-34B." The PUC correctly ruled with respect to the Northern Facilities<sup>5</sup> when it found: "Northern is a federally regulated interstate pipeline and is not subject to state jurisdiction for the purpose of pipeline safety." However, the question posed in the Petition inquired whether the PUC has safety jurisdiction "in whole *or in part*" over the farm tap. The Staff's memorandum accompanying its petition broadly defines "farm tap" as a "pipeline that branches from a transmission or gathering line to deliver gas to a farmer or other landowner." Thus, this definition of farm tap would include those facilities downstream from the Northern Facilities. As a result, in the Declaratory Ruling, while not expressly addressed, the PUC appears to have decided that it has no jurisdiction over the facilities downstream of the Northern Facilities.<sup>7</sup>

The PUC erred in determining it lacks safety jurisdiction over the pipeline facilities downstream from the Northern Facilities which can consist of thirty miles of farm tap customerowned pipeline ("Customer-Owned Facilities"). The PUC has jurisdiction to regulate the Customer-Owned Facilities pursuant to SDCL Chapter 49-34B. SDCL 49-34B-4 states the PUC "may...establish safety standards for gas pipeline facilities" which are defined as (1) "new and existing pipelines, rights-of-way, master meter systems, pipeline facilities within this state which transport gas from an interstate pipeline to a direct sales customer within this state purchasing gas for its own consumption" and (2) "any equipment, facility, or building used in the transportation of gas or in the treatment of gas during the course of transportation." The

<sup>&</sup>lt;sup>5</sup> Northern Facilities refers to the equipment owned, operated, and maintained by Northern, which include the transmission pipeline, tap, riser, valves, meter, regulators and connections to an aboveground 3-way valve downstream of the meter on the farm tap. The 3-way valve and all equipment downstream from that valve are owned by someone other than Northern.

<sup>&</sup>lt;sup>6</sup> Staff Memorandum dated November 9, 2016 at footnote 1.

<sup>&</sup>lt;sup>7</sup> Once again, the Declaratory Ruling's absence of findings of fact and conclusions of law makes it difficult to determine exactly what the PUC decided, and upon what facts it relied in reaching those decisions. For instance, there is no explanation of the how the PUC reached its decision that it does not have pipeline safety jurisdiction downstream from the Northern Facilities. The lack of findings of fact and conclusions of law prevents appellate review and presents an independent, procedural deficiency requiring rehearing for the reasons stated above.

8 SDCL 49-34B-1(5).

Customer-Owned Facilities are gas pipeline facilities under both definitions of the statute. The Customer-Owned Facilities transport gas from Northern (the interstate pipeline) to the customers' homes or buildings (the direct sales customer). Further, the Customer-Owned Facilities are equipment used in the transportation of gas. Thus, the Commission has the ability to promulgate safety standards for these Customer-Owned Facilities. *See* SDCL 49-34B-4.

Despite the Customer-Owned Facilities satisfying the statutory definition of a gas pipeline facility, the Declaratory Ruling concludes that the PUC lacks pipeline safety jurisdiction over the Customer-Owned Facilities. Due to lack of findings of fact and conclusions of law, it remains uncertain how the PUC reached this conclusion. Implicit in this conclusion is a determination that the Customer-Owned Facilities are not "gas pipeline facilities" as defined in SDCL 49-34B-1(5). Once again, there is no explanation regarding how the PUC reached this conclusion. Rehearing should be granted so the PUC can properly determine whether the Customer-Owned Facilities are "gas pipeline facilities," which would make them subject to the PUC's safety regulatory authority.

By erroneously deciding it lacks pipeline safety jurisdiction over the Customer-Owned Facilities, the Declaratory Ruling creates a regulatory void where no governmental party or agency is regulating the safety of Customer-Owned Facilities. As noted above, the Legislature granted the PUC authority to adopt pipeline safety standards. SDCL 49-34A-4. Exercising this authority, the PUC has adopted regulations governing pipeline safety regulations. These regulations are found in ARSD Ch. 20:10:37. Among other things, the PUC adopted administrative rules providing for the inspection of gas pipeline facilities. ARSD 20:10:37:04. Critically, however, once the Declaratory Ruling indicated the PUC lacked pipeline safety jurisdiction pursuant to SDCL Ch. 49-34B, the PUC's pipeline safety regulations no longer

apply: "This chapter [ARSD Ch. 20:10:37] sets forth the procedures and standards to be used for pipeline safety inspections, the enforcement of pipeline safety standards, and the imposition of civil penalties on pipeline operators for failing to meet the federal pipeline safety standards adopted by SDCL chapter 49-34B. These rules only apply to those pipelines within the jurisdiction of the commission pursuant to SDCL chapter 49-34B." ARSD 20:10:37:02 (emphasis added). The Declaratory Ruling thus perpetuates a serious public safety concern for the people of South Dakota in that these Customer-Owned Facilities are not currently inspected by any governmental agency to ensure they are designed, constructed, and operated in a safe manner.

The Staff, in its memorandum filed with the Petition, discussed the many safety issues associated with the lines from the Northern Facilities to the farm tap customer:

Since the customer was responsible for installing the service line, this was done either by the customer or by a customer-hired contractor. There are no records of the materials used, exactly where the line is located, and it is unknown how much maintenance has been done on the line. If a leak occurs on a customer's service line, it may potentially go undetected for months, especially if the customer is not reading his or her meter every month. There is also no periodic leak survey done on the customer's service line. The most serious implication of an undetected leak, is, of course, an explosion or fire resulting in injury to the customer or others. [footnote omitted]<sup>9</sup>

Notwithstanding these severe safety risks raised by the Staff, the Declaratory Ruling failed to address the safety issues associated with the Customer-Owned Facilities.

On rehearing, the evidence will show that the safety risks are real. The Customer-Owned Facilities connecting the Northern Facilities to the customers' property for approximately 197 farm tap customers include nearly 30 miles of pipeline. The location of these pipelines is not recorded and is not currently within the state "One-Call" database. Accordingly, the Customer-

Owned Facilities are not located and marked in response to a "One-Call" request. The material and construction methods used to install these pipelines is unknown. The maintenance history of these pipelines is unknown.

As an additional consequence of the Declaratory Ruling concluding the PUC lacked safety jurisdiction, the PUC cannot engage in future rulemaking regarding the safety standards for Customer-Owned Facilities. The South Dakota Legislature has granted the PUC authority under SDCL Chapter 49-34B to promulgate regulations relating to the design, construction and maintenance of gas pipeline facilities, which include by definition, Customer-Owned Facilities. The PUC should exercise that authority to protect the public. Thus, the PUC should grant reconsideration because the Declaratory Ruling will prevent it form initiating steps through rulemaking to ensure appropriate safety standards are adopted and enforced.

Indeed, other states have taken those very steps. South Dakota is not alone in having farm taps. Minnesota and Iowa have farm taps that are connected to Northern's interstate pipeline system. Minnesota and Iowa regulators have taken responsibility to ensure the safety of the farm tap customers. The Minnesota Public Utilities Commission has approved farm tap inspection programs for the local distribution companies serving the farm taps. <sup>10</sup> In Iowa, Black Hills/Iowa Gas Utility Company (Black Hills) and the Iowa Utilities Board (IUB) have agreed that Black Hills will perform partial leak surveys on certain facilities owned by the farm tap customers in Iowa. <sup>11</sup>

Staff Memorandum dated November 9, 2016 at p.3. Staff stated, at p.4, that the estimated cost to replace necessary service lines is \$3 million. Once again, none of these statements have "evidentiary support" in the current administrative record because the PUC did not hold a proper contested case.

<sup>&</sup>lt;sup>10</sup> See Order Opening Investigation and Requesting Comments, 1999 WL 33595203 (Minn. P.U.C.); and Order Accepting Farm-Tap Safety Inspection Programs and Closing Docket No. G-007/M-99-641, 2000 WL 668943 (Minn. P.U.C.). These orders are attached as Exhibits C and D to the Motion for Judicial Notice filed contemporaneously with this Petition.

<sup>&</sup>lt;sup>11</sup> Request for Approval of Tariffs that Establish Minimum Safety Standards for Farm Taps As a Condition of Service and Creation of a Mandatory Testing Program; Utility Replacement and Ownership of Customer-Owned

In short, the consequence of compliance with Declaratory Ruling's erroneous conclusion that the PUC lacks safety jurisdiction for Customer-Owned Facilities is that a substantial public safety risk remains unregulated. The PUC should grant rehearing to address this jurisdictional issue after a properly noticed and held contested case involving properly admitted evidence.

#### **CONCLUSION**

For the reasons stated above, the PUC should grant rehearing of the Declaratory Ruling.

Dated: February 17, 2017

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Natural Gas Service Lines; Authorization for Recovery of Replacement Capital Costs; and Request for an Accounting Order to Defer Testing Costs until the Company's Next Rate Case; Iowa Utilities Board, Docket No. SPU-2015-0039 at p.4. This pleading is attached as Exhibit E to the Motion for Judicial Notice filed contemporaneously with this Petition.

THE PUBLIC UTILITIES COMMISSION 1 OF THE STATE OF SOUTH DAKOTA IN THE MATTER OF COMMISSION STAFF'S PETITION FOR DECLARATORY RULING REGARDING FARM TAP NG16-014 CUSTOMERS Transcript of Proceedings December 14, 2016 ₿ 9 BEFORE THE PUBLIC UTILITIES COMMISSION, 10 CHRIS NELSON, CHAIRMAN KRISTIE FIEGEN, VICE CHAIRMAN GARY HANSON, COMMISSIONER 11 12 COMMISSION STAFF 13 Adam de Hueck, Commission Attorney Karen Cremer, Commission Attorney Greg Rislov, Staff Advisor Patrick Stoffenson, Staff Analyst Brittany Mehlhaff, Staff Analyst 14 15 16 APPEARANCES 17 Kristen Edwards, appearing on behalf of Commission Staff 18 Gregory Porter and James Talcott, appearing on behalf of 19 Northern Natural Gas 20 Timothy P. Olson, appearing on behalf of NorthWestern Brett Koenecke, appearing on behalf of Montane-Dakota Utilities 21 22 23 Reported By Cheri McComsey Wittler, RFR, CRR Frecision Reporting, Onida, South Dakota 24 25

1 CHAIRMAN NELSON: Good morning. Welcome, everybody. We will begin the hearing in Docket NG16-014, In the Matter of Commission Staff's Petition for Declaratory Ruling Regarding Farm Tap Customers. 5 The time is 10:00 a.m. The date is December 14, 2016. The location of the hearing is the Matthews Training Center in the Foss Building, Pierre, 8 South Dakota. q My name is Chris Nelson. I am Commission 10 Chairman, With me are Commissioners Fiegen and Hanson, 11 I am presiding over this hearing. The hearing 12 was noticed pursuant to Commission's Order for and Notice 13 of Hearing issued on November 30, 2016. 14 The Issues at the hearing are, number one, 15 whether the Commission has jurisdiction over any utility providing natural gas to farm tap customers taking 17 natural gas from the transmission line owned and operated 18 by Northern Natural Gas Company. 19 Number two, if the Commission has jurisdiction, 20 which company, NorthWestern Corporation, doing business 21 as Northwestern Energy, or Northern Natural Gas Company 22 is a public utility as defined by SDCL Chapter 49 with 23 respect to these farm tap customers.

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1 TRANSCRIPT OF PROCEEDINGS, held in the 2 above-entitled matter, at the Matthews Training Center, 3 Foss Building, 523 East Capitol Avenue, Pierre, 4 South Dakota, on the 14th day of December, 2016, 5 commencing at 10 o'clock a.m. 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 **EXHIBIT** 

pipeline safety pursuant to SDCL 49-34B.

All parties have the right to be present and to be represented by an attorney. These rights and other due process rights may be forfelted if not exercised at this hearing.

In part subject to state jurisdiction for the purpose of

And, number three, are the farm taps in whole or

After the hearing the Commission will consider

7 the matter. The Commission will then issue a declaratory 8 ruling. As a result of this hearing the Commission will 9 make decisions on the issues set forth above. The 10 Commission's declaratory ruling may be appealed by the 11 parties to the Circuit Court and the Supreme Court as provided by law.

And at this point I'd like to deviate and do

just a couple of housekeeping type announcements. For

those -- we really don't have much of an audience today.

But the Rushmore Network is the public WiFi network. And

so if you're searching for a network, that's the one you

want to be on.

We are live webcasting. Now we are not in our normal environment up on fourth floor of the Capitol and so we did a little bit of experimenting over whether we ought to try to set up our own sound system in here and have that feed into the webcast system. That didn't work out so well.

And so what we are relying on are these

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microphones in the ceiling that are picking up the webcast. What they are not doing is obviously amplifying what we are saying. And so we want to make sure we are, on our own, speaking loud enough that everybody in the 4 room can hear what we are saying. But suffice it to say, 5 6 I've been told these microphones are very accurate and 7 will pick up the smallest of sounds so if you have side 8 bar conversations, make sure it's truly a side bar conversation, lest it may be webcast for the world to 10 hear. And they are live all the time. So just beware of that. We will shut them off during breaks. 11

C 1974

Cheri Wittler from Precision Reporting will be transcribing the hearing. Anyone who wishes a transcript of the hearing should contact Cherl directly at some point today and make appropriate arrangements.

We've got a number of our Staff back here. Katlyn and Tina will be staffing today, and so if you've got any needs, let the two in the back know and they will do everything they can to take care of that.

With that, I will now be turning the proceedings over to Mr. Adam de Hueck, our Commission attorney, who will act as Hearing Examiner and will conduct the hearing subject to the Commission's oversight.

Mr. de Hueck, the floor is yours.

MR. DE HÜECK: Thank you, Mr. Chairman.

1 Good morning, everyone. With that, we'll begin with appearance of the parties. And we'll begin with 2 3 Staff as the Petitioner.

MS. EDWARDS: Kristen Edwards, Counsel for Staff. With me is Patrick Steffensen, staff analyst, and Brittany Mehlhaff, staff analyst.

MR. DE HUECK: And Northern.

MR. PORTER: Greg Porter, Vice President and General Counsel of Northern Natural Gas, and with me is Jim Talcott, who is Assistant General Counsel, and Laura Demman, who is our Vice President of Regulatory Government Affairs.

MR. DE HUECK: NorthWestern.

MR. OLSON: Good morning. Tim Olson on behalf of NorthWestern. With me today is Melissa Baruth from our DOT Department and Reed McKee, Strategic Development and Business Development.

MR. DE HUECK: Very good.

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MR. KOENECKE: Brett Koenecke, the lawyer from Pierre flying solo for MDU today.

MR. DE HUECK: Thank you. At this point we'll turn to the matter at hand today, and we'll take oral argument beginning with Commission Staff.

(Discussion off the record)

1 MS. EDWARDS: Thank you, Mr. de Hueck, all parties. I am Kristen Edwards for Staff. With me are 2 3 Staff Analysts as well as our Pipeline Safety personnel 4 Bolce Hillmer.

Over the past several months Staff has been struggling with the issue of what to do to protect the nearly 200 farm tap customers receiving natural gas service pursuant to a contract between NorthWestern and Northern Natural which is set to expire at the end of 2017.

It presents a difficult balancing act in trying to protect customers' access to the gas service they rely on while also ensuring the safety of natural gas users in South Dakota.

The facts and history behind the farm taps are detailed in the Memorandum attached to our Petition and In our Reply Brief.

In summary, Northern Natural operates natural gas transmission service lines in this state. Along those lines are farm taps which provide natural gas service for domestic use to end users at retail.

I would like to clarify at this point that Staff is not asking the Commission to do -- to evaluate discontinuing regulation. What we are asking in part is whether the Commission ever had jurisdiction to begin

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with. Additionally, we are not asking the Commission in 2 this Docket to consider whether to allow a regulated utility service to discontinue service to farm tap users, 3 as some customers may have been led to believe.

4 Discontinuing service is not at issue in this 5 6 Docket. Essentially, all this Docket would do is to 7 determine if the Commission ever had jurisdiction to begin with over the company providing service. 8

If the answer is yes, it would be the responsibility of that company to seek Commission approval to discontinue service, and that would come in a different docket, not by a Staff request.

The first question is whether the Commission has 14 - jurisdiction over the utility providing natural gas to farm tap users. In this sense jurisdiction refers to the Commission's authority to regulate aspects such as rates and reliability under SDCL 49-34A and, perhaps more importantly, to require the utility to continue to provide service unless a request has been made and granted to discontinue such service.

If the answer is no, we need not look any further into what company is a public utility. It is imperative, however, to determine what, if any, company is a utility if the answer is yes so that that company can determine what steps it would like to take going

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2 We endeavored to tackle this confusing and 3 convoluted issue in our Memorandum and in our Reply 4 Brief. The conclusion we came to was that the Agreement signed in 1985 effectively transferred all obligations 6 from Northern to Peoples, which was purchased by 7 UtiliCorp, later known as Aquila. From there we are not 8 entirely certain what happened to this 1985 contract, but 9 we do have reason to believe it passed on to MERC when 10 MERC purchased the assets of Aquila.

In what Staff determined to be a parallel but completely separate string of events, a 30-year contract for utility services was made in 1987 between Northern and Peoples. That 30-year contract was assigned as detailed in our Brief and ultimately assigned to NorthWestern in 2011 and was in a tariff docket that was approved by the Commission in NG11-001.

It was always understood to have an end date of December 31, 2017, after that Docket was brought to the Commission.

Because NorthWestern has all of the obligations and responsibilities of a public utility through 2017, NorthWestern is a public utility until the end of 2017, Because of federal law and because they effectively transferred their responsibilities, Northern is not a

public utility.

And that federal law I am referring to is FERC Order 636, which was appealed to the DC Circuit Court in 1996, and that decision is available online, for more clarification. But it is our understanding through that Order and subsequent Court Decisions that Northern is prohibited from providing gas service as a local distribution company to an end user at a retail.

Thus, this is, unfortunately, unclear at this point if any entity will be serving the 197 customers as a public utility after the end of this year.

We do recognize that our position with respect to NorthWestern has changed slightly between the initial filing and our Reply Brief. The positions we took in the Reply Brief were largely based off of information that we received through the Briefs of the other parties. After carefully reviewing this information in the three days or so we had to do so, it appears that NorthWestern did contract to control facilities in this state through 2017 and is, therefore, a public utility until the end of 2017.

I would note that when we submitted our Reply Brief we were also working off of the assumption based upon the depictions submitted by Northern attached to their Brief that NorthWestern owned the odorizer and the

local distribution company three-way valve which would 2 allow them to shut off natural gas service.

3 However, since we submitted that Reply Brief I'm 4 no longer quite sure that that's the case, and I think there's disagreement between the two partles as to 6 whether or not NorthWestern actually has any ownership of 7 any of these facilities attached to the farm tap, which is an important question because as our statute defines 9 public utility, owning and controlling facilities is a 10 pivotal element in the determination. So that might be a 11 question for those companies, and clarification is 12 something we would greatly appreciate.

Regarding the issue of pipeline safety 14 jurisdiction, as the Commission is aware, its jurisdiction and responsibility to conduct pipeline safety inspections differs greatly from its regulatory authority under 34A, the rate setting authority, as Boice could attest to we inspect plenty of pipelines that we don't have rate regulatory jurisdiction over.

Pursuant to Chapter 49-34B, the Commission has safety jurisdiction over intrastate transportation of gas and gas pipeline facilities. Thus, answering the question of jurisdiction posed in the first question does not necessarily answer the jurisdictional question for the purposes of pipeline safety.

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10 1 When we discuss this issue we are not talking

about the line from the meter to the customer's home.

That is understood to be customer owned and not

jurisdictional, unfortunately, to either the Federal

Government, to PHMSA, or to pipeline safety. Those

6 lines, it is understood, are not inspected.

7 Our main concern, however, Is that someone is inspecting these farm taps, and it is our impression that that is not the case and neither PHMSA nor the 10 South Dakota Public utilities Commission at this point 11 are inspecting those farm taps.

I will just briefly mention the intervenor, Montana-Dakota Utilities, just to say that we have no information on the record as to the location, inspection history, and ownership arrangement and, therefore, none of our positions taken in this docket should be assumed to automatically apply to MDU.

I would just commend them for taking the 19 initiative to come forward and be here today and for always allowing our pipeline safety staff to inspect their farm taps and make sure they are safe for MDU's customers.

Regrettably, at this point we have likely left the Commission with more questions than answers, and I and my fellow Staff members will be available to

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1 don't know exactly what went on as far as data requests

behind the scene. But by responsibility they might have 2

interpreted it as responsibility to find a subsidiary or

another company who could legally not in contradiction to

5 FERC Order 636 provide service. Maybe a subsidiary as

Peoples did originally, but not being here in 2011, I

7 can't be sure.

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I think what Staff was working under the assumption was that there would always be a utility willing to come forward and do this and that the parties had made sure that was the case.

CHAIRMAN NELSON: Did you listen to the recording of that hearing? Have you listened to that?

MS. EDWARDS: I did. It's been a while, but I did listen to it.

16 CHAIRMAN NELSON: I just listened to it within 17 the last couple of days, and it seemed to me that Commission's questions to Staff at that point were pretty 18 19 pointed in that we wanted to be assured of who would 20 continue providing this service after 2017, and the clear

21 response was from Staff at that point was that it would 22 be Northern's responsibility.

23 But I appreciate your clarification at this

24 point.

If we could go to Staff's Brief, page 6 -- and I

NorthWestern's burden.

CHAIRMAN NELSON: In Staff's initial Brief there was considerable amount of talk about the yellow portion 4 of the line, the line going from the odorizer to the farm

6 And forgive me if I'm interpreting this wrong,

7 but I got the impression that Staff's position in that

initial Brief really denigrated the ability of the

farmer, the customer, to maintain their own line. There

was considerable question, I think, about whether those

11 customers could take care of their own line.

12 And we've heard, since that, significant public 13 comment from those customers talking about the thousands of dollars that they have invested in upgrading their 14 15 lines, taking care of their lines, doing that type of 16 thing.

17 Does any of that public comment that we have 18 received since your initial Brief, does any of that 19 change your opinion as to the ability of these farmers to 20 take care of their own lines?

MS. EDWARDS: I'm certain that some of them are 22 maintaining excellent facilities. Some of their 23 facilities may be even better than some of our operator's facilities. And I'm sure some of them are doing an

25 excellent job.

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should say Staff's Reply Brief. I apologize. Page 6,

Section B, Paragraph 1. You've made the statement, and

3 you reiterated it this morning, that Northwestern Energy

4 is a public utility as it relates to the farm taps today.

That is your position; correct?

MS. EDWARDS: It is. If they have the ability to shut off gas service, then by our definition of controlling service, if you can shut it off, if you can close the valve and shut off gas service, I think it would be difficult to argue that you didn't have control

11 over gas service to an end user. 12 Also when I looked at the contracts submitted by

13 the parties I believe there was a statement in the 14 agreement that said Peoples would serve as a public 15 utility, and that was assigned to NorthWestern.

16 CHAIRMAN NELSON: So is it your opinion that 17 SDCL 49-34A-2.1 applies to Northwestern Energy today? 18

MS, EDWARDS: Yes, it is.

19 CHAIRMAN NELSON: And why would that not apply

20 then in 2018 to Northwestern Energy?

21 MS. EDWARDS: There's an argument to be made, 22 and it would be the burden of NorthWestern to advance 23 that argument that when the Commission approved a tariff with an end date that that was understood to be allowing 24

25 them to discontinue service. But that would be 1 But I know in other jurisdictions there have 2 been instances where lives have been lost because maybe 3 somebody who didn't know where that line was, hit that

4 line while they were tilling or putting in tile.

5 And I know we've had consumer issues in the past 6 where somebody had a leak for a year and didn't know it 7 because they simply don't have the technology at their disposal to determine whether or not they're losing gas between their tap and where they're receiving it.

So if there's one tap out there that's not being monitored and not being watched and there's an explosion, that's too many. I'm very, very grateful that so many consumers are taking such great care of their lines.

CHAIRMAN NELSON: So today in your presentation you used the word "unfortunately" as it relates to whether or not you may have the ability to inspect that line. You said unfortunately you don't have the ability to inspect that line for safety.

So I take it to mean that Staff's position is that you wish you did have the ability to inspect that line. Is that accurate?

22 MS. EDWARDS: From a resources standpoint It 23 would be very difficult to inspect all of those lines, but from a safety standpoint and from a taking that 24

25 burden off the customer to know that they don't have a

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accurate?

maybe, maybe not.

leak or to have some assurance that they don't have a leak and to help make sure their line is locatable when they're farming every spring, we would love to be able to 4 help them out, and to some extent that's regrettable. 5 CHAIRMAN NELSON: Okay. So help me understand 6 how that differs from the tens of thousands of private 7 propane lines that are scattered across this state that 8 are not inspected that customers themselves take 9 responsibility for. 10 What's the difference? Is there one? 11 MS, EDWARDS: We don't have any jurisdictional 12 propane in the state so I'd have to ask Boice for sure. 13 CHAIRMAN NELSON: I'm talking about the safety 14 aspect of it. I mean, you're talking about that we 15 wished we had the ability to inspect these farmer-owned 16 lines to maintain and make sure that they are safe. 17 So does that also then carry over to the private 18 propane lines? I'm just trying to figure out where the 19 line is here so far as what your position is with regard 20 to safety. 21 MR. HILLMER: Can I help her answer that 22 question?

questions I have for Staff at this point. COMMISSIONER FIEGEN: Yes. I do have a question of Pipeline Safety Staff. In 2014 it appears that you inspected the farm taps, which that area now is being considered interstate according to Northern? MR. HILLMER: I believe that is correct. They're saying it's nonjurisdictional. COMMISSIONER FIEGEN: So that would be interstate? MR. HILLMER: Yes. COMMISSIONER FIEGEN: Help me understand as a Commissioner why that is interstate? Because it's not, you know, going from state to state. It's coming to a farm tap. MR. HILLMER: It's kind of -- maybe that's a question better answered by Northern, but it's coming off of their interstate line. And to the point of the valves, I know we inspect other utilities, and some of

MS. EDWARDS: If there was a large enough leak,

CHAIRMAN NELSON: Okay. I think that's all the

yes, they should. They would notice a substantial

increase in their gas bill. If it was a small leak,

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100 foot of the house. So you're talking about a 50 foot 1 of downstream line. Where in this circumstance these 2 3 farm taps can be a quarter mile, half a mile out in the 4 middle of a farm field serving this residence. 5 So there's a lot more footage of pipe there that 6 is not being inspected and a lot more places for things 7 to go wrong, I guess. 8 CHAIRMAN NELSON: Thank you. 9 Are these meters -- they're self-read monthly or 10 more often or less often? MS, EDWARDS: My understanding -- and 11 12 NorthWestern would probably be the better one to answer 13 this, but just dealing with consumer issues in the past is that NorthWestern's going out there once a year and 14 doing something of a true-up and hoping that the customer 15 is reading it more accurately and has not always been the 16 case. But NorthWestern has been going out and trueing it 17 18 up once a year. CHAIRMAN NELSON: But it would be the 19 expectation that the customer's reading it monthly and 20 21 self-reporting monthly?

CHAIRMAN NELSON: So if there is a leak and the

customer is doing as they're supposed to, they should be

able to detect that within 30 days or less? Is that

MS. EDWARDS: Yes.

CHAIRMAN NELSON: Absolutely.

that in a propane typically the propane tank's within 50,

MR, HILLMER: I think the difference here is

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the other utilities they've basically taken it over to the valves off of the interstate line so that they own everything after that. But that's obviously not the 3 4 circumstances here. 5 So I don't know how -- you know, I don't know 6 where -- I think there's a point there where we're trying to figure out where their jurisdiction, Northern Natural, ends and where NorthWestern ends, and that's the real 8 9 auestion here. 10 COMMISSIONER FIEGEN: Do you figure that with 11 PHMSA? I mean, are you working with PHMSA on that? 12 MR. HILLMER: Mary has been in contact with them quite a bit. She's been in contact with PHMSA and FERC, and she has not gotten a straight answer one way or the 14 15 other. 16 Like the question she posed was if these farm 17 taps are all jurisdictional, why isn't PHMSA coming out 18 with a ruling that all farm taps are jurisdictional. 19 Which they're not at this time. 20 COMMISSIONER FIEGEN: Thank you. 21 COMMISSIONER HANSON: I have one for you as 22 well, Mr. Hillmer. Thank you. 23 MR. HILLMER: Yes, sir.

COMMISSIONER HANSON: I'm assuming you're

concerned about the safety issue with farm taps.

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1		1	say "we."
2	COMMISSIONER HANSON: How many farm taps, if	2	MS, EDWARDS: Mr, Commissioner, could I add on
3		3	to that?
4	·	4	COMMISSIONER HANSON: Certainly,
5	100 of them.	5	MS. EDWARDS: Just to clarify, when he sald they
6	COMMISSIONER HANSON: And are there challenges	6	Inspect 100 farm taps, many of those are off of
7	u u	7	intrastate transmission lines such as SDIP. So the
8	farm taps that we have run into?	8	intrastate and interstate jurisdictional issue is not
9	MR. HILLMER: You've got the same safety issues	9	present, and It's a lot more clear for Pipeline Safety
10	as you would with a border station. You want to make	10	staff.
11	sure that their reliefs are set correctly, their regs are	11	COMMISSIONER HANSON: Thank you. I was making
12	2	12	that assumption, but I appreciate you taking me away from
13	I mean, it's some of the same exact concerns	13	the assumption.
14	that you would have with a border station in a town. I	14	Thank you. Appreciate it.
15	mean, you're checking the same thing.	15	I do have questions of Ms. Edwards.
16	COMMISSIONER HANSON: Excuse me. Go ahead.	16	First of all, and correct me if my premises are
17	MR. HILLMER: And it might be a higher level	17	inaccurate, but from the information that we have here
18	risk because you're coming off of a transmission line	18	and what you've stated today, it's your belief that
19	that's serving, I don't know, 6, 800 pounds, whatever it	19	NorthWestern is the utility and it's also your belief
20	is, and they're cutting it down to 10 pounds. So if that	20	that that comes under South Dakota Codified Law and it
21	reg station isn't working, you're blowing 800 pounds up	21	must receive PUC permission to withdraw.
22	against a residential customer's service, possibly.	22	And as I understand from your filings, you
23	COMMISSIONER HANSON: Have there been some	23	believe that the Public Utilities Commission has already
24	challenges that you're aware of in South Dakota with the	24	given that permission under NG11-001. Is that a correct
25	farm taps? Is there a history of challenges?	25	premise so far?
	26		28
1	MR. HILLMER: Last year when I was doing an	1	MS. EDWARDS: I certainly believe that there's
2	audit, I mean, I did find some that were not set	2	an argument to be made that they did, but it's not a
3	properly, not where they said they were set. They've got	3	clear argument. No.
4	to keep a book where each one of them's set. Not	4	COMMISSIONER HANSON: Okay. My question is,
5	everyone's set the same.	5	similar to the Legislature, cannot the PUC subsequent to
6	So yeah. There are challenges. Or maybe the	6	one action make a change in an action that it took, a
7	relief isn't popping off where it's supposed to. Yes,	7	previous action that It took?
8	there are challenges there.	8	In other words, can we not in a present or
9	COMMISSIONER HANSON: Perhaps you've answered	9	future docket rule that in NG11-001 that they no longer
10	this in the question with Commissioner Fiegen, but I am	10	have that permission?
11	curlous on the farm taps. Is there a requirement from	11	MS. EDWARDS: Absolutely. The Commission is
12	PHMSA that you are aware of that farm taps must be	12	never bound by precedent of past decisions. And I would
13	Inspected?	13	certainly encourage NorthWestern not to rely on an
14	MR. HILLMER: There's kind of a muddy water	14	assumption that the Commission already made that
15	there.	15	decision. If they feel that's the case, they should
16	PHMSA says yes, we should be inspecting farm	16	bring a declaratory ruling to ensure that's the case, and
17	taps. But then operators are saying that FERC has	17	that is what the Commission believes.
18	jurisdiction over them; therefore, they're not	18	COMMISSIONER HANSON; Thank you. And
19	inspectable by PHMSA or us.	19	argumentative question here.
20	COMMISSIONER HANSON: Who do we take our orders	20	The Commission, recognizing that Northwestern
21	from?	21	Energy is a utility at the present time, can we not rule
22	MR. HILLMER: Me as a gas pipeline safety? All	22	that they are prohibited from shutting off the customers,
23	of you. But PHMSA is my driver, I guess, in the safety	23	and by that ruling they would continue to be because
24	end of it. That's where I take my orders from.	Ι,	excuse me.
25	COMMISSIONER HANSON: I'm being inclusive when I  3 sheets Page 25 to	25	If their position as a public utility ends when

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lines that are drawn here.

they shut off the consumer, if we prohibit them from 2 shutting off the consumer, do they not continue to be a 3 public utility?

MS. EDWARDS: I guess I don't want to be argumentative, but that question assumes they have the ability to turn the valve and shut off and that that's their obligation. Right now I'm not sure that's the case.

But without that --- barring that assumption, I would agree with your statement that you have the ability to force them to continue doing that.

COMMISSIONER HANSON: Thank you.

Thank you, Mr. Chairman.

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14 MR. DE HUECK: Advisors, are there any 15 questions?

MR. RISLOV: No.

MR. DE HUECK: If you don't mind, I had a question I'd like to ask Ms. Edwards.

What type of service do these farm taps fall into? Is this the retail sale of gas? Is it the wholesale sale of gas, or is this some other category of the sale of gas?

23 How do you characterize this sale of gas? 24 MS. EDWARDS: This is the retail sale of gas, 25 and it's covered by their tariff. I believe Section 1.8?

1.1 of NorthWestern's tariff, which establishes 2 the general rate.

MR. DE HUECK: Could you elaborate on why it's the retail sale? What makes it retail?

MS. EDWARDS: Because it's sale of gas to an end user, would be my position.

MR. DE HUECK: With that, we'll turn it over to Northern and let you make your oral argument.

MR. PORTER; Thank you.

10 Good morning. As I said earlier, my name is Rick Porter. With me is Jim Talcott and Laura Demman. 11 12 Appreciate the opportunity.

First of all, I notice Ms. Edwards stood. Do 14 you have a preference whether we stand or sit?

Okay. I didn't want to be disrespectful. If it's okay, I'll sit.

Thanks for allowing us the opportunity to address these issues this morning. Our goal has been and continues to be to ensure that a common understanding of what will happen if no one provides utility service to the 195 or nearly 200 farm tap customers that received notice their utility service will end as of December 31, 2017.

Northern was up here and talked to the Commissioners and Staff in 2015 and again in 2016. We've

also provided quite a bit of information, two Briefs in 2 this proceeding. We've tried to be as helpful as we can 3 be in understanding the complexities of the issues. Many of the issues already discussed here today as far as the 4 difference between retail and wholesale, first sale of 5 6 gas, those are issues that aren't dealt with every day 7 and are important to fully understand the jurisdictional

We realized early on as we started to deal with this in South Dakota that there was no common view in South Dakota regarding the responsibility of service to farm tap customers, responsibility of utility service to customers.

We believe the historical facts are very important, and that's what we've tried to bring to the Commission is the understanding of the history and the corporate structure that has been in place. We've repeatedly -- Northern's repeatedly made clear that if the current utility, NorthWestern, terminates service effective December 31, 2017, the obligation to provide utility service does not default to Northern.

That is not a point that we're trying to say not us. We're trying to make sure that everybody understands the jurisdiction, understands that -- the two agreements that I'll talk about later, but the two agreements and

the importance of those agreements that are part of the history of farm taps in South Dakota.

3 Our persistence has been driven by our concern 4 that If awareness is not brought to these issues, farm tap customers will be without utility service. These are 5 6 farm tap customers that have enjoyed the convenience of 7 natural gas for 50 to 60 years.

To allow farm tap service to be discontinued -and I take Counsel's point that this isn't necessarily about discontinuation, but we can see what the end path is. To allow the farm tap service to be discontinued when there's an existing regulated utility infrastructure, as we're finding out and we should have expected, is difficult for farm tap customers to understand.

As a -- this might be a little unconventional, but what I'm going to do with the time that I have this morning, I'm going to start with what we recommend and we, Northern Natural Gas, and then I'll get into the arguments or the questions that have been raised by Commission Staff.

I tried to as preparing for these comments think about the complexities of the issues and what would be most beneficial to the Commission, knowing that a fairly sizable amount of Information has been received, detailed

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1 information, in a very short period of time, the Briefs, 2 and knowing that a decision on the declaratory ruling 3 statute needs to be made quickly. So hopefully starting 4 with the recommendation will be helpful.

Starting with Northern believes that NorthWestern is a public utility now and will remain one post-December 31, 2017. NorthWestern should have continuing service obligations. And we believe that in Docket No. NG11-001 the Commission asked the question to Staff, as we've already discussed this morning, about what happens after December 31, 2017?

I think Chairman mentioned that the reference was made that that would be Northern's. We tried to make clear we fundamentally disagree with that. We don't think the law or the facts support that. I think Staff is right to begin to come around on that issue.

We do not see anywhere in that Order that it says that Northwestern Energy's public utility obligation ends. So need to distinguish -- and we'll talk further about that, but the distinction between what a public utilities obligation is and what an agreement to provide service -- as the 1987 Agreement, what that Agreement means different than the Northwestern Energy's statutory obligations.

Okay. So what we recommend is the Commission --

1 since there's a lot of hair on this issue, we recommend

2 that the Commission sits down with NorthWestern and works

3 out an arrangement that is satisfactory to the

4 Commission, satisfactory to NorthWestern, and that allows

5 service to continue. The bottom line is we think service

6 ought to continue to folks that have had service for 50

to 60 years.

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Assuming -- so what would that deal look like? It may be -- you may be sitting there -- it may be presumptuous, first of all, for me to suggest that the Commission and NorthWestern ought to work out a deal. And I apologize. I don't mean it that way. But I just think that given what I'm going to describe and what we see, that's the most practical and probably the best path forward.

An arrangement would -- of that nature would include NorthWestern providing the utility service to the farm tap customers. It would also allow NorthWestern to recover the costs and earn a fair regulated return for doing so. In the same manner that other utilities have their operating costs and to the extent they own the plant, they have that in their rates as well.

I understand that there's the existing rates and whether it's rolled in rates or whether, until their next rate case, there's regulatory asset and liability,

1 accounting, all of those things would need to be worked 2 out. Again, I'm not suggesting that it's an easy, 3 straightforward process.

4 The point is a fairer arrangement would make it 5 economically worthwhile for NorthWestern. Farm tap 6 customers would continue to get gas utility service. The public and the Commission could be assured utility 8 service is being safely provided by a sophisticated utility. And from a customer service perspective there 10 would be continuity of service from the existing 11 provider.

You might ask, along the presumptuous path, who are you to come in here and make this recommendation? Fair question. Fair question.

However, the bottom line is the Commission and NorthWestern cannot -- or to the extent they cannot reach an agreement, it is likely that service as of December 31, 2017, will be terminated. Because the other options available to the Commission will be more expensive and time-consuming.

For instance, as demonstrated in this proceeding, in 1985 InterNorth transferred the assets and liabilities of Peoples Natural Gas to UtiliCorp. So as of 1985 UtiliCorp owned Peoples and owned the obligation and the responsibility to provide farm tap service in the

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1 State of South Dakota. That's all covered in our Brief.

2 There's a diagram in the Brief. I'd refer you to that.

3 So there have been transfers. UtillCorp

4 transferred those assets to different companies after

5 1985. They've transferred the Minnesota and South Dakota

assets, originally transferred that to MERC. They've

transferred some of the other assets to other utilities.

8 So as of 1985 it was all -- Peoples was owned by

9 UtiliCorp.

10 If, as Staff suggested at least in its initial 11 Brief, Northwestern Energy has no obligation to serve 12 after termination, that would mean there are two 13 successors that the Commission could look to, and that 14 would be Aquila and MERC. So UtiliCorp became Aquila 15 through a change in name. Aquila then sold the assets

16 and liabilities to MERC. And then MERC and NorthWestern 17 entered into the arrangement over the Milbank sale. 18 The point being if a deal is not worked out and

19 if the Commission would decide that Northwestern Energy 20 doesn't have a utility obligation -- again, we think that would not be the right decision, but if that was the 22 Commission's decision, the Commission would have a choice of pursuing Aquila or MERC or allowing service to be

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24 discontinued.

These aren't great options. Discontinuing

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service would deprive service to customers currently 2 receiving utility service. And, as I have mentioned, 3 they've been receiving service for 50 or 60 years. This would do, in our view, a disservice to the public 5 interest, the very interest the Commission is obligated to uphold.

If the Commission decides farm tap customers should continue to receive utility service, the only option under that circumstance would be to pursue MERC and Aquila. That would be a difficult process, I believe. MERC and Aquila, to my knowledge, neither of which are subject to the Commission's jurisdiction. I think that would be an expensive and time-consuming effort, the certainty of which would certainly be in doubt.

So, In summary, Northern would respectfully submit that the choices would be, one, find that Northwestern Energy Is the utility now, which I believe there's agreement in the briefing on that, and after December 31, 2017, that they continue to be and they have the obligation to provide farm it happen service -utility farm tap service.

If that's not the choice the Commission makes, then I think the decision -- the best option would be to work out an arrangement with Northwestern Energy to

provide that service.

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2 There are two important issues, takeaway issues, that we hit in our Brief that I would just like to 3 summarize. Because they are two -- there are two 4 5 agreements that are important here. One is the 1985 Agreement that I mentioned between InterNorth and 6 7 UtiliCorp that transferred all the assets and liabilities 8 and obligations of Peoples to UtillCorp.

The sale from InterNorth to UtillCorp expressly required UtiliCorp to assume the obligations with regard to the farm taps in South Dakota.

The second agreement is referred to as the 1987 Agreement. And that was an agreement between Northern and Peoples Natural Gas. It was entered into in 1987 so almost two years after the assets and liabilities had aiready transferred.

The 1987 Agreement was merely to write down on paper what had been a well settled practice between two affiliates that were commonly owned for a long time. Since 1930. So the guys in the field knew how things operated. They knew who provided utility service. And they knew who provided the interstate service.

After the sale in 1985 it was thought best to identify those obligations and to put them down on paper. That's the import of the 1987 Agreement.

1 Staff in its Reply Brief agreed that the first 2 agreement I mentioned, the 1985 Agreement, transferred all the assets to Peoples Natural Gas. So there was some 3 4 disagreement. It just from a legal and factual 5 perspective, once that liability was transferred to 6 UtiliCorp, there's not a legal or any reasonable factual point where that reverts to Northern somehow. And that's 7 the point that we've been trying to make. I think we've 8 9 made it now and had the opportunity in briefing to do so 10 and appreciate that opportunity to do that.

The last thing I want to do is just reference --12 or not reference but address, excuse me, the questions that have been posed in this proceeding. And those 14 questions are does the Commission have jurisdiction over the utility providing the farm tap service? Which 15 entity, NorthWestern or Northern, is a public utility with regard to the farm tap service? And are the farm taps subject to state jurisdiction for pipeline safety?

The first question is does the Commission have 20 jurisdiction over the utility providing the farm tap service. As outlined in our briefing, the answer is 22 clearly yes. Both NNG, Northern, and Staff agree that NorthWestern is a gas utility subject to the Commission's exclusive jurisdiction under Section 49-34A.

Northwestern Energy operates, maintains, and

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1 controls equipment for the purpose of providing gas 2 service to the public in South Dakota. NorthWestern 3 squarely fits this definition of public utility.

4 Chapter 34A-4 of the South Dakota Statutes 5 require the Commission -- require the Commission to 6 regulate every public utility.

The second question is which entity, Northwestern Energy or Northern, is a public utility with regard to farm tap customers. The answer is Northwestern Energy is a public utility, as we have discussed. Northern is not.

There is agreement between Staff, Northern, and NorthWestern that Northern is not a public utility. Northwestern Energy is a public utility today, and, as I mentioned earlier, we believe will be after December 31, 2017. However, that's a question that has come up in this proceeding.

I would ask how can such a large gas and electric utility say it's not a gas utility for the purpose of serving 195 farm tap customers but it is a public utility for the purposes of serving other farm tap customers that it had served prior to the MERC contract and for the purpose of serving 60 communities and 86,000 customers in the State of South Dakota?

Based on the statutory definition of public

utility referenced earlier, as well as the size and 1 2 extent of Northwestern Energy's South Dakota service 3 territory, it would be reasonable for this Commission, in Northern's view, to conclude NorthWestern is a public 5 utility even after December 31, 2017.

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As an aside, it is interesting to note the same 1987 Agreement Northwestern Energy is citing to say the obligation terminates has been partially assigned to MERC in Minnesota and Black Hills in Iowa. NorthWestern is the only utility proposing to terminate utility service to farm tap services -- or to farm taps.

All others, including MidAmerican, serve farm tap customers and will continue to serve farm tap customers.

NorthWestern argues that it only agreed with MERC to take assignment of farm taps until December 31. 2017. The Commission should not view NorthWestern's commitment so narrowly. It's important to keep in mind that NorthWestern was in the process of buying the Milbank Pipeline from Northern in 2011, but in order to do so it had to deal with MERC because MERC had service off of that Milbank line.

To take care of MERC and purchase the Milbank Pipeline from Northern, a deal had to be reached, and it was. The deal was that MERC would agree to take service

1 from Northwestern Energy, and Northwestern Energy had to 2 take assignment of the farm tap.

Part of the value proposition for NorthWestern was taking assignment of the farm tap service obligation. It's not clear in the record where the communications broke down in the Milbank approval process between MERC and NorthWestern.

I think the Commission asked the right question, and clearly the wrong answer was provided. But given this miscommunication, I would submit to you that the farm tap customers should not lose service because of it. Farm tap utility service shouldn't be abandoned because of a misunderstanding.

The third question was are the farm taps subject to state jurisdiction for pipeline safety? Unequivocally in regard to Northern facilities -- and we've made reference to the exhibit that we had attached to our Brief, and that's the purpose that that was provided -the answer is no. Northern facilities are subject to state pipeline -- or no Northern facilities subject to state pipeline safety inspection.

22 Because the Northern facilities are used to 23 transport natural gas in interstate commerce, does not 24 involve retail, but in interstate commerce, and the 25 Northern facilities are regulated by FERC, they are

subject to the exclusive safety jurisdiction of PHMSA.

2 Any attempt by the South Dakota Public Utilities

3 Commission to regulate the Northern facilities -- so

4 Northern facilities being upstream of what was referred

to as the three-way valve, would be barred by the

6 United States Constitution and the express provisions of

7 the Pipeline Safety Act at 49 U.S.C. Section 60104.

8 In summary, the Commission has jurisdiction over 9 farm tap utility service as well as the utility providing

10 it. Today that utility is Northwestern Energy.

11 Northwestern Energy is a public utility. Northern is

12 not. Northern is subject to the exclusive jurisdiction

13 of FERC and for pipeline safety for PHMSA. And

14 Northern's facilities, as I said, are not subject to

15 state pipeline safety inspection.

Let me end by, first of all, again thanking you for the time and your attention but the time to address these questions. I appreciate the proceeding being initiated to allow parties to provide information that at the end of the day hopefully is helpful in the Commission's deliberative process.

22 I would like to conclude with what I believe is 23 a real life question but one which I pose today 24 rhetorically for your consideration as you deliberate. 25

Is the public interest being served if on December 31,

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2017, 195 rural customers that have received gas utility

service on a continuous basis for 50 to 60 years abruptly

lose service, not because of anything they did but

because no South Dakota utility had the obligation to

5 serve?

6 And, with that, I'd be happy to answer 7 questions.

CHAIRMAN NELSON: And I do have questions.

9 First of all, I want to thank you for the 10 considerable amount of time that you spent in your Brief 11 talking about the history. I think that's key to all of 12 this.

13 But it also struck me that, for the most part, 14 in your Briefs history to you all starts in 1985. And I 15 think the history of this goes back much sooner than 16 that. So I want to try to fill in some gaps in that 17 history between really the initiation of building a 18 pipeline in 1985 and try to fill In some gaps.

And so my initial questions are going to revolve 20 around the easement between Northern and a number of the landowners. And I'm going to use the one that Staff put on as an attachment that you all used as an attachment in your last Brief to us because I think that's representative.

In the first paragraph the easement seeks to

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find what is being done here, and it talks about a right,
 privilege, an easement to construct, maintain, and
 operate pipelines and impertinences thereto over and
 through the following the described lands.

And so you would agree, would you, that that's what Northern was seeking from the landowners? Is that correct?

MR. PORTER: That is correct.

CHAIRMAN NELSON: The second thing that I think is important in the easement for the history of this is how long was Northern seeking this right? And In the second paragraph it spells that out.

It says To have and to hold -- that almost sounds permanent -- so long as such pipelines and Impertinences thereto shall be maintained -- okay. That's a little bit less than forever -- together with the right of ingress to and egress from said premise for the purposes of constructing, inspecting, repairing, maintaining, and replacing the property of the grantee located thereon or the removal thereof in whole or in part.

And so would it be accurate that the expectation is that this easement would last as long as Northern maintains and operates the pipeline? Is that correct?

MR. PORTER: That's correct.

CHAIRMAN NELSON: And so then we get to the third portion of what -- in exchange for this, what could be a forever commitment on the part of the landowner, what does the landowner get in return for that?

And, obviously, in the first paragraph it talks about some monetary compensation, and if you're crossing a quarter section, the landowner got 160 bucks for a forever commitment.

Would you agree?

MR. PORTER: Yes.

CHAIRMAN NELSON: In the last set of paragraphs there are some additional compensation or agreements, if you will, that state As further consideration for this grant, the grantee herein agrees as follows. Number one, that it will bury all pipelines laid upon said land to a sufficient depth so as to not interfere with the cultivation of soil. Beneficial to both parties, obviously.

Second, that the grantor — that it will pay to grantor any damages that may arise to growing crops, trees, shrubbery, fences, or buildings from the construction, maintenance, or operation of said pipelines. Okay. That makes sense. If you damage something, you're going to compensate for it.

Number three, that grantee will make or cause to

1 be made a tap at any gas pipeline constructed by grantee

2 upon the above-described premises for the purpose of

3 supplying gas to grantor. And I think we all have an

4 understanding that the tap you're talking about there,

5 you're going to make a hole in the pipe and provide

6 the -- essentially in your picture, the blue portion.

Is that accurate?

MR. PORTER: Correct.

CHAIRMAN NELSON: And then that paragraph ends with the phrase "and gas to be taken under this provision shall be measured and furnished to the grantor at the rates and upon the terms as may be established by grantee or by any vendee of the grantee from time to time."

And so my question coming out of that last phrase is would you agree that per that language either Northern or Northern's vendee has a responsibility to provide gas to the grantor as long as the pipeline is operational? One of those two parties?

Is that correct?

MR. PORTER: Yes. Subject to knowing what furnish gas means.

22 CHAIRMAN NELSON: So let me ask you, what do23 you think that means to the farmer that granted the

24 easement?

MR. PORTER: It means they're going to get gas.

That's exactly right.

That does not mean that Northern is selling the gas to them. And that's the distinction that I think is important. We have never sold the gas to the end user in the State of South Dakota.

CHAIRMAN NELSON: Understand. But in this phrase, this phrase leaves open the possibility of that or that if Northern chooses not to, that you will have the responsibility of finding a vendee to do that.

Is that accurate?

MR. PORTER: I agree with that.

CHAIRMAN NELSON: And so the landowner that signed these easements in the 1950s, would you agree that it was their expectation that for as long as that pipeline is operational they will have gas available to them?

MR. PORTER: Commissioner, I don't mean to hedge that, but I think -- I don't know what was in the person's mind signing this easement. We've got a lot of easements. Northern has a lot of easements with what we refer to as a farm tap provision in it that are not receiving gas. They've just never asked for it. They've never asked for a tap.

So I don't know what was in a particular landowner's mind at that time. I would think if they

1 were planning on asking for service, they were looking 2 for access to the pipeline, and then arrangements would 3 have to be made for the gas,

CHAIRMAN NELSON: And that's fair. I would 4 5 agree with that. You can't know what was in each 6 person's mind 60 years ago.

7 So maybe the last question I've got from the actual easement is this: Is it correct that it would 8 violate the easement provisions if neither Northern nor 9 10 Northern's vendee continued to provide gas?

11 MR. PORTER: I would say no. I don't think it 12 does.

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CHAIRMAN NELSON: And please explain that.

14 MR. PORTER: I will. Thank you. 15 Northern's obligation -- as the law has changed 16 over time, Northern's obligation is as a interstate 17 pipeline. We get gas to our farm tap facilities. Farm 18 tap facilities owned by us. It is somebody else's 19 responsibility, today Northwestern Energy's, to purchase 20 the gas, nominate it on our pipeline for receipt, and 21 then delivery at the delivery point.

22 It's not Northern's responsibility -- should, in 23 this case, the utility refuse to do that job, it's not 24 Northern's responsibility under this easement to do 25 anything other than what it agreed to do, and that is to

make a tap available and furnish gas under the circumstances involved. And that would be somebody's got to nominate it. Somebody's got to buy it.

CHAIRMAN NELSON: Okay. So I understand your position and what you just said as it relates to Northern and particularly as it goes back to the FERC Order that Staff mentioned.

8 But the easement language has an "or" in it. It 9 says Northern or a vendee of Northern. One or the other. 10 And you've made the case, I think adequately so, that 11 it's not Northern. It can't be.

12 But that to me leaves the only other option, and 13 that is that Northern must have a vendee to provide gas 14 to the landowner. Is that not correct? 15

MR. PORTER: The language that you're referring to, if I'm reading it correctly, says at the rates and upon the terms as may be established by grantee or any vendee of grantee from time to time,

19 I believe the way I read that provision may be a little bit different. 20

CHAIRMAN NELSON: Feel free.

22 MR. PORTER: To me what that is saying, It's 23 referring to the rates and upon the terms that may be 24 established by the vendee pursuant to somebody earlier referred to NorthWestern's Tariff, Section 1.1. The

1 terms of what that -- and the price of what that's being provided for is established by vendee.

3 I think the language earlier is what addresses Northern's obligation to make available.

5 CHAIRMAN NELSON: So is NorthWestern today your 6 vendee?

7 MR. PORTER: We don't refer to them as a vendee 8 In normal conversation, but under the language of this 9 easement, I would say yes.

10 I would say I've never referred to them as a 11 vendee.

12 CHAIRMAN NELSON: Understand. There's obviously 13 language in here that we don't use so much anymore. But 14 going back -- again, going back to the beginning of 15 history, you would consider them to be your vendee today. 16 And so then I guess maybe the ultimate question

17 is if they cease to be your vendee, do you have a 18 responsibility for a replacement vendee under the

19 language of the easement?

20 MR, PORTER: I do not think Northern Natural has 21 an obligation to go out and get somebody under the terms 22 of this easement.

23 CHAIRMAN NELSON: Let's go to your Brief, 24 your initial Brief, page 5. And the last sentence on 25 page 5 -- are you with me?

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MR. PORTER: Not yet, sir.

Okay. I'm with you.

3 CHAIRMAN NELSON: Last sentence on page 5, 4 Although the pipeline easement permitting the pipeline to

5 be built across the landowner's property was granted to

Northern, Peoples as a separate affiliate of Northern

7 provided natural gas utility service to farm tap 8 customers.

9 So my question is was Peoples your vendee per 10 the language of the easement?

11 MR. PORTER: Yes. Again, I've never thought of 12 them, but under the language -- the wording in the 13 easement I would say that they're the vendee.

14 CHAIRMAN NELSON: Okay. So the document that is 15 missing in all of this proceeding is where is the document that shows the rights, responsibilities, 17 obligations, liabilities of Peoples at that point?

18 I mean, obviously Peoples and Northern were 19 affiliate companies, but there had to be some document 20 where Northern designated Peoples as the vendee per the 21 language of the easement and what the rights, 22 responsibilities, obligations, assets were at that time.

23 Where is that?

> MR. PORTER: I am not aware of a document as you described. What happened over time from the time that

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Peoples was incorporated in 1930 was two affiliates 1 2 worked together. Northern provided interstate transmission, the interstate service. Peoples provided 3 the local retail service in Iowa, South Dakota, 4 Minnesota, Kansas, all the states that Peoples was in. 5 They worked side by side at the town border 6 7 stations or at facilities all over our system. They had 8 a common ultimate owner. 9 I'm not aware of any document that lays out that

I'm not aware of any document that lays out that a person for Peoples is going to do this and a person for Northern, the interstate transmission company's, going to do that. I was not aware of one. The only one I'm aware of is in 1987 where they went to the effort of laying that out.

We tried to supplement this board with a long time employee that was manager of the operations at that time, Keith Peterson. We included his Affidavit to support the historical practices. But I wish I had a document I could give you. There just isn't one.

CHAIRMAN NELSON: And you didn't bring Mr. Peterson with you today.

22 MR. PORTER: Did not.

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CHAIRMAN NELSON: And I appreciate his attempt. His statements, obviously, were pretty vague that, yeah, I know, but beyond that they really weren't helpful in

answering the question that I want answered.

And ultimately we've talked a lot about what the 1985 Agreement, what it transferred, but what I don't know is what did Peoples actually have to transfer?

Okay. Because we don't know what Northern provided to Peoples. We don't know what that relationship was back in the 1950s. Okay.

MR. PORTER: Just let me try this.

9 CHAIRMAN NELSON: Certainly.

CHAIRMAN NELSON: Certainly.

MR. PORTER: There are three three- to four-inch binders that I've come across during this process that document the InterNorth sale to UtiliCorp. So I didn't mean to suggest that there weren't any documents. And they identify assets. They identify easements. They identify the things that you would expect to see in an asset purchase agreement.

There's normal language of all of Peoples

Natural Gas's assets and liabilities are being purchased.

I just want to make sure -- I didn't mean to mislead you

because there is that kind of documentation, but there is

no document that says Joe that works for Peoples or Mary

that works for Northern is going -- carries out these

functions.

24 CHAIRMAN NELSON: Well, and I appreciate that.25 So let me ask a concrete question that may help you

understand where I'm trying to fill in. And I'm going to
 go back to the very helpful picture.

So I understand the blue. And I want to focus
on the red. We've got the three-way valve, and we've got
the odorizing can. Who paid for it initially, and who
installed it?

MR. PORTER: Very good question. You asked that earlier, and it wasn't my time so I appreciate you asking it again. Not Northern.

10 So, again, I'm not trying to be evasive. We only know -- Northern only knows up to the end of the 11 12 blue. We have all of those facilities on our -- on our books and records. We've received FERC certification to 13 construct under our blanket certificate. When we have to 14 remove a facility we get approval, and we specifically 15 identify those facilities up to not including the 16 17 three-way valve.

So the three-way valve which goes down into the mercaptan tank and then into the service line, we did identify these pictures the way we did, and it does say LDC. I believe, frankly, in my review you will see a mixture. So I'm not trying, again, to -- I'm just trying to be forthright.

Downstream of our facilities, I'm not sure. I would not -- I'm not qualified to say one way or the

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other. I know I've seen it both ways.

2 CHAIRMAN NELSON: So just so I'm clear, you
3 don't know who installed or who paid for the three-way
4 valve or the odorizer can; Is that correct?

MR, PORTER: Yeah.

CHAIRMAN NELSON: So Northern designated Peoples as your vendee, but you don't know as your vendee what they paid for or what they installed; is that correct?

MR, PORTER: As I sit here today for Northern

9 MR. PORTER: As I sit here today for Norther 10 Natural Gas, all those -- let's assume that Peoples did 11 pay for that. I don't have any records that would 12 Indicate that.

CHAIRMAN NELSON; Okay.

14 MR. PORTER: So I don't have any way to verify.

15 I can verify what Northern's pald for.

CHAIRMAN NELSON: Okay. So who owns those two pieces today?

MR. PORTER: I'm sorry. The --

19 CHAIRMAN NELSON: The three-way valve and the 20 odorizer can.

MR. PORTER: That's what I was intending to
address. Not sure. We thought it was as laid out in the
pictures. Somebody could disagree with that and I
wouldn't be able to verify that one way or the other. I

25 know it is not Northern Natural Gas. So it is either the

Page 53 to 56 of 133

14 of 53 sheets

end user, the farm tap owner, or the regulated utility. 2 CHAIRMAN NELSON: So we have -- we have a no 3 man's land. Nobody wants to claim ownership of that. Is 4 that accurate? 5 MR. PORTER: I believe that's accurate. Again, 6 I know It's not Northern, but I don't know what the 7 arrangement was between the utility and the farm tap 8 owner. 9 CHAIRMAN NELSON: I appreciate your patience 10 with me answering those questions to get us through 11 pre-'85. So let's look at the 1985 Agreement. 12 In the first whereas clause, Part B, it says as 13 part of the sale UtiliCorp is assuming all of Peoples' 14 rights, duty, liabilities, and obligations in regard to 15 farm taps along Northern's pipeline system. 16 So is there a document that defines what those 17 are? 18 I mean, I find it amazing we've got a two-page 19 agreement to sell an entire company? There's got to be 20 more. 21 MR. PORTER: Excuse me. No. There are three 22 volumes of documents. 23 CHAIRMAN NELSON: Those are the three you were 24 referring to? 25 MR. PORTER: Those are the three volumes.

2 see the paper trail of from when they were installed to today and obviously that's -- I'm not going to find that. 4 MR, PORTER: I appreclate what you're asking. 5 Northern's records -- I want to be clear. We do have 6 records on what Northern owns and operates, what we have 7 authority to construct and what we've over time abandoned. We have a -- we have documentation for that. 9 CHAIRMAN NELSON: Right. 10 MR. PORTER: I can't speak to Peoples or the 11 utilities after that. I wish I could because I get your 12 question, and I understand it. 13 CHAIRMAN NELSON: So let's go to 1987 Agreement. 14 Section 5. "This agreement shall continue from its 15 effective date first written above to and including 16 May 31, 2017. Peoples may terminate this agreement 17 effective any time after May 31, 2017, by providing six 18 months' prior written notice to Northern." 19 And so it was everybody's understanding who 20 signed off on this, including Northern, that Peoples 21 could terminate the farm tap service in 2017; correct? 22 MR. PORTER: As far as I know, sir, everybody's 23 understanding regarding this agreement as written in 24 regards to the termination provision. 25 CHAIRMAN NELSON: And so with Northern 60

who actually owns those two pieces. And I'm trying to

1 CHAIRMAN NELSON: I'm going to regret asking the 2 question, but go ahead. 3 MR. PORTER: InterNorth, Inc. selling the assets 4 and liabilities of Peoples Natural Gas. So selling 5 Peoples' assets and liabilities to UtiliCorp, Inc. 6 That was a large transaction with assets in six, 7 seven, eight states from Kansas to Michigan, Minnesota, 8 South Dakota, Nebraska, Iowa, Missouri. 9 CHAIRMAN NELSON: And in Section A it talks 10 about the purchasing of the assets of Peoples. So was 11 the three-way valve and the odorizer part of Peoples' 12 assets to actually sell? 13 MR. PORTER: Again, sir, I don't -- I don't 14 know. We don't have the -- I will say this, Chairman: Looking through those three volumes of documents that 15 16 transferred the assets and liabilities, they don't get 17 down into that level of detail. They don't get down into 18 three-way valves or mercaptan tanks. 19 CHAIRMAN NELSON: And I can appreciate that. 20 Obviously, what I'm struggling with is -- and you've said 21 that Northern didn't install or pay for those. 22 MR. PORTER: Correct.

CHAIRMAN NELSON: But I don't have

documentation of that. And so I'm trying to figure out

documentation -- I have your word. I don't have

understanding that in 1987, Northern would have also 1 2 understood that if Peoples exercised their option to 3 cancel in 2017, that that would have left Northern without a vendee. Is that correct? 5 MR. PORTER: We believe it would have done two 6 things in regards to the services that are identified 7 under this 1987 Agreement. 8 There's meter reading. The vendee just from 9 historical practices and what was transferred to 10 UtiliCorp, dld not have any obligation to read the meter 11 and give that information to us on a monthly basis.

because they need that information anyway, but that would
not be covered, nor would the obligation which is covered
in the '87 Agreement, what do the parties do when a
landowner that has a farm tap provision in their easement
says I want service now and they give us written notice
that they want service. That also needed to be addressed
and is addressed in the '87 Agreement.
So those two provisions, if the '87 Agreement

That is -- it makes sense for them to do that

So those two provisions, if the '87 Agreement was terminated, those two would be unresolved, would need to be addressed.

to be addressed.
CHAIRMAN NELSON: But you would also lose a
vendee that actually provides the gas to the customer;
correct?

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               MR. PORTER: I don't -- no, slr. I think that
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     they have -- we would lose the vendee under this
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     contract, but It's their obligation to do those things
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     under the 1985 Agreement.
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               So I think they're still -- they may be able to
     terminate the '87 Agreement, but they can't terminate the
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     obligation that they took as a result of the corporate
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     purchase.
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              CHAIRMAN NELSON: In the same agreement, the
     '87 Agreement, under Section 1, Performance of Services,
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     "Northern acknowledges that Peoples shall operate as a
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     public utility."
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              But when we compare that to the Section 5
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     termination clause, it appears that Northern acknowledged
     that a public utility could terminate service. Is that
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     accurate?
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              MR. PORTER: No, sir. I don't think it is.
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              CHAIRMAN NELSON: Okay. Yeah.
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              MR, PORTER: I think it's more descriptive in
     paragraph 1, saying they're going to operate as a public
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     utility. The only -- statute, law, is going to define
     whether somebody is, in fact, a public utility or not.
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              This agreement nor the -- nor would it change
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     the status of Northwestern Energy in the transaction with
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     MERC. It's got to be by statute.
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1 CHAIRMAN NELSON: I think that's all the 2 questions I've got at this point. 3 Thank you. COMMISSIONER FIEGEN: Thank you, Adam. 4 5 First of all, certainly thank you for coming 6 here, and thank you for meeting with us, et cetera, because public interest of farm taps is certainly 7 8 important to the Commission and that we continue the 9 service. Also getting accurate information and not 10 pointing fingers and et cetera. 11 We just need to figure out this. And if the

Court situation instead of a Commission situation. When I read everything, and as you know there's lots of information here, I'm amazed that Northern signed a couple of agreements with distribution companies that they could actually terminate their service in 2017. Help me understand why Northern signed those agreements and then are here today and are baffled that a distribution company wants to exercise their agreement that it looks like Northern signed, to me, that they can terminate the service.

Commission can. This might, unfortunately, be a Circuit

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23 MR. PORTER: The words of the 1987 Agreement are what they are. And they can terminate that. We don't 24 25 dispute that one bit.

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We do -- we also believe that because the 1985
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   transfer of the obligation to provide service, utility
   service, to farm tap customers, that even if they should
   under the terms of the '87 Agreement terminate it, that
   doesn't take away their obligation to serve.
             COMMISSIONER FIEGEN: And that's your opinion,
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7
   of course. Not maybe everybody's opinion but certainly
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   yours.
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9 MR, PORTER: If I may, I mean, it's also the 10 effect of the corporate -- the 1985, the legal effect of 11 the transfer of obligations and liabilities to UtiliCorp. 12 COMMISSIONER FIEGEN: In the 1985 -- if I 13

remember right, in the 1985 Agreement that you signed, 14 though, couldn't you at any time -- there was a certain 15 date that you could actually pull away that vendorship distribution to those customers? You could terminate the 16 17 agreement?

18 MR. PORTER: The 1987 Agreement allows Northern 19 to --20 COMMISSIONER FIEGEN: Terminate until '88 it

21 was. Like July something of '88. 22 MR. PORTER: I think that's -- I can give you 23 that answer.

24 COMMISSIONER FIEGEN: Something like that. MR. PORTER: It says Northern may terminate this 25

agreement effective any time after July 20, 1988. COMMISSIONER FIEGEN: Well, my husband's 2 3 birthday. Good job. 4

MR. PORTER: Well, happy birthday to your 5 husband.

lots of discussion with the farm tap customers from 8 NorthWestern and from Northern Natural Gas. It appears 9 that when I look at -- when we met you, you had a -- you had a farm tap line, and it looks like so many of your

COMMISSIONER FIEGEN: There has certainly been

10 11 customers are in MidAmerican's territory.

Do you know out of those 195 customers that you're talking about now -- and it looked like it was 206 when I met you maybe, but it must have went down to 195. How many of those are MidAmerican territory?

MR. PORTER: I'm not sure of where -- are you talking from an electric perspective? I didn't understand -- I'm a little confused by the terminology because I didn't think gas distribution companies had service territories.

COMMISSIONER FIEGEN: Well, okay. You're right. 22 They don't have service territories. But their trucks might be closer than other trucks because that distribution company may actually be serving that community.

MR. PORTER: Uh-huh. I understand what you're 2 saying.

I don't know. I would guess down in the southeast corner I believe that's a MidAmerican area --COMMISSIONER FIEGEN: Have you talked to

6 MIdAmerican? I mean, that is actually -- you guys have 7 at least a little bloodline relationship.

8 MR. PORTER: With MidAmerican?

9 COMMISSIONER FIEGEN: Yes. 10 MR. PORTER: No, I have not.

11 COMMISSIONER FIEGEN: Actually your parent

12 company has.

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MR. PORTER: That's right.

COMMISSIONER FIEGEN: And you guys have not talked to MidAmerican about providing farm tap service to South Dakota customers, although they're a distribution company and they might serve areas that are relatively to these farm taps?

And I understand there's no service territory, but they're relatively close. You guys have not talked to MidAmerican?

22 MR. PORTER: I have not. I don't know if 23 there's been -- certainly our owner knows that this issue 24 is going on. I'm not aware of discussions. It is not

25 something that they've probably given a lot of thought to

since it's not an issue. It's not their issue. And they're plenty happy dealing with their own issues let

3 alone Northern's. And we don't see it as our obligation.

4 It's a good question. It might be worth 5 talking about. But as far as I'm aware, nothing.

COMMISSIONER FIEGEN: Have you had the opportunity to talk to MERC?

MR PORTER: We have talked -- certainly we have talked to MERC in regards to farm taps in Minnesota. And those discussions are ongoing. They have the same issues that NorthWestern -- same agreement, 1987 Agreement, that

12 they're looking at and the same 1985 Agreement. 13 We have sent them the Briefs in this proceeding 14 so they would have them and so that they would know our 15 arguments and what we believe is going on. So, yes, we 16 have had discussions in that regard.

17 COMMISSIONER FIEGEN: You talked about -- in 18 your oral argument you talked about other farm taps that you deal with in other states like Iowa, et cetera. 19

20 Several, several states. And you pretty much have said

21 that this is new that a distribution company would

22 terminate -- Is that what you said? Something like that,

23 Grea?

24 MR. PORTER: Not remembering exactly what you're 25 referring to, but I would say that we have never had this

issue with a LDC, a local distribution company, saying

they're no longer -- you know, maybe the homeowner moves

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and they don't need the tap with abandoned farm taps

that -- FERC jurisdictional facilities would abandon

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6 So I just want to be clear. We've done that, 7 but we've never had an issue where a regulating utility

has just walked away and told us that they're not going

9 to provide service.

10 COMMISSIONER FIEGEN: And when you talk about 11 that, It appears that that was part of that Milbank 12 exchange when they bought the Milbank Pipeline. This was 13 part of the deal. Somebody used the word "deal" today.

MR. PORTER: I dld.

15 COMMISSIONER FIEGEN: That they would provide 16 service from whatever, 2011 to 2017. Which is not longstanding. I mean, that's very brief when you look at 18 your history of service to farm taps in South Dakota.

19 But when you talk about other states are you 20 talking about apples to apples when you're talking about 21 companies that have bought pipeline and then you gave 22 them like a -- or somebody gave them a five-year -- not 23 you, but MERC gave them a five-year deal to provide 24 service. Is that the same thing or --25

MR. PORTER: In the State of South Dakota,

Minnesota, Iowa. I'm not sure about Michigan. But at

least those states that I mentioned were all states served by Peoples Natural Gas, that Peoples Natural Gas

4 had service responsibilities to.

5 And they're also states that Northern's 6 Interstate pipeline goes through. So certainly as UtiliCorp that acquired all the assets and liabilities in all the states, they've sold them off to maybe three 9 different companies now.

So Black Hills owns the Iowa facilities. MERC owns the Minnesota facilities. They did own -- or have obligations to the South Dakota farm tap customers until the transfer to NorthWestern. I think I mentioned Iowa was Black Hills.

15 Does that answer your question?

16 COMMISSIONER FIEGEN: So then like Black Hills,

17 when they bought some of the Iowa lines --

MR, PORTER: Uh-huh.

19 COMMISSIONER FIEGEN: -- they also have the

20 opportunity to terminate service in 2017?

21 MR. PORTER: They do. And they have a 22 proceeding that is ongoing right now in front of the

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Iowa Utilities Board that where Black Hills has 24

proposed -- not perfectly familiar with it, but has proposed an inspection program where they would inspect

25 Page 65 to 68 of 133

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are misinterpreted by the fact that we're reading

we misinterpret their attitude.

something that someone's writing quickly, and sometimes

From your response, though, it appears that

the farm tap from Northern's jurisdictional facilities to 2 the farm tap owner's facilities. 3 They would look at that line. They would inspect it. If it was not in -- if it didn't meet 4 5 standards, it would replace it. And this filing before 6 the utilities board then addresses, obviously, the cost 7 recovery of doing so. 8 So that is an ongoing proceeding right now in 9 front of the Iowa Utilities Board. Over time there's been, and I cite in our Brief, one instance where 10 11 Black Hills has been before the Iowa Utilities Board. 12 The Iowa Utilities Board has exercised jurisdiction over 13 farm tap services. 14 We've had that discussion. They know that the obligation is within their public utility jurisdiction to 15 16 regulate. So they have stepped up to that, and now 17 they're in the process of establishing what a Black Hills program, if you will, will look like to be able to 18 19 handle -- post-December 31, 2017, will be able to 20 transition long term. 21 COMMISSIONER FIEGEN: Thank you. That was 22 helpful. 23 Also you saw the filing of our pipeline safety 24 manager on safety. Safety is always a concern. 25 It appears that your company filed -- I don't 70 know if it was with PHMSA or FERC. I think it was with 1

2 PHMSA --- a distribution report. Can you help me 3 understand that? 4 MR. PORTER: The report or why --5 COMMISSIONER FIEGEN: Why was it a distribution 6 report? Why was it a distribution report? 7 MR. PORTER: Good question. And we do not look at facilities downstream of ours. So the three-way valve 8 9 downstream, those are not our facilities. 10 PHMSA -- we called up PHMSA and said, hey. How 11 do you want us to handle it? It's not our facilities. 12 They said file a distribution form. So that's what we've 13 been doing. 14 COMMISSIONER FIEGEN: Huh. That makes us all 15 very confused, you know. 16 MR. PORTER: Why is that? 17 COMMISSIONER FIEGEN: Because -- yeah. Interstate, intrastate, distribution transmission, all of 18 19 that. So that gets to be kind of confusing when PHMSA 20 looks like -- I don't know if they changed their mind on 21 some things or --22 MR. PORTER: Yeah. I can't tell you, 23 Commissioner, what's in PHMSA's mind as far as why they 24 wanted us to use that particular forum. But I do know

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you've found the e-mail to be too aggressive? Is that -MR. TALCOTT: I wouldn't say too aggressive.

The discord that goes back between — discourse that goes back between Northern and SD PUC Safety Staff goes all the way back to 2012. And we've had a number of e-mails and correspondence over this issue number three today, and that is what jurisdiction does the Commission Safety Staff have over the Northern assets.

And I don't have the April 26 e-mail in front of me. I don't know if I brought it with me. But, as I recall, the tenor of the e-mail was that someone in the SD PUC Safety department was threatening enforcement action against Northern. And the whole purpose for this discourse was to lay out our position that the Commission does not have safety jurisdiction over Northern's assets and so could not Issue an enforcement letter.

COMMISSIONER HANSON: Thank you.

In your response you stated in the first sentence -- and I won't read the entire sentence. You referred to the letter. You state that Mary Zanter requested from Northern a copy from Northern to its customers in South Dakota regarding, and then you cite.

However, it does not appear that you provided that letter. You basically argue in your response not to provide that letter. Is that accurate?

MR. TALCOTT: I think that's accurate. In the background, as I recall it, I don't remember the back and forth regarding 49 CFR 192.16. I didn't prepare for that today. I was more prepared to talk about interstate facilities and that.

The letter, as I understand it, my recollection of 49 CFR 192.16 is a letter that that regulation requires go out to end users. And I think that -- subject to check, I think the purpose of the regulation is to let customers know downstream of certain assets that do transport gas and are inspected and maintained versus assets that transport gas downstream that may not necessarily be inspected and maintained by whoever is sending the letter -- whoever is required to send the letter on this regulation.

It's to notify the customers downstream that -and in this context here that we're talking about, it
would be the service line. It would be the facilities
from the three-way valve to the house. My recollection
is the purpose of this 49 CFR 192.16 is to let people
know downstream that that service line is not being
inspected by whoever sends the letter.

That's my understanding of the regulation. And
the back and forth between myself and Safety Staff was,
first, that, with all due respect, the safety Staff of

the Commission does not have jurisdiction to require
 Northern to send that letter,

The bottom line is I think with respect to --and I don't know if this is universal across all states
and across all farm taps, but my best understanding is
it's not Northern that sends out that letter with respect
to farm taps.

My understanding is that -- I don't know if it's
universal, but my understanding is the letter that's
required by this regulation is actually sent by the
person providing service to those people, which would be
MERC, Peoples Natural Gas, Northwest Public Service.
That's a big explanation.

14 COMMISSIONER HANSON: Yes. I was looking for a15 yes or no, but I appreciate it. Thank you.

16 So, yes or no, was there a letter sent? You've
17 placed the foundation, an explanation of why a letter may
18 not have been sent. However, was a letter sent?
19 MR. TALCOTT: To the best of my knowledge, in

MR. TALCOTT: To the best of my knowledge
the State of South Dakota a letter was not sent by
Northern to farm tap end users as a result of this
regulation.
COMMISSIONER HANSON: Ms. Demman, is

COMMISSIONER HANSON: Ms. Demman, is that your understanding as well?

MS. DEMMAN: I have no different knowledge than

Mr. Talcott on that Issue. Yes, it's my understanding.
 COMMISSIONER HANSON: The November 23 letter - or at least the letter that was sent to us on November 23

4 and addressed to Rick Mork, as it was filed with some5 other information before us at that time, Ms. Demman, is

6 that a copy of that letter?

7 MS. DEMMAN: Yes. That's a -- one of the8 letters that was sent to customers. It was a mail merge,

9 and so we gave you one as an example of one letter.

10 COMMISSIONER HANSON: Might have to speak just a 11 smidge louder.

MS. DEMMAN: Yes. That was one of the letters
that was sent. It was a copy of the same letter that
went to 195 customers, and it was a mail merge so we gave
you one to -- addressed to Mr. Mork.

16 COMMISSIONER HANSON: So this is dated
17 November 23 because you sent it to us on November 23; is
18 that correct?

MS. DEMMAN: Because we sent it on -- to the customers and to you.

21 COMMISSIONER HANSON: You also sent it to the 22 customers on November 23?

MS. DEMMAN: We did.

COMMISSIONER HANSON: To your knowledge, was there any letter prior to this one sent to customers?

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1 MS. DEMMAN: Not by Northern Natural Gas. 2 COMMISSIONER HANSON: Okay. Curlosity, 3 Mr. Talcott. In the first sentence again on the May 6 letter you stated that Ms. Zanter had requested a letter. 5 That letter you referred to sent from Northern to its 6 customers in South Dakota. 7 So do you regard those 100 plus to be your 8

customers?

MR. TALCOTT: No, sir.

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COMMISSIONER HANSON: Because you state from Northern to its customers in South Dakota.

MR. TALCOTT: I didn't put quotes on it, but I believe to the best of my knowledge I was paraphrasing the inquiry that came from Mary. Our customers are the shippers that have a contract with us under our FERC tariff to transport gas to the custody transfer point at a farm tap, which is immediately before the three-way valve.

COMMISSIONER HANSON: Thank you.

There's been a significant amount of discussion and writing pertaining to who's on first here. And in regards to whether FERC or PHMSA's regulating who where.

In my experiences, oftentimes I find that there are more than one Fed department that feels that they're in charge. Is that possibly the case here, where FERC

and PHMSA both have regulation responsibilities?

2 MR. TALCOTT: Absolutely. There's no -- in our 3 opinion there's no doubt about that,

COMMISSIONER HANSON: And is not the PUC required to engage in those activities that are required of us by PHMSA in regard to regulation and interaction in this case with Northern?

MR. TALCOTT: If I understand your question carefully, I don't agree. The Federal Energy Regulatory Commission has exclusive jurisdiction over Northern with regard to matters that are dealt with in the Natural Gas Act. By federal statute, by the same token, PHMSA has exclusive jurisdiction over the safety operation of Northern's assets.

And as we've outlined in our Briefs and then I think in the subsequent letter that we filed yesterday, by virtue of the Pipeline Safety Act, it expressly says that states may not -- may not regulate the safety aspects of interstate pipelines.

And we've demonstrated that we are an interstate pipeline by virtue of the fact that we transport gas in interstate commerce, and the facilities for which the gas is transported to Northwest at these farm taps, those facilities are regulated by FERC. It's a two-prong question in the Pipeline Safety Act statute, very clearly

1 answered that, yes, we are an interstate pipeline 2 regulated by PHMSA.

3 COMMISSIONER HANSON: So if you are an 4 interstate pipeline regulated by PHMSA and the farm taps 5 are under FERC -- is that what you're saying?

MR. TALCOTT: The rate regulation is FERC, and the safety regulation of the Northern facilities as we characterize them and describe them is under the safety jurisdiction of PHMSA.

COMMISSIONER HANSON: So is PHMSA examining those farm taps?

MR. TALCOTT: They have the exclusive jurisdiction to. My understanding of their attention or inspection of farm tap facilities is inconsistent across Northern's pipeline system.

There are different areas of PHMSA. There's a 17 regional office in Kansas City. There's a regional 18 office in Texas. I don't know where the Northern region is off the top of my head. Different PHMSA inspectors go out for different parts of the Northern system, and they're not necessarily consistent.

I know that in talking with Northern's Pipeline Safety personnel in preparation for this meeting, I know for a fact that on some of the audits the farm tap facilities are, in fact, inspected by PHMSA inspectors.

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I can't say that it's consistent across the system.

2 But the fact -- if it is a fact that PHMSA inspectors do not go out and during a routine inspection don't go out and inspect each of the farm taps, that does not defer them to state jurisdiction.

6 COMMISSIONER HANSON: I understand that, It's a 7 curlosity with me. Because PHMSA, my familiarity with 8 PHMSA is that they are extremely anal and that they are first on the scene to condemn if a state has not dotted every I and done everything perfectly. So It would surprise me if they are not examining the farm taps,

And are you aware of how often, the frequency, in South Dakota?

14 MR. TALCOTT: I am not, sir,

15 COMMISSIONER HANSON: The November 3 letter, 16 Ms. Demman, you state in the second paragraph at the end 17 of the paragraph that "The impediment to continue the farm tap service is that no utility has stepped in to 19 provide the retail distribution service NorthWestern 20 plans to abandon."

21 I understand, however, during the discussion 22 here that Northern has not made an effort to find another 23 operator. Is that correct?

MS. DEMMAN: That's correct. COMMISSIONER HANSON: Well, if that is the

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Impediment, I have to ask why not.

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services to.

MS. DEMMAN: Well, as Mr. Porter said, you know, our view is that NorthWestern is currently the public utility providing service. And it seems that it makes the most sense for them to continue providing service to the customers who they're currently billing and providing

And so we have not considered that some other -that it's our obligation to provide some other utility to do that.

COMMISSIONER HANSON: Well, if you don't feel it's your obligation legally, morally don't you have an obligation?

MS. DEMMAN: We feel we had a moral obligation to raise this to the Commission and to bring it to your attention because we're concerned about continuity of service to the farm tap customers. And we believe NorthWestern is in the best position to continue to do

COMMISSIONER HANSON: So you have a distributor of your product who's notified you that they're not going to distribute your product anymore, but as a company you feel that you'll just not serve those customers anymore?

24 MR. PORTER: Let me, Commissioner, address that 25 if I may. When you say your product, first off, the

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natural gas is not Northern's. We are the highway that transports.

COMMISSIONER HANSON: I understand that, MR. PORTER: Okay. So when the gas is purchased, we will transport it. We will provide the service that we're set up to and that we do provide and provide reliably.

So if somebody nominates it, goes out, finds the gas, and nominates on our system, we'll provide that service.

COMMISSIONER HANSON: I understand that. And you stated that Northern does not have an obligation to pursue a vendor. And you are obviously speaking from a legal aspect.

15 But I'll ask you the same question. Don't you 16 believe that you have a moral responsibility?

17 MR, PORTER: No. sir.

COMMISSIONER HANSON: None whatsoever?

18 19 MR. PORTER: Our obligation is to raise it to 20 this Commission. Moral obligation, if that's what we're

21 talking about, is to raise it to this Commission so that

22 they can make a determination, since it's in our belief 23

under this Commission's jurisdiction under South Dakota

Law that the Commission can make appropriate decisions regarding the continuation or discontinuation of that

1 service.

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2 COMMISSIONER HANSON: Both of your statements 3 are interesting from the standpoint of the letter that 4 was sent November 23. You say you have an obligation to 5 raise it and to have this forum apparently, and yet the

6 letter that was sent on November 23 is then inflammatory 7 and misleading because you state in the letter on page 2

8 "Why would the South Dakota Public Utilities Commission

9 allow discontinuance of my utility service?"

10 You're placing this in front of those consumers 11 as if why in the world would the Public Utilities 12 Commission be doing this? And yet now you're sitting 13 here saying that that is something that you wanted to see 14 done.

You state "Does the South Dakota Public Utilitles Commission believe the longstanding service to farm tap customers is outdated or somehow inappropriate?" You have five different statements that you could have answered for those folks and explained to them of why we're having this, instead of alarming them.

For instance, the fourth statement, "If Northwestern Energy no longer serves my farm tap, who should I call to investigate possible leaks or respond to emergencies?" Well, there wouldn't be any leaks. There wouldn't be any emergencies if no one was serving them.

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1 So you're alarming them to all of these issues, but now

you're sitting here saying you have no moral obligation 3 whatsoever and you have no legal obligation but yet

you're inciting these consumers. And you're misleading

them as to the purpose of this meeting.

I'll let you respond in a second.

7 If you look at the first page, the second 8 paragraph, "The Commission is evaluating whether it 9 should discontinue regulation of farm tap service after 10 doing so for decades." And I probably should read that 11 entire paragraph prior to that because it all builds on 12 a -- on footings and on the foundation of trying to 13 incite those consumers. And I found it offensive.

14 If you'd like to respond, you may. 15 MR. PORTER: Yes, I would, and Laura may as

16 well.

17 First of all, in regards to you finding it 18 offensive, I apologize on behalf of the company. That is 19 not the purpose or the Intent of the communication. The 20 purpose and intent of the communication, we had for

21 months and actually over a year been reaching out to this 22 Commission and to Staff trying to talk through issues.

Northwestern Energy sent a letter out to its customers that we thought was very unbalanced and very one sided. So we thought it was appropriate to send the

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certain date. I know we're getting into -- deep in the legalities, but, as I read It, a layperson, it seems to

MERC where you talk about termination of service at a

MR. RISLOV: Well, the '87 Agreement, the

agreement that appeared when NorthWestern took over for

me termination of service means termination of service.

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MR. PORTER: I haven't looked at the --- I'll directly respond, and then, Laura, please do.

easement holders a letter regarding what we see as the

And we tried to pose some questions that we

And given the feedback that we're receiving and

COMMISSIONER HANSON: Hit what mark?

MR. PORTER: Hit the goal of encouraging the

There are certain things in this letter that one

COMMISSIONER HANSON: The mark of informing them

status, if you will, or the nature of ongoing service.

think are fair questions. And the intention was not to

both sides. And we tried to point those issues out to

but we did believe that a direct communication was

the calls that we received, we think it hit that mark.

customers to know what's going on and if they're

interested or If they're concerned, to get involved.

of what was taking place could have been done by, for

instance, the three issues that were brought up at the

could construe could have been written far better. And

as you read this letter, I'm sure you would agree with

me. And there are items in this letter that should have

beginning of this meeting for the purposes of this

meeting regarding who has jurisdiction.

them. Not trying to incite anything or offend anybody,

incite anything. It was to make sure they were aware of

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been left out.

appropriate.

could have done better or anything. But If I read It, I'm -- I can't read a document but think I could do better than what I did the previous time. So I would agree with your statement to the extent that do we think we could do better knowing what we know now? Yeah. I

I haven't looked at the letter to see what we

think we probably could.

COMMISSIONER HANSON: Weil, if your Intent as you stated was to -- I'll use the word "arouse" Instead of incite, but I believe it incited people. If that was your intent, to get action from them, then certainly this type of a letter with misleading statements and inflammatory statements certainly would accomplish that. However, if your first goal, as you said, was to Inform the people, it was very lacking in that respect.

18 Thank you, Mr. de Hueck.

19 CHAIRMAN NELSON: I have a follow up. One 20 follow up.

In response to one of Commissioner Fiegen's questions, Mr. Porter, you talked about the 1985 Agreement where Peoples transfer "the obligation to serve."

Where I'm still struggling is -- and correct me

1 And I think your explanation to the Commissioners is 2

something -- you have it saying something different than 3 that. You have it conditional termination, yet they

still have to provide all the services, and I find that 5 confusing.

Do you have something that would explain that, 7 and was that presented to NorthWestern at that time you 8 signed that agreement or you approved them taking over service?

MR. PORTER: A couple of issues there, if I may. First of all, the 1987 Agreement has termination 12 in there. That can terminate. It doesn't impact the obligations to serve that were transferred two years 14 prior in 1985.

So I encourage everyone to look at those two things differently. They overlap, but termination of the '87 Agreement does not dilute, minimize, or eliminate the obligation that was transferred in 1985.

MR. RISLOV: So if I can put this in ordinary language terms, not attorney terms, was NorthWestern aware of what you thought termination of service meant? Were they in agreement with that? Do you have any idea? Because it appears today they don't agree.

MR, PORTER: I do not have any idea, and I do agree with you that it doesn't -- I mean, today it seems 25

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1	89  I like there was not agreement. That was a transaction	1	91 dilutes the language of the easement.
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6	, , , , , , , , , , , , , , , , , , , ,	5	•
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8		7	call the hearing back to order in NG16-014. Again, my
	,	8	name Is Adam de Hueck, and I'm the Hearing Examiner
9 10		9	today.
1		10	But before we proceed any farther with oral
11	that they could terminate service. And I think it said	111	argument, we do have a matter of housekeeping to take
12		12	care of.
13		13	Northern had made a Motion to Accept a
14	, , , , , , , , , , , , , , , , , , ,	14	Supplemental Brief, and now I'll turn it over to Chris.
15	· · · · · · · · · · · · · · · · · · ·	15	CHAIRMAN NELSON: I would move to grant
16	Northern and UtiliCorp. UtiliCorp, pursuant to the 1985	16	Northern's Motion for Leave to File Supplemental Brief
17	Agreement and all the states, the tariffs that they had	17	and Supplemental Brief of Northern Natural Gas Company.
18	on file with the states that regulated them, they knew	18	Discussion on the Motion?
19	what their obligations were. Entered into the 1987	19	COMMISSIONER HANSON: Second.
20	Agreement to memorialize those obligations.	20	CHAIRMAN NELSON: Discussion on the Motion.
21	As that agreement terminates it does not change	21	Hearing none, all those in favor will vote aye.
22	the obligation that	22	Those opposed, nay.
23	MR. RISLOV: I understand that's what you think.	23	Commissioner Hanson.
24	I'm wondering what UtiliCorp thought,	24	COMMISSIONER HANSON: Aye.
25	MR. PORTER: I can't answer what UtiliCorp	25	CHAIRMAN NELSON: Commissioner Fiegen.
_	. 90	1	92
1	thought other than what I just said.	1	COMMISSIONER FIEGEN: Fiegen votes aye.
2	MR. RISLOV: I think that's all I have.	2	CHAIRMAN NELSON: Nelson votes aye. The Motion
3	MR. DE HUECK: I have one quick question.	3	carries. The Motion is granted.
4	MR. PORTER: Yes, sir.	4	With that, I'll turn it back to Mr. de Hueck.
5	MR. DE HUECK: Mr. Porter, I found your	5	MR. DE HUECK: Before moving on with
6	discussion with Chairman Nelson about the express terms	6	NorthWestern's oral argument, I'd like to ask the
7	of the easement very interesting. And whether or not	7	Commissioners if they have any further questions for
8	Northern has an obligation to provide a vendee under the	8	Northern.
9	terms of the easement.	9	COMMISSIONER FIEGEN: I just have a clarifying
10	My question is to you has that Issue ever been	10	question, Mr. de Hueck, for Northern If I may ask.
11	litigated?	11	You talked a lot about obligation of service,
12	MR. PORTER: Not with Northern Natural or any	12	And we asked you about the the termination of service.
13	proceeding that I'm aware of.	13	So we talked about termination of service, and what I
14	Whether the term "vendee" has been litigated In	14	thought I heard you said is, yes, they can terminate
15	any jurisdiction, I'm not sure. But not regarding	15	their service according to those agreements that were
16	Northern.	16	signed. But the obligation of service is still there.
17	MR. DE HUECK: And then just very quickly, I	17	And I heard different places where the
18	want to make sure I'm following you here.	18	obligation of service. So could you clarify to me who
19	Termination of the '87 does not dilute the '85	19	the obligation of service is to or who has the obligation
20	Agreement; correct?	20	of service? Although they can terminate an agreement,
21	MR. PORTER: Yes, sir.	21	who has the obligation of service?
22	MR. DE HUECK: But the '85 Agreement can dilute	22	MR. PORTER: Yeah. That's a good question.
23	the express language of the easement, no problem.	23	Thank you.
24	MR. PORTER: I'm not sure I understand your I	24	COMMISSIONER FIEGEN: And I know you've answered
25	think there's a point there, but I wouldn't say that it	25	it. I just need it clarified again.

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MR. PORTER: That's fair. The 1987 Agreement --
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   let me say it this way. The 1987 Agreement does not
   affect the obligation and liabilities that were assumed
   by UtiliCorp.
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So to the extent you find that the obligation to provide utility service to farm tap customers was transferred from InterNorth to UtiliCorp, that obligation is with UtiliCorp and its successors, regardless of the '87 Agreement or any other agreement. Unless it was further transferred.

11 COMMISSIONER FIEGEN: So successors as? 12 MR. PORTER: Successors would be from UtillCorp, 13 Peoples, so the same company, went to change the name to 14 Aquila. So same entity yet. Then to MERC. Some of it 15 went to other utilities that aren't in your jurisdiction. 16

But relevant to this proceeding, would have been to MERC because MERC took Minnesota and the South Dakota properties.

And then the question is NorthWestern. What did they -- what did they assume in regards to the '87 Agreement.

Somebody in their briefing asked of those original obligations, that obligation to serve utility -utility service to farm taps, was that transferred to NorthWestern?

I don't know. We don't have any of those documents. We don't see those documents. That is between the successors of I guess at that point Aquila. So we don't know what the transaction between Aquila and MERC or between MERC and NorthWestern.

COMMISSIONER FIEGEN: So you're telling me the obligation of service, you have really no idea where that lies?

9 MR. PORTER: I've got an Idea, but I don't 10 have --

11 COMMISSIONER FIEGEN: A legal.

MR. PORTER: Yes. I know It's not Northern, I know InterNorth transferred that to UtillCorp. After UtiliCorp I think it was Staff that said in their Reply

Brief it is not -- we don't have those documents.

16 So UtiliCorp, Aquila to MERC, those aren't in 17 the record. And the MERC, as far as I know, the MERC to NorthWestern, to the extent that obligation was 19 transferred, is not in the record.

COMMISSIONER FIEGEN: Okay. And so then the obligation of service doesn't appear that legally we actually know for sure. According to your testimony today, we don't really know for sure where that is at.

And Northern, of course, isn't obligated to be a distribution company, but some may differ on your

1 obligation to find a vendor.

2 MR. PORTER: Somebody may have a view on that. 3 I don't know what that argument would be so it's hard to 4 address. I don't think their -- personally I don't see that, but I don't know what that argument would be.

In regards to the obligation, we know that it went from -- it was at Aquila and went to MERC. To what extent it went to MERC, we don't know. We know they filed tariffs with the Commission to provide that service to the farm tap customers. They were acting as if they had the obligation. But, again, I don't know what the documents said.

COMMISSIONER FIEGEN: But remind me, Mr. Porter, in your agreements didn't you have to approve all those agreements?

MR. PORTER: No.

COMMISSIONER FIEGEN: Okay.

MR. PORTER: Excuse me. For assignment of the 1987 Agreement Northern, had to approve that assignment. But I'm not talking about the '87 Agreement. I'm talking about the responsibility that was transferred in 1985. That was transferred through an acquisition of the assets and liabilities.

There's not another obligation to further transfer that, UtiliCorp to further transfer that, unless

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they sign the agreement. But they can sell those assets 1 and sell those liabilities, and that's what happened

3 here. So there's no obligation for UtiliCorp or Aquila

to come to Northern -- it wouldn't have been Northern.

5 It would have been InterNorth, to get approved.

COMMISSIONER FIEGEN: Okay. Thank you.

COMMISSIONER HANSON: I have one, Excuse me.

Forgive me if this has already been asked and answered.

If NorthWestern wanted to serve additional customers along the line, do you know what Northern's position would be from a standpoint of allowing them to serve additional customers? Would you provide the same services that you are presently to NorthWestern so they could provide those services?

MR. PORTER: I think I'm with you on the question. Along our line? So if a new --

COMMISSIONER HANSON: Well, presently you're serving up to that point that we discussed and clarified to a number of customers, and NorthWestern is providing services to those customers presently.

If additional farmers, ranchers, or communities were Interested In having that same service provided by you, by another provider, would you be willing -- or do you know whether or not you'd be willing to provide those? I suspect you would from your history, but I'm

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MR. PORTER: Good question.

To the extent a easement grantor has a farm tap provision in their easement and they ask for a tap, we will provide that tap. We've got an obligation to furnish the tap. We will do that, as long as there is a utility to provide -- or somebody to provide the utility service.

Northern would not do that, but Northern would get the gas to the -- through its facilities, Northern facilities.

COMMISSIONER HANSON: So you're saying in a situation where there's an existing easement and existing line as opposed to building additional transmission systems.

MR. PORTER: Yes. Northern generally is not agreeing -- and I can't say it categorically, but we no longer include farm tap provisions as a general rule in our easements.

20 COMMISSIONER HANSON: Okay. I just wanted that 21 clarified. Thank you.

22 Thank you.

23 MR. DE HUECK: With that, NorthWestern, you may 24 proceed.

MR. OLSON: Thank you. Tim Olson on behalf of

NorthWestern. Thank you, Commissioners, for this

opportunity.

When this landed on my desk I first asked the question why is there a service to these customers? And that points all the way back to the 1950s and those easements.

Northern obtained those easements in exchange 8 for their agreements. And this was discussed earlier so 9 I don't need to go into depth on this, but those 10 agreements involved providing access via a farm tap and 11 furnishing gas, either by directly grantee, Northern, or 12 indirectly by grantee. And it is in those shoes that --13 those vendee of grantee shoes that NorthWestern sits 14 today.

If we would not have acquired that Milbank Pipeline, we would not be in front of the Commission today. We would not have an obligation to publicly serve these customers. We have a contractual obligation to serve those customers through the end of 2017.

19 20 But our role began in 2001 -- 2011, excuse me, 21 when we acquired the unrelated Milbank Pipeline. A 22 condition of that transaction was that we provide 23 assistance to Northern for a limited duration with 24 Northern's farm tap customers. Our agreement is with Northern. Our agreement is not with the farm tap

1 customers.

2 When we negotiated that acquisition of the 3 Milbank Pipeline we were very explicit that we were

willing to undertake those service obligations through

the end of 2017. That limitation was documented as part 6 of that transaction. It was reviewed and adopted as part 7 of this Commission's Docket in NG11-001.

8 I also want to point out that in that 9 acquisition of those Milbank Pipeline assets NorthWestern 10 did not acquire any of the assets of the farm tap

11 customers that are a part of this docket. We don't

12 operate any of those equipment or facilities. For the 13 most part we don't even know where the bulk of those 14 facilities are.

We know where the farm tap is, and we know where it enters the ground. But after those facilities enter the ground, we do not know where the bulk of them are.

We do provide a number of services pursuant to the 1987 Agreement that's been discussed, and the assignment of a portion of those services to us. We fill the odorant receptacle every year. We bill Northern's farm tap customers on a monthly basis. We read the meter once a year, and, as has been discussed earlier, the farm

24 tap customer is required to read it on a monthly basis.

25 When that doesn't happen we estimate usage based on prior

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usage.

2 We also are a first call responder for the farm 3 tap customers. If they believe there is a problem with their service, we are called to determine what that problem is. But if we discover the problem, a leak or something else, we cannot fix it. We cannot address it.

7 It's either the customer's responsibility, the farm tap

customer's responsibility if it's on their line, or it's

9 Northern's responsibility if it's part of the farm tap.

10 There are -- there's a distinction that I think 11 has been weaving its way through the discussion today, 12 and that is the direct responsibility to serve and the 13 indirect responsibility to serve. And when we look at 14 that 1985 Agreement and the responsibilities that Peoples 15 sold as part of that -- or that Northern sold, those 16 are -- those are the vendee responsibilities that left.

17 And what we haven't talked about on the 1985 18 Agreement are what Northern retained. And in the second 19 Paragraph, B, of that agreement it said the 20 responsibilities that "prior to closing were Northern's 21 responsibility shall be Northern's responsibility after 22 closing."

The 1985 Agreement did not change the 1950s easements. In fact, the 1985 Agreement specifically maintained those responsibilities.

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One of the customers filed comments in these 2 proceedings. David and Deanna Brouwer. They own land 3 subject to the easement. And I believe their comments 4 amply summarized the roles that Northern and NorthWestern 5 are filling in this -- with this service.

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6 And I quote "No matter how you define the 7 entities in this case, what has occurred here is a 8 contract in which Northern in exchange for land easements 9 has agreed to provide natural gas via a farm tap." The 10 Browers continued, "I would consider NorthWestern's part 11 in this situation as that of a subcontractor of Northern. 12 Ultimately it is Northern's responsibility to provide 13 service to the current farm tap customers. That can 14 continue to be done with renegotiation of NorthWestern's 15 contract or by finding another subcontractor to provide 16 this service. In the past Northern has formed its own 17 subcontractor to provide this service, and that certainly 18 could be an option once again at this time. I would say 19 that the current contract that NorthWestern has with 20 Northern is just that, a contract that was made in 1987 21 that is due to be renegotiated at this time."

We have reached out to Northern in an attempt to renegotiate the terms of this agreement which expire at the end of next year. To this point we have not been able to get Northern to come to the negotiation table.

They have refused. I don't understand that, given their obligations in the easements to continue to provide a vendee for this gas, but that is what's happened here.

To suggest, as they did earlier, that NorthWestern is just abandoning this service and walking away without doing anything is not accurate.

I understand and can appreciate that the way Northern is organized today, they cannot directly provide the gas to the customers. But that doesn't change the promises they made in the easements. They can still find a vendee, a subcontractor, another party to provide that service.

13 With that, I'll be happy to answer questions 14 from the Commission.

CHAIRMAN NELSON: And I do have some questions. Thank you.

And I think you answered this question at the outset, but I'm going to ask it again just to be clear. Does Northwestern Energy consider itself to be Northern's vendee per the easement language?

MR. OLSON: Yes. We do. The reason I say that Is we entered into this service arrangement pursuant to a contract. That contract --- we were assigned responsibilities under a contract. That contract is with Northern.

1 CHAIRMAN NELSON: Earlier with Staff I made 2 reference to the March 8, 2011, hearing in which we 3 approved an Order in NG11-001. And in that hearing 4 NorthWestern upon Commissioner questioning clearly stated 5 that it believed it was Northern's responsibility to 6 continue to serve customers with gas after 2017. 7

And so my question is was it your -- was it NorthWestern's clear understanding back in 2011 that come 2017 that was going to -- responsibility was going to shift back to Northern? Is that correct?

MR. OLSON: That is correct. We made that, our belief there, very explicit as part of the negotiations for that transaction.

CHAIRMAN NELSON: And, in fact, that's what you clearly conveyed to the Commission; correct?

17 CHAIRMAN NELSON: Is it still NorthWestern's position that Northern has that obligation after 2017? 18 19 MR. OLSON: Yes.

MR. OLSON: That is correct.

CHAIRMAN NELSON: If you would pull out Staff's Reply Brief, I want to ask just a few questions from that. And if we go to page 6, Staff Reply Brief page 6, Section B, first paragraph. Staff makes a statement that "NorthWestern Is a public utility only through 2017," as it relates to these farm taps.

102 1 Do you agree with that statement?

> 2 MR. OLSON: I don't agree with that statement. 3 I personally find it a very difficult question to answer. We have some hallmarks of a public utility, and we have 4 5 some hallmarks of not being a public utility with respect 6 to these farm tap customers.

We don't own any of these assets. We don't know where the assets are. We cannot fix issues with respect to these assets. But, on the other hand, the Order approved a rate for these, although it was simply adopting the rate that MERC used with respect to these customers.

So I don't agree with Staff's position, but I also don't disagree with it so I'm being very unhelpful to the Commission.

CHAIRMAN NELSON: Well, that's helpful. But thank you for your candor. I appreciate that.

Moving to page 5 of that same Brief, the first paragraph, Staff does a nice job of laying out what in their mind is a quandary. And I'm wondering if you would be willing to, you know, provide your insight. Apparently in the '87 Agreement Peoples was able to close Northern's inlet valve for nonpayment of bills.

24 Presumably that obligation would have followed all the way down the line to you folks.

But it's Staff's understanding that you don't believe that's the case. So enlighten us on that, please.

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MR. OLSON: Well, let's -- if I may direct the Commission and the other participants here to the picture of the farm tap. And I can attempt to walk us through that.

I would state today that the farm tap inlet valve on the blue side of the diagram in the lower left-hand corner is something that NorthWestern does not touch.

On the other side of the diagram, the three-way valve which the customer owns, if there were to be a failure to pay, that is the valve that we would turn.

Now many of the farm tap services are not as pretty as this one. They've been out in the fields for years. And so sometimes in situations we've come across those valves that -- customer-owned valves that we don't care to touch because of what might happen. In those situations we have to contact Northern to deal with the other valve.

CHAIRMAN NELSON: So fair to say that you've had to shut some of these off: is that correct?

MR. OLSON: Yes.

CHAIRMAN NELSON: And when you say that they're

not all as pretty as this, obviously this one has been very recently painted and does look very, very nice. But I can imagine that prior to it didn't look nearly as nice as this does,

5 We're going to have just a little bit of 6 interruption, but we'll keep going.

So you made the statement that you believe the three-way valve belongs to the customer?

MR. OLSON: Yes.

CHAIRMAN NELSON: So how did the ownership of that -- does the customer also own the can?

MR. OLSON: Yes.

CHAIRMAN NELSON: So how did the ownership of that valve and can transfer from Peoples to the customer? MR. OLSON: I have a document here that is not part of the record. And I recognize that. But it is the Peoples Natural Gas Construction Manual. And this is something that we have handed out to some of the farm tap

19 customers. 20 MS. BARUTH: I just had it as record from MERC. 21 It was given to me by MERC as record.

22 MR. OLSON: Thank you,

23 It defines the customer fuel line as the piping

system from the meter outlet to the outermost wall of the customer's building structure. And the meter outlet, I

1 don't know if it's on the second picture or not. It's 2 right at the meter there.

3 CHAIRMAN NELSON: Right. And so that's from a 4 Peoples document; correct?

5 MR. OLSON: That is from a Peoples document. 6 MS. BARUTH: When I was given this document by

7 MERC I was told this is a document they use to tell

8 customers how to comply with building a service. And so

9 this is a document that Peoples, we believe -- we don't

10 know that for a fact. We believe Peoples gave to 11 customers to tell them what they needed to put into the

12 ground for specifications.

13 MR. OLSON: If I may continue with that, 14 included in those specifications are a series of 15 components, including the three-way valve, the farm tap 16 wick odorizer, et cetera.

17 And I would also remind the Commission that when 18 we entered the picture here we did not acquire any of 19 these assets. Our only relation here is pursuant to that 20 1987 Agreement, a portion of which was assigned to us. 21 We don't have any of these assets on our books. We are 22 not depreciating any of these assets. We can't. We 23 don't own them.

CHAIRMAN NELSON: Well, and I think this begins to maybe clear up what had been muddled in my mind

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1 because we've had earlier discussion about we don't know

2 who ultimately or initially paid for that three-way valve

or can. But what -- apparently Peoples in this document

is claiming that the customers did. And then that's also

5 your understanding.

MR. OLSON: That is our understanding, yes,

7 CHAIRMAN NELSON: And so on this picture instead 8 of three colors, there should only be two colors. The

9 red should be yellow; correct?

10 MR. OLSON: We believe that is inaccurate as 11 depicted.

12 CHAIRMAN NELSON: Northern referred to a letter 13 that apparently they believe NorthWestern sent to all of

14 these farm tap customers. Is that in the record?

MR. OLSON: Yes, it is.

CHAIRMAN NELSON: Can you refer me to --

17 MR. OLSON: It is very near the top of the

18 docket. November 14, 2016, Northwestern Energy Sample 19 Letter.

20 CHAIRMAN NELSON: Perfect. That's all the 21 questions I've got at the moment.

22 Thank you.

23 MR. DE HUECK: Commissioner Flegen.

24 COMMISSIONER FIEGEN: I do not have any

25 questions at this point.

MR. DE HUECK: Commissioner Hanson.
 COMMISSIONER HANSON: Neither do I. Thank you.
 MR. DE HUECK: That means we've concluded our
 first round of oral argument.
 I'm sorry, Brett. I forgot about you over

I'm sorry, Brett. I forgot about you over there. You're so quiet.

25 no.

MR. KOENECKE: Quite okay, Adam.

Originally this docket started out looking like a general broad question of what were the rights and responsibilities of people providing farm tap service.

MDU resources has an interest and provides farm taps through Williston Basin and also through its regulated utility, and so it felt like something MDU should show up and be a part of. So I'm glad I'm here. It was a broader question.

It seems after this question like it's a much more narrow dispute than it was originally held out to be. So I might or might not file a brief. But since I've got the microphone for a couple of minutes, I would say, you know, it doesn't feel to me like farm taps meet the definition of a public utility, of gas utility, if you look at the statutes.

The service Isn't held out to the general public. It's held out to only those people who have an ability to have a farm tap in the first place. Somebody

MR. DE HUECK: Any other Commissioners?
So, with that, we've now finished our first round of oral argument. And what I think we're going to do is start back from the beginning starting with Staff.

I wanted to call it a chance for a rebuttal, but

I wanted to call it a chance for a rebuttal, but
it seems like we're more at concluding remarks too. So
interpret that how you want to, and you may begin.

7 interpret that how you want to, and you may begin.
8 MS. EDWARDS: Thank you, Mr. de Hueck,
9 Commissioners. One thing that I would note is that if
10 the 1987 Agreement was merely to clarify the 1985
11 Agreement as it's been portrayed, it seems odd to me that
12 a large sum of money, even by today's standards, would
13 have changed hands in a clarification transaction.
14 It's also concerning to Staff that while all

It's also concerning to Staff that while all parties seem to agree that there is a moral obligation to the customers, no company stepped forward to warn the customers until Staff filed their hand by forcing the -- or by filing the Docket.

I'm not entirely certain of what all communications have transpired, but if other letters have been sent out by either party prior to the filing of this docket or subsequent to the filing of this docket, it would be interesting to have those filed in the record to see what else customers have been told.

The Commission also asked of Northern how many

who's got a pipe through the ground.

And so it looks to me like the obligation to serve comes from the easement document. That's where the obligation is found in that paragraph 3 as I'm reading that. And it doesn't feel to me like the Commission has authority to regulate those documents. That's a Circuit Court matter. That's a real estate transaction.

So be that as it may, it seems like a -- it seems like it's ripe for an action in Circuit Court and maybe a breach of contract and sort it out there. Is the contract breached without the provision of that service found in No. 3? And, if so, is specific performance a remedy? Can the court order one of the parties to follow through on its agreement?

So that's my two cents worth on that. Like I said, I might or might not file a brief depending on where this goes. This really feels like a very specific incident going on and not a broader question like it was framed up to start. So we'll see where it goes, but I sat here long enough to think I could at least offer that much up.

22 MR. DE HUECK: Are there any questions for 23 Mr. Koenecke?

CHAIRMAN NELSON: For the only time in my life,

of the 197 customers are in MidAmerican's service area.

2 I would point out that while MidAmerican's service area,

3 unlike an electric territory, is not a territory, it is

4 detailed in their tariff -- in Section 2 of the tariff we

5 do discuss what communities they serve.

I don't know where all the 197 farm taps are,
but I do know of the contacts that we've gotten that are
filed in the docket from consumers. They appear to be --

those consumers do appear to be down there in that

10 Yankton Gayville area, which is specified in

11 MidAmerican's tariff. Unlike ---

Northern says they haven't reached out to MidAmerican. Staff did, did make that attempt. It wasn't a successful attempt.

We've also reached out to several other companies and other jurisdictions. Northern stated that -- or suggested that it might be a good idea for Staff to work with NorthWestern to come to a workable solution like they have in other states. And we have explored that. We have worked exhaustively to do that.

21 And we have reached out to the Kansas
22 Commission. We've reached out to Alliant Energy,
23 Black Hills. We've had extensive discussions with
24 Black Hills. How are they making this work in their
25 areas? What ideas could we take and implement here?

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1 And, unfortunately, with our rate structures 2 here and the way we have to look out for NorthWestern's 3 other ratepayers to make sure that they're not 4 subsidizing anything, we don't have that same opportunity 5 that the Iowa Utilities Board has been presented with 6 where Black Hills Energy was -- or the other customers 7 were somehow structured to where it wouldn't be R inherently unfair for those, in their case, 1,500 9 customers to spread the cost of buying the system. 10 11

And when they say that the Iowa Utilities Board has exercised jurisdiction, it's my understanding that Black Hills Energy is actually buying that line and is going to control that customer line. And, I mean, other analysts, Ms. Mehlhaff and Mr. Thurber, have had these discussions with Black Hills and might know a lot more about that, but the jurisdictional question there is very clear because Black Hills Energy in Iowa and potentially Nebraska and Kansas, depending on how things play out, is going to own everything that is in red or yellow in those states.

Beyond that, I don't think I have anything else to add, other than that I don't know if she's on the phone now, but our Pipeline Safety Manager, Mary Zanter, was going to make herself available for any questions since she was the one that did the 2014 inspection and

1 COMMISSIONER FIEGEN: I do not.

2 COMMISSIONER HANSON: No.

3 MR. DE HUECK: With that, the floor is

4 Northern's.

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MR. PORTER: Thank you. Just a few comments.

6 One in regards to Northwestern Energy's on the

7 facilities. As far as the three-way valve and the

8 odorant tank, I believe the record will be -- is clear,

9 but I just want to clarify.

10 What Mr. Olson said is not inconsistent with11 what our view is either. We know what we own. We don't

12 know who owns down. I think there's a combination.

13 Mr. Olson says pursuant to a document that I've never

14 looked at, the Peoples construction documents -- that

15 might be the farm tap owners. Grant you that. Don't

16 know. So I just wanted to clarify that.

17 What is interesting is we're talking about18 jurisdictional issues, and it's come up a few times.

19 Both NorthWestern and before NorthWestern MERC had

20 tariffs on file with the Commission to provide service to

21 these farm tap customers.

22 It seems odd for a nonjurisdictional service to

23 be subject to tariffs that are on file with the

 ${\bf 24}$   $\,$  Commission. It seems that the Commission has exercised

25 jurisdiction over the area, required tariffs to be placed

had those discussions with Northern.

2 Thank you.

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MR. DE HUECK: Commission questions.

CHAIRMAN NELSON: Just a couple. First a

statement and then a question.

I appreciate what you have just said now, kind of illuminating for all of us the efforts that Staff has gone through to try to resolve this, short of having to go through this proceeding and whatever may emanate from that. So I appreciate that.

The sole question I've got, Ms. Edwards, I spent a great deal of time earlier going through the Easement Agreement between landowners and Northern. I did that because I wanted to understand clearly the history of that.

But is it correct and your understanding that this Commission does not have the authority under state law to adjudicate issues revolving around easements and easement rights?

MS. EDWARDS: It absolutely is. And that's
something that we are very forthright with landowners
about in our siting dockets that we have. That's an
accurate statement. Yes.

CHAIRMAN NELSON: Thank you.

MR. DE HUECK: Any other questions?

on file, and the regulated entities have compiled withthat.

3 So based on the history of activity, it is -- it
4 seems clear to Northern that it's a jurisdictional

5 activity and one in which the Commission has exercised

6 authority over.

7 There's been quite a bit of discussion on the8 '85 and the '87 Agreements. And I think that's

9 appropriate. I think that's where focus ought to be. An10 opinion was offered on what the easements -- what the

11 obligation is under the easement. And the easement says

12 what it does.

However, to say that that is controlling,
eliminates — poof — the '85 Agreement where the
obligations to provide specific services that we provided
evidence on that indicate what was provided before the
'85 Agreement and what was provided after the '85
Agreement just is making null and void that '85 Agreement

18 Agreement just is making null and void that '85 Agreemer19 to say that those obligations did not transfer.

20 And I think that from a transactional
21 perspective those obligations did transfer. They
22 transferred to UtiliCorp. They are with UtiliCorp or one
23 of UtiliCorp's successors.

Just check my notes here.There was a comment ma

There was a comment made regarding the 1985

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4	Agreement not changing the agreement. And I wanted to	1	119 I'm not sure I mean, Northwestern Energy is a customer
1 2	Agreement not changing the easement. And I wanted to	2	of ours. We don't, as a practice, intervene in our
3	affirm that. The '85 Agreement transferred the obligations and how those obligations were being	3	utility's matters or customers' matters unless they
4	handled transferred those to UtiliCorp. The language	4	invite us to.
5		5	Because once we intervene, we're subject to
6	In the easement is the same, but it has to be read in the context of who was providing those who was fulfilling	6	discovery and subject to questions, and we would much
7	those obligations and who acquired them. It doesn't	7	rather have just from a customer relations perspective
8	change the language of the easement.	8	we'd rather utilities need to manage that.
9	And I think that's all I have. I appreciate	9	COMMISSIONER FIEGEN: Did you listen to the
10	your time.	10	hearing at all or read the Order?
11	MR. DE HUECK: Any further questions for	11	MR. PORTER: No, ma'am.
12	Northern Natural Gas?	12	COMMISSIONER FIEGEN: Were you aware that the
13	Commissioner Fiegen.	13	Public Utilities Commission Staff and I certainly
14	COMMISSIONER FIEGEN: NorthWestern talked a	14	appreciate Ms. Edwards explaining to the Commission today
15	little bit about asking Northern to come to the table to	15	how the Commission Staff has tried to work with different
16	negotiate. Were you part of those discussions or	16	entities to address this issue.
17	MR. PORTER: I was not.	17	Have you been aware of those discussions, or did
18	COMMISSIONER FIEGEN: Those requests.	18	you know the Staff was working on those?
19	MR. PORTER: I'm not sure there have been those	19	MR. PORTER: I do not know the extent. I knew
20	discussions,	20	Ms. Edwards and I have had a couple discussions, two,
21	COMMISSIONER FIEGEN: The requests to come to	21	three discussions. We've brought up to the Commission
22	the table?	22	and to the Commission Staff the fact that the ongoing
23	MR. PORTER: I'm not sure what that means.	23	the proceedings ongoing in Iowa. So yes. I knew that
24	We've had conversations. Our commercial groups have had	24	they had had that conversation.
25	discussions regarding this docket about what's going to	25	I had also talked to the General Counsel of the
	118		120
1	happen on December 31, 2017. It's your obligation. No,	1	Iowa Utilities Board, and I knew that they had been
2	it's your obligation. We've had those discussions.	2	called. So I knew at a very high level that there had
3	COMMISSIONER FIEGEN: But no negotiations type	3	been some interaction. I have no information regarding
4	of discussion?	4	the substance of those discussions.
5	MR. PORTER: There's nothing that I would call	5	COMMISSIONER FIEGEN: Were you aware that they
6	negotiations, no.	6	have visited with MidAmerican?
7	COMMISSIONER FIEGEN: Okay. Also we talk a lot	7	MR. PORTER: I was not aware of that.
8	about the Commission's Order and the discussion at a	8	Let me say, if Ms. Edwards told me that, I don't
9	hearing in 2011, the Natural Gas 11-001.	9	remember. So no. As I sit here, I was not aware of
10	MR. PORTER: Uh-huh.	10	that.
11	COMMISSIONER FIEGEN: Did you intervene in that	11	COMMISSIONER FIEGEN: So we did get a copy in
12	docket?	12	the docket, the letter that you sent to the customers
13	MR. PORTER: Not that I'm aware of.	13	that Commissioner Hanson has certainly asked you a lot of
14	COMMISSIONER FIEGEN: And why was that?	14	questions about. It certainly surprised me when I got
15 46	MR. PORTER: I can't speak specifically. I	15	that letter in my Inbox also.
16	don't know. But we very rarely intervene. And this is	16	Have you sent other letters to customers, or is
17	the first one I remember in a long, long time that we've	17   18	this it, the only letter you have sent?
18 10	intervened in.		MR. PORTER: First of all, they're easement
19 20	COMMISSIONER FIEGEN: And you have a Government Affairs Department; correct?	19 20	holders. They're not we would not consider those customers.
21		21	COMMISSIONER FIEGEN: Tomato tomahto.
22	MR. PORTER: We certainly do.  COMMISSIONER FIEGEN: That certainly could have	22	MR. PORTER: It's important in a sense that we
23	intervened in the 2011 docket?	23	communicate with our customers all the time.
LU	MR. PORTER: We could have, but I don't know	24	COMMISSIONER FIEGEN: Correct,
24	PHY CONTROL TRE GOOD HOVE, BULLIUMIL NOW		COLLISTONIO LATINA PROPIA. COLLEGE
24 25	what the reason would have been. We had an agreement.	25	MR. PORTER: Laura.

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               MS. DEMMAN: We sent a letter recently, which is
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     dated December 9, where we invited customers to meetings
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     that we have scheduled in Madison and Beresford to answer
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     any questions that they may have for Northern.
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               COMMISSIONER FIEGEN: Madison and Beresford?
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              MS, DEMMAN: Yes.
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              COMMISSIONER FIEGEN: So have you asked other
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     people to participate so the communication is balanced?
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              MS. DEMMAN: We have encouraged customers to
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     participate so that their views can be known.
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              COMMISSIONER FIEGEN: How about other like Staff
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     or NorthWestern or -- have you invited them to
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     participate?
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              MS. DEMMAN: They are participating.
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              COMMISSIONER FIEGEN: Okay. So they're going to
     participate at the Madison and Beresford?
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              MS. DEMMAN: I'm sorry. At that meeting. No.
     We sent an invitation to the customers, to the farm tap
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19
     landowners, to answer any questions that they may have.
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             COMMISSIONER FIEGEN: And so the Staff has not
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     been invited?
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             MS. DEMMAN: I didn't copy the Staff on that.
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             MR. PORTER: I don't believe they have.
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             COMMISSIONER FIEGEN: Okay, So -- okay.
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             So my last question on jurisdiction. And it
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sounds like Mr. Porter certainly believes the Public 2 Utilities Commission has jurisdiction. I don't know if 3 that's true or not, but I do -- this is what I feel, just 4 as one Commissioner, that our farm tap customers in South Dakota will have to spend their financial resources 5 6 possibly to litigate this in Circuit Court because I 7 believe we don't have jurisdiction possibly over all the 8 issues that our farm tap customers will have concerns 9 about. 10 So they will have to use their financial 11 resources possibly to deal with an easement contract and to ask possibly Northern to live up to their easement 12 13 contract. So that will be in Circuit Court and the financial resources of the farm tap customers. 14 15 That's it. 16 MR. DE HUECK: Mr. Rislov. 17 MR. RISLOV: Mr. Porter, you brought it up this 18 morning, and now Ms. Edwards brought it up today. 19 But in comparison of what could happen in 20 South Dakota with Iowa and other states, do you realize 21 that the regulatory circumstances among all these states

may be entirely different and may impact customers in

MR. PORTER: Absolutely realize that --

entirely different ways with regard to cost versus

1 MR. RISLOV: So they're maybe not an apples to 2 apples comparison to compare South Dakota to Iowa? 3 MR. PORTER: Sir, I didn't mean to say because 4 Iowa was doing something, South Dakota had to or vice 5 versa. 6 What I was saying is that there are potential 7 solutions out there that ought to be looked at and 8 pursued. Whether South Dakota or Iowa is pursuing one, I 9 100 percent agree with you, that may not fit for 10 South Dakota, if that's the question. 11 MR. RISLOV: And we've gone a little bit into 12 the tariff, and you mentioned the tariffing and whether 13 or not that indicated jurisdiction. 14 Do you know if this Commission ever approved 15 MERC's tariff? 16 MR. PORTER: In regards to farm taps? 17 MR. RISLOV: Yes, 18 MR. PORTER: It was on file, Yes. 19 MR. RISLOV: Did the Commission approve it? 20 MR. PORTER: I'm not sure. It was on file and 21 was replaced by -- you're making a distinction that I'm 22 not aware of. 23 MR. RISLOV: Honestly, I'm not either. It was 24 handled by another employee, but it may have well been they were filed simply for informational purposes. 25

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during the 1980s and confusion over exactly what jurisdiction we did have with regard to those farm tap customers? Would that surprise you? 5 MR. PORTER: I would not be surprised about 6 that. 7 MR. RISLOV: That's all I have. Thank you. 8 CHAIRMAN NELSON: Just one follow up. 9 You made mention of meetings that you're going 10 to be conducting in I think you said Beresford and 11 Madison for the easement grantors. 12 Would South Dakota PUC Staff be welcome to 13 attend those meetings? 14 MS. DEMMAN: Yes. Yes, they would. 15 CHAIRMAN NELSON: Thank you. 16 MR. DE HUECK: I had a quick follow up to this 17 question probably belongs in Circuit Court, as 18 Mr. Koenecke explained. And it goes back to whether 19 Northern Natural Gas has an obligation to secure a vendee 20 for these farm tap customers. 21 And I understand there was a corporate 22 transaction in 1985 where Northern Natural Gas relieved 23 that burden that they were carrying by doing a corporate 24 transaction and selling that obligation to another

company to continue the service.

Would you be surprised that there was discussion

benefit?

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My question is were the easement holders at this 2 corporate transaction when you sold the duty to have service provided?

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Where were the easement holders? Don't they have a stake in ensuring their easement isn't altered in a significant way?

MR. PORTER: Easement holders would have, I believe, an interest if their easement was altered or amended, one. Two, I don't think they were. They were transferred from -- excuse me. They weren't even -- the easements weren't transferred.

The same entity that owned -- that had entered into the easements as we have discussed prior to 1985, the easements that were entered into by Northern Natural are held today by Northern Natural.

What was transferred was the utility service that through historical practices had developed and Peoples Natural Gas had provided --- from the beginning had provided that utility service. Northern Natural never did. Peoples provided that service.

That was transferred. It does not impact a word of the easement. So I think the easement is unaffected.

MR. DE HUECK: Thank you.

Anything else?

With that, we'll move to NorthWestern.

MR. OLSON: Thank you, Mr. de Hueck. So if the easement is not affected by that transfer, then evidently there still is an obligation by Northern to provide a vendee of grantee in this situation.

And what has perplexed me throughout this process is if, as Northern alleges, they gave up all of those obligations in 1985 in that corporate transaction, why are they here today?

Why are they entering an agreement in 1987 to have others provide those services on their behalf? Why are they consenting to the assignment in 2011 to have others provide those services on their behalf?

I think the answer -- the answer to me is clear. They understand their obligations under those easements, and they're trying to make other people perform those obligations on their behalf.

We took a fair amount of flack based on their November 23 letter. Northwestern Energy and its predecessors have provided utility service to your farm tap since Northern Natural Gas first constructed the tap. That is so inaccurate. NorthWestern did not enter this picture until 2011.

The carefully crafted words "and its predecessors" suggest a link between NorthWestern and the

servicers prior to that. It's ironic that the servicers 1 2 prior to that were Northern's at the very beginning. But that was obscured in this letter. 3

4 And if Northern was willing to provide a copy of this letter to us, I can only imagine what the December 9 5 letter might say since they haven't been willing to provide that copy.

Thank you.

MR. DE HUECK: And, Mr. Koenecke -- or are there any questions for NorthWestern? I'm sorry.

Mr. Koenecke.

MR. KOENECKE: Thanks, Mr. de Hueck. I appreciate that. I'll try to be brief.

I wasn't trying to Intimate that Northern would be able to somehow simply escape liability for their agreements under the easement in Circuit Court by saying that somebody else now has the responsibility.

I guess I want to make clear that it seems to me like it would be their obligation to third party in somebody who they think now has that.

And so thinking about that caused me to look at the '85 and the '87 Agreements, and I found it curlous. The reliance on the '85 Agreement seems to be somewhat complete, that all of this was transferred in '85.

Well, if it was all transferred in '85, why is

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there an '87 Agreement? Why did you come back two years later and do another agreement transferring these 3 responsibilities? It seems like there must have been something reserved in '85 and then transferred in '87. 4

And if the argument is that all of these rights and responsibilities are transferred to somebody else, why is there an end date in the '87 Agreement?

Those are questions that I think a Circuit Court is teed up to resolve. It would be helpful for anybody in your situation to have taken testimony. I think that would have probably helped here today, taken testimony from witnesses and have documents admitted.

You know, hindsight's 20/20. But there are certainly questions here to be resolved, and I wouldn't want anybody to think they can't be resolved.

I will follow up by saying I don't think the Commission has jurisdiction over farm taps. I do not think that is a public utility or a gas utility under the definitions in the code. But no one should think that the customers have no remedy because I think they certainly have a good argument to put forth.

Thank you.

MR. DE HUECK: Well, at this point I'd like to invite any individuals who might be listening on the phone or attending the webcast to continue submitting

4 hearing. 5 CHAIRMAN NELSON: Well, I guess I do want to 6 make a final statement. But before I do that, I'm 7 looking at fellow Commissioners. 8 Do we want to request any final briefs? Or are 9 we good with what's on the record thus far? 10 COMMISSIONER HANSON: I'm comfortable. 11 COMMISSIONER FIEGEN: I'm opposite of him. 12 Surprise, surprise. 13 CHAIRMAN NELSON: And I'm really uncomfortable 14 right now. 15 No. Actually I'm comfortable also, but I will 16 defer. If one Commissioner would like to have those, I 17 think timing is the issue. My presumption is that we 18 would make a decision probably at our January 3 meeting. 19 And I'm looking at Ms. Edwards. Is our timing 20 okay if we make a decision at our January 3 meeting? 21 MS. EDWARDS: Well, under the Administrative 22 Rule, if the Commission asks for more information, I 23 think that 60 days is somewhat told. So --24 CHAIRMAN NELSON: Well, I personally don't want 25 to push it past that because we are not going to be the 1 final arbiter of this, and so I want to give as much time

written comments into the record.

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2 as possible for folks to move down the line if needed. 3 MS. EDWARDS: I have no objection to preparing a 4 brief by -- or prior to January 3 to give you guys time 5 to read and will comply with that order if you wish. 6 COMMISSIONER FIEGEN: Mr. Chairman, I recant. I 7 will not need a brief. 8 CHAIRMAN NELSON: Are you sure? 9 COMMISSIONER FIEGEN: Yes. 10 CHAIRMAN NELSON: Okay. Then that resolves that 11 question. 12 I guess the only statement that I would make --13 first of all, I appreciate all four of the parties coming 14 here and enduring our questions and putting your 15 positions out in front of us. 16 We have all, over the last three or four weeks, 17 had the opportunity to read the comments of the people 18 that really matter here. 19 I know you all have business interests and 20 shareholders you have to respond to to make prudent 21 business decisions. But there are 195 South Dakotans 22 that for 60 years have relied upon this service. It's 23 part of their business. It's part of their home. It's 24 how they stay warm. And we've heard from those people.

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1	STATE OF SOUTH DAKOTA)
2	:SS CERTIFICATE
3	COUNTY OF SULLY )
4	
5	I, CHERI MCCOMSEY WITTLER, a Registered
6	Professional Reporter, Certified Realtime Reporter and
7	Notary Public in and for the State of South Dakota:
8	DO HEREBY CERTIFY that as the duly-appointed
9	shorthand reporter, I took in shorthand the proceedings
10	had in the above-entitled matter on the 14th day of
11 12	December, 2016, and that the attached is a true and correct transcription of the proceedings so taken.
13	Dated at Onida, South Dakota this 2nd day of
14	January, 2017.
15	3diludi y, 2017.
16	
17	
18	Cheri McComsey Wittler,
	Notary Public and
19	Registered Professional Reporter
	Certified Realtime Reporter
20	
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THE PUBLIC UTILITIES COMMISSION
 2
                                        OF THE STATE OF SOUTH DAKOTA
 3
              IN THE MATTER OF COMMISSION
STAFF'S ESTITION FOR DECLARATORY
RULING REGARDING FARM TAP
CUSTOMERS
 4
                                                                                            NG16-014
  5
            ------
                                          Transcript of Proceedings
January 17, 2017
 q
         BEFORE THE PUBLIC UTILITIES COMMISSION,
KRISTIE FIEGEN, CHRIBNAN (telephonically)
GARY HANSON, VICE CHRIBNAN
CHRIS NELSON, COMMISSIONER
10
11
        COMMISSION STAFF
Adam da Husck, Commission Attorney
Karen Cremer, Commission Attorney
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Joseph Rezac, Staff Analyst
Eric Paulson, Staff Analyst
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Northern Natural Gas (telephonically)
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             Timothy P. Olson, appearing on behalf of NorthWestern
             Brett Koenecke, appearing on behalf of Hontana-Dakota Utilities
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                           Reported by Cheri McComsey Wittler, RPR, CRR
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25
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COMMISSIONER HANSON: NG16-014, In the Matter of 2 Commission Staff's Petition For a Declaratory Ruling Regarding Farm Tap Customers. 4 We have a number of questions before us. I counted six. And we have a variety of letters going to legislators and other folks over the past couple of weeks. A lot of information going back and forth. So I'm going to state what I believe to be the questions, and then I will listen to all of the parties to find out 10 if I am correct as to those questions. 11 Question 1, 2, and 3 are part of the original 12 Staff's Request for a Declaratory Ruling. One would be does the Commission have jurisdiction? Two, if so, which entity is a public utility? Three, are the farm taps in whole or in part subject to state jurisdiction? Understanding I'm not reading the entire question. 17 Four would be Northern Natural Gas Company filed a Motion to Reopen the Record, take Judicial Notice, and Correct the Record. Five would be staff filed a Motion for Judicial Notice. And six would be the Request for 21 Deferral. 22 Are there any other questions on this docket 23 before the Commission that any of the parties are aware 24 of? 25 Thank you. If not, it would be my suggestion to

1 TRANSCRIPT OF PROCEEDINGS, held in the 2 above-entitled matter, at the Matthew Training Center, 3 Foss Building, 523 East Capitol Avenue, Pierre, 4 South Dakota, on the 17th day of January, 2017, 5 commencing at 1:40 p.m. 6 7 В 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24

because that needs to be decided before we go to the others. Two would be -- this is presumptuous, that the Request for Deferral is denied. Second would be Staff filed a Motion for Judicial Notice, which really needs to be decided prior to the others. And number four would be Northern Natural -- excuse me. Third would be the fourth 8 question that I stated, Northern Natural Gas Company filed a Motion to Reopen the Record, Take Judicial 10 Notice, and Correct the Record. And then the next three questions would be the original first three questions. 12 Is there any concern with taking them in that 13 order? 14 MR. OLSON: No. 15 COMMISSIONER HANSON: Hearing none, then the 16 questions pending before the Commission are those that I 17 stated. The first is the Request for Deferral. 18 Do the Commissioners have any questions that 19 they wish to ask at this juncture on the Request for 20 Deferral?

1 -take the sixth question first, the Request for Deferral,

Hearing none, I will move that the Request for 22 Deferral be denied. 23 Speaking to that motion, I believe that

deferring it doesn't accomplish anything. We either need

25 to take this matter under hand or we just prolong it. tabbies.

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25

1 of 15 sheets

12

1 natural gas to farm tap customers taking natural gas from the transmission line owned and operated by Northern 2 3 Natural Gas Company?

Is there a discussion or a motion on that question?

I will make the motion in NG16-014 that the Commission does have jurisdiction over the utility providing natural gas to farm tap customers taking natural gas from the transmission line owned and operated by Northern Natural Gas Company.

11 Certainly there's a lot of discussion that can take place surrounding this, but I would ask who else would have responsibility other than the Commission at this juncture?

Obviously the courts will have their say, but I think it's very important that we recognize that one of these entities, if not both, have a responsibility and that the Commission does have jurisdiction over the utility as stated in 49-34A-1 and other areas of SDCL.

I'm trying to make my remarks brief on these items. There's certainly a lot more that can be discussed.

I'll open it for further discussion at this juncture. Is there any further discussion?

Hearing none, on the question, Commissioner

distribution system and they can turn on and turn off

2 taps in the State of South Dakota then they become a

3 public utility within the State of South Dakota.

Regardless of whether they're supposed to be or not, they 5 are one.

6 Additionally, when one looks at the definition 7 of terms in 49-34A-1.3 it states that a customer is any person contracting for or purchasing gas or electric

9 service from the utility. And certainly the farm tap

10 customers contracted for gas service from Northern.

11 Regardless of whether or not it states in Northern's

12 Briefs and Easement that it is a taking of gas, that it

gives the farm tap customer the right to take gas, the

fact is that within that Easement it also states that

15 the -- it states that Northern may charge rates for the 16

gas that is taken.

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18 contract of that nature would think that there was any 19 other way that a consumer, a farm family, would obtain 20 gas other than through a pipeline and pay for that gas. 21 So taking is an interesting term, but it cannot be used to hide the fact that the Easement is a written

And in no way would anyone interpreting a

22 23

contractual agreement between the farm family and

24 Northern Natural and that the definition of terms for the 25

State of South Dakota states that a customer is any

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Nelson.

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COMMISSIONER NELSON: Aye.

COMMISSIONER HANSON: Commissioner Fiegen.

COMMISSIONER FIEGEN: Fiegen votes aye.

COMMISSIONER HANSON: Hanson votes aye. The

6 motion carries.

> The second question in NG16-014, which entity, NorthWestern Corporation doing business as NorthWestern Energy or Northern Natural Gas Company, if either, or both, is a public utility as defined by SDCL Chapter 49 with respect to these farm tap customers?

> > Is there a discussion or a motion?

I will move in NG16-014 that Northern Natural

Gas Company is a public utility as defined by SDCL Chapter 49 with respect to these farm tap customers.

Discussion on the motion.

This is where we get into a great deal of -- so to speak, in the weeds and trying to ascertain the particulars. I turn to looking at certainly Northern is a interstate gas pipeline company in some respects. However, when they operate a line that is dedicated as a distribution line in the State of South Dakota, even if they are regulated by PHMSA and PHMSA has in any way

24 intimated or through their rulings required that Northern is an intrastate pipeline, when they operate a

1 person contracted for gas purpose.

> 2 And clearly the Easement is a contract that provides that the farm family is allowing the Easement and that is their consideration in the contract, and the 5 consideration by Northern is to provide gas to the farm 6 family.

Additionally, laws are interpreted on behalf of the party that did not write the contract. Ambiguities are interpreted to the benefit of those who did not write the contract. And in this instance you have Northern Natural which wrote easements for the purpose of obtaining an easement and by simply saying taking of gas does not excuse them from the fact that they did enter into a contract so that the customer may purchase the gas and receive the gas and they stated that they had the right in the Easement at the rates and upon the terms as may be established by the grantee or by any vendee of grantee from time to time.

So the consumers must purchase the gas. There's no free gas and, therefore, no taking. The actions of the parties prove that the gas is being purchased over the life of that contract thus far.

I have a number of other arguments that I would use at this time to go over; however, I feel I've explained it enough. There's a variety of other areas to

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touch upon. I will acquiescent to my fellow
 Commissioners at this time to hear any additional
 discussion.

Commissioners Fiegen or Nelson.

COMMISSIONER NELSON: If I might, I'm reluctantly not able to support your motion.

I guess I'd just say a couple of things. You've relied heavily upon the definition of customers. I understand that. But when the easements were written that definition didn't exist. The statute came into play after that.

And I think in a hearing it's clearly demonstrated that Northern is regulated entirely at the federal level. I mean, whether we like it or not, I think our jurisdiction, if we had any, has been usurped by the Feds, and I'm not sure that we as the Commission have any jurisdiction left there.

COMMISSIONER HANSON: Any further discussion?
COMMISSIONER FIEGEN: Mr. Chairman.
COMMISSIONER HANSON: Yes.

COMMISSIONER FIEGEN: Very interesting discussion today that we're having. When I look at public utility, and, you know, we look at it so many

times in so many different ways, I look at retail sales

25 and 49-34A, Subsection 1.8 it talks about retail sales.

And when I look at that it looks like NorthWestern would be the public utility.

Although there are so many issues with these farm taps and the citizens in the state that have been impacted, I believe most of these issues are going to be litigated in Circuit Court, unfortunately. And it's a shame that our citizens have to spend their money — hard working citizens have to spend their money to take these issues to court, but I don't believe the PUC has jurisdiction certainly over the easements or the

contracts or the agreements.

And, unfortunately, FERC became involved since

1952. And when I look at FERC jurisdiction, if this was a vote in 1952, I believe I would be with Commissioner Hanson. Since it's not 1952, I will be probably supporting a substitute amendment talking about the public utility of NorthWestern.

Thank you.

COMMISSIONER HANSON: Thank you.

I'll continue then. I know that someone has a motion, but I'll continue with some of the other items that I was going to talk about.

The fact is that NorthWestern Energy is, in my opinion, a public utility. Obviously, they are. However, that does not preclude Northern from being a

public utility as well.

Additionally, these arrangements may have been entered into before our regulatory laws were placed in effect. That does not preclude the PUC from regulating the practice once the law or regulation is passed and takes effect.

Additionally, I think it's imperative that we

Additionally, I think it's imperative that we keep our powder dry, so to speak, because if this is litigated and the Court decides that we do have authority over Northern, then it's — then we are placed in a situation where we have stated that we are not, and that makes it challenging for us.

There's a host of issues here. NorthWestern

There's a host of issues here. NorthWestern Energy may be a public utility, but they don't have any responsibility after December 31 of this year. And we can state that they're a public utility, but the grantee in this instance has the ability to turn off the farm tap customers.

And it behooves us to recognize that a company that has a distribution system in South Dakota that has the ability to turn on and off the tap to the consumer, albeit that they also are attached to their own interstate line, the fact is they have a distribution system in South Dakota.

They have farm taps that are not being examined

1 by PHMSA or by our own pipeline group. And they're

2 basically, through all of the information that we have

3 received, abdicating all responsibility to provide

4 services to the farm tap customers. And we are the only

5 ones left to protect the farm tap customers, except for

6 the farm tap customers having to go through a7 considerable expense on a lawsuit.

That lawsuit will probably take place regardless
of what our decision is. But, as I say, it behooves us
to maintain that position to protect our own Public
Utilities Commission's integrity.

So I'd ask for you to reconsider the motion that you are considering making,

14 COMMISSIONER FIEGEN: Mr. Chairman, are you 15 looking at -- so you're looking at making both of those 16 utilities a public utility, not just Northern Natural 17 Gas?

18 COMMISSIONER HANSON: There's no question that
19 NorthWestern Energy is a utility. But that utility has
20 the ability to walk away from this agreement -- or this
21 arrangement that they have with the farm tap customers.
22 And if we give Northern Natural that ability to

And if we give Northern Natural that ability to step away, then we're saying that our farm tap customers are being provided gas and paying for gas by a company that's no longer responsible to provide them anything.

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1 And, yes, I am saying both of them are a 2 utility, to answer your question. 3 COMMISSIONER FIEGEN: Thank you.

COMMISSIONER HANSON: Any further discussion? COMMISSIONER NELSON: Mr. Chair, I'm going to

move a substitute motion to find that NorthWestern Energy is a public utility as defined by SDCL Chapter 49.

COMMISSIONER HANSON: That's an interesting

motion. Do you wish to speak to it?

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state.

in part.

COMMISSIONER NELSON: If I might.

COMMISSIONER HANSON: Please.

COMMISSIONER NELSON: As I have stated, as much as we might want to find that Northern Natural Gas is a public utility so they would fall underneath our statutes and underneath our jurisdiction, legally I just don't think that it's there. I don't think we can do that. I

17 don't think we've got the ability or the jurisdiction to 18 do that.

So let me spend a little bit of time -- and obviously I wrestle with this question, is NorthWestern a public utility. And I've spent a lot of time wrestling with this, and ultimately came to the determination that based on the language in our statute, they are, in fact, a public utility.

And when you look at the definition of public

utility and you pick it apart it talks about a person. A person's a corporation. There is no question NorthWestern is a corporation. They are a person for

that purpose. 5 It talks about operating, maintaining, or 6 controlling in the state equipment or facilities. There's no question NorthWestern does all of that in this

The definition talks about doing it for the public in whole or in part. There is no question that in this case it is in part. Not public in whole, but it is

NorthWestern will meet that definition of public utility not only today in 2017, but they're going to meet it in 2018. They are a public utility in the State of South Dakota.

What does change between 2017 and 2018 for this public utility is the fact that at the end of 2017 they will cease being Northern's vendee. Unless some miracle takes place, they will cease to be Northern's vendee.

Now because I believe NorthWestern is, in fact, a public utility, that means that SDCL 49-34A-2.1 applies. And that section of state law says that a public utility cannot cease service without permission from the Public Utilities Commission. And I think that

1 statute's put in for a reason. It's to provide 2 protection so that public utilities can't just abandon 3 customers.

4 Now the unfortunate part of that is -- and 5 Commissioner Hanson delved into this in our previous 6 hearing. The unfortunate part of that is that in 7 Docket NG11-001 this Commission did, in fact, grant 8 NorthWestern the ability to cease providing that public 9 utilities service at the end of 2017.

And, as I have already mentioned, you know, so why on earth did the Commission do that back in 2011? What on earth were we thinking?

Well, we asked and we did our due diligence and we asked the question to both Staff and NorthWestern whose responsibility is it following 2017 to make sure that our farm tap customers continue receiving service? And both of them clearly said it is clearly Northern's responsibility.

Let me speak to that for just a moment. And what I'm about to say doesn't impact on the decision to make NorthWestern a public utility. But I think it's important that folks know where I'm coming from.

As anybody that listened to the public hearing that we did, you know that I spent a great amount of time asking Northern questions about the Easement itself. And

in the responses to those questions it was acknowledged

1 2 that Northern has the ability -- the requirement to 3 either serve or have a vendee, and today that vendee is NorthWestern. Just because the calendar flips from 2017

5 to 2018 doesn't mean that Northern's responsibility to 6 have a vendee goes away.

And, ultimately, I think that question is going to be litigated in Circuit Court. Because that is a contractual relationship between the folks -- the good landowners that allowed their land to be used for that pipeline back in the '50s said, yeah, we're willing to do our part. Bring this infrastructure into the state.

They did their part, and in return for that they were given a promise in that Easement that natural gas would be available to them. Not just some hole in a pipe, but they would actually have natural gas to heat their houses and run grain dryers and heat their barns, et cetera.

So, ultimately, that easement contractual relationship is going to be litigated in the court system in this state. And just like I don't think we have the jurisdiction to find Northern to be a public utility, we also don't have the jurisdiction to deal with the easement arrangements. I wish we did, but we don't. And so for those reasons, I believe that in this

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Natural Gas Act -- defined as natural gas companies under Page 21 to 24 of 34

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Energy Regulatory Commission's exclusive jurisdiction.

there's a long series of cases that support interstate

pipelines which are natural gas companies under the

So I would say that that is the law that --

I move at this time in NG16-014 that the

Commission find that Northern Natural Gas has made itself

State of South Dakota for the providing of natural gas to

a -- by its actions made itself a public utility in the

the farm tap customers.

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can to help the folks out there, legally I don't think we

1 the Natural Gas Act, are under exclusive jurisdiction of 2 the Federal Energy Regulatory Commission in regard to the 3 interstate transmission of natural gas. 4 COMMISSIONER NELSON: Thank you. I appreciate that. 5 6 I'll go to NorthWestern. Same question. 7 MR. OLSON: Thank you. Tim Olson, senior 8 corporate counsel and corporate secretary for 9 NorthWestern. 10 I wouldn't disagree with Mr. Porter, but I would 11 add that I believe it is a choice of the structure that 12 they have chosen. And I will take NorthWestern, for 13 example. 14 In Nebraska and Montana we have transmission 15 pipelines. We also are a local distribution company, 16 And so it is an option in a way that a company has 17 structured Itself. It is not a prohibition. 18 COMMISSIONER NELSON: Thank you. 19 And Staff. 20 MS. EDWARDS: Thank you. I would have to agree 21 with both parties that Order 636 would preclude them from 22 being both interstate transmission and a local 23 distribution company under the same entity. 24 I know that case was litigated in -- or that 25 order was litigated in 1996, but I don't have that case

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2 can do that as it relates to Northern in this setting, 3 COMMISSIONER HANSON: Thank you, Commissioner 4 Nelson. I appreciate the question you asked of the three 5 parties. I'd bring everyone's attention to the response 6 by Mr. Porter. 7 Mr. Porter, in essence -- well, he flat out said 8 and reiterated that the Feds have exclusive authority of 9 interstate transmission of natural gas. And we are not 10 talking about interstate transmission of natural gas. We 11 are talking about the distribution of natural gas in a 12 line to a farm tap that they had -- that they required to 13 be constructed so that they could provide to a consumer 14 at what they call rates and upon terms as may be 15 established by them or their vendee from time to time. 16 So when they talk about and he reiterated 17 exclusive control of interstate transmission, if Northern 18 is acting as a public utility in South Dakota by having a 19 distribution line to a farm tap that they required to be 20 constructed, then they have, in essence, made themselves 21 a public utility in South Dakota. 22 Rightly or wrongly, whether they should have or 23 should not have, they did that. And if Northern did not 24 believe they had a responsibility to provide gas, then 25 they would not have gone through the process even one 28

1 with me so I can't look it up and see what the decision was off the top of my head. But I do know that other 2 companies have structured themselves to make it work. 3 4 NorthWestern. 5 COMMISSIONER NELSON: Okay, Thank you. 6 That's all the questions that I've got. 7 Mr. Chairman, if I might continue. 8 COMMISSIONER HANSON: Please. 9 COMMISSIONER NELSON: So I was curious about the 10 federal law question, but at the end of the day it comes 11 back to our state law. And I've spent -- and I 12 appreciate the opportunity for recess. I spent a little 13 bit more time looking at our state law. 14 And you all heard me spend a lot of time stepping through the definition of public utility. And a 15 16 part of that definition talks about providing gas 17 service. A public utility is providing gas service.

So we look at the definition of gas service in Sub 8, and it talks about by an intrastate natural gas pipeline. And we move down to Sub 9A, and we've got a definition of intrastate natural gas pipeline. And I don't think Northern meets the definition of intrastate natural gas pipeline.

And so, Mr. Chairman, while I appreciate your

24 argument and I appreciate your desire to do whatever we time to provide gas to the consumers.

However, they went through it several times in the contractual relationships that they made and they went through the process of making certain that farm taps were constructed so that those folks would receive the gas and they entered into a contractual relationship with those farm tap customers to assure those farm tap customers that they would be provided gas by Northern Natural.

So I think by his words alone he has shown -and by the actions of Northern over an extended period of time, a protracted period of time, they have shown that they are, In fact, a public utility in South Dakota.

So I don't think -- well, any further discussion?

Commissioner Fiegen?

COMMISSIONER FIEGEN: No. It's very -- you know, this is a very hard decision because we want to make sure we protect our farm taps. And, unfortunately, I believe a lot of their issues will be in Circuit Court.

Northern Natural Gas has always looked at 22 vendees from people -- and now most recently just the last couple of years NorthWestern Public Service. But I want to vote that Northern Natural Gas is a public utility, but I just can't get there today.

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             Commissioner Fiegen, did you have anything to
    add?
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             COMMISSIONER FIEGEN: No, Mr. Chairman.
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           (The proceedings are concluded at 2:33 p.m.)
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              I, CHERI MCCOMSEY WITTLER, a Registered
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    Professional Reporter, Certified Realtime Reporter and
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    Notary Public in and for the State of South Dakota:
             DO HEREBY CERTIFY that as the duly-appointed
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    shorthand reporter, I took in shorthand the proceedings
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    had in the above-entitled matter on the 17th day of
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    January, 2017, and that the attached is a true and
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    correct transcription of the proceedings so taken.
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    of January, 2017.
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                        Cheri McComsey Wittler,
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                        Notary Public and
                        Registered Professional Reporter
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15 of 15 sheets

# BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF COMMISSION STAFF'S PETITION FOR DECLARATORY RULING REGARDING FARM TAP CUSTOMERS NG16-014

MOTION FOR JUDICIAL NOTICE

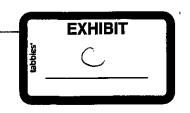
Pursuant SDCL 1-29-19 and 19-19-203, Intervenor Northern Natural Gas Company ("Northern"), through its attorneys, moves that the Public Utilities Commission of the State of South Dakota's ("PUC") take judicial notice of the documents attached to this motion as Exhibits C, D, and E, which were all filed in the following cited dockets before the Minnesota Public Utilities Commission and the Iowa Utilities Board:

- Order Opening Investigation and Requesting Comments, Docket No. G-999/CI-99-1365, 1999 WL 33595203 (Minn. P.U.C. 1999), a copy of which is attached as Exhibit C;
- Order Accepting Farm-Tap Safety Inspection Programs and Closing, Docket No. G-999/CI-999-1365, G-007/M-99-641, 2000 WL 668943 (Minn. P.U.C. 2000), a copy of which is attached as Exhibit D.
- 3. Request for Approval of Tariffs that Establish Minimum Safety Standards for Farm Taps As a Condition of Service and Creation of a Mandatory Testing Program; Utility Replacement and Ownership of Customer-Owned Natural Gas Service Lines; Authorization for Recovery of Replacement Capital Costs; and Request for an Accounting Order to Defer Testing Costs until the Company's Next Rate Case; Iowa Utilities Board, Docket No. SPU-2015-0039, a copy of which is attached Exhibit E.

Dated: February 17, 2017

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# 1999 WL 33595203 (Minn.P.U.C.) Slip Copy

In the Matter of an Investigation into Safety and Inspection Programs for Customer-Owned Natural Gas Lines

Docket No. G-999/CI-99-1365

Minnesota Public Utilities Commission

October 6, 1999

Before: Garvey, Jacobs, Johnson, Koppendrayer, and Scott, Commissioners

BY THE COMMISSION:

#### ORDER OPENING INVESTIGATION AND REQUESTING COMMENTS

## **PROCEDURAL HISTORY**

\*1 On September 23, 1999 the Commission received a report from an informal inter-agency work group on farm tap safety issues. "Farm taps" are privately owned natural gas lines running from interstate pipelines to individual homes and businesses. The work group included staff members from the Commission, the Department of Commerce (formerly the Department of Public Service), and the Office of Pipeline Safety, a division of the Department of Public Safety.

The report summarized recent consumer farm tap complaints and set forth the findings of a statewide survey on farm tap issues conducted by the Minnesota Office of Pipeline Safety. It also presented that Office's recommendations for improving farm-tap safety, most of which would impose new duties on Minnesota's natural gas utilities.

#### FINDINGS AND CONCLUSIONS

#### 1. Historical Background

"Farm taps" are customer-owned natural gas distribution lines running from the interstate pipeline through the customer's property to the customer's home or business. Most of these lines were constructed at the same time as the major interstate pipeline, some 40-60 years ago. Northern Natural Gas Company, which owned the pipeline, allowed rural landowners to tap in to it, in return for easements allowing Northern to run the main pipeline below their land.

Over time, as land ownership changed, some farm tap lines were forgotten, and some fell into disrepair. Few, if any, were maintained as well as the distribution lines owned by the natural gas distribution companies.

Concerns about farm tap safety led Peoples Natural Gas Company, the public utility serving most of Minnesota's farm tap customers, to file a tariff to clarify its farm tap responsibilities. The final tariff, approved by the Commission in 1993, required the Company to provide consumer education on farm tap safety, to inspect all farm tap lines in its service area at regular intervals, and to offer financing to farm tap customers whose lines the Company repaired.

#### 2. Recent Developments

In November 1998 an informal inter-agency work group came together to pool their expertise to address farm tap safety issues, which subsequently included several consumer complaints about farm tap service. The agencies represented were the Comm ission, the Department of Commerce (formerly the Department of Public Service), and the Office of Pipeline

Safety. The efforts of the work group resolved the consumer complaints and resulted in the Regulatory Staff Briefing Paper discussed above, titled "Farm Tap Line Safety Inspection Programs," dated July 29, 1999.

In May of 1999, Northern Minnesota Utilities, the utility with the second-largest number of farm tap customers (approximately 55), filed a proposal to adopt a farm tap safety and inspection program similar to Peoples'. At its September 23, 1999 meeting, the Commission decided to defer action on the company's filing until it had decided whether to require such programs from all natural gas public utilities serving farm tap customers.

#### \*2 3. Investigation Opened

The Office of Pipeline Safety has urged the Commission to expand the farm tap safety program that Peoples Natural Gas Company adopted in 1993 and to require all Minnesota utilities serving farm tap customers to adopt similar programs. The Commission finds that the public interest requires it to open an investigation into farm tap safety issues under Minn. Stat. § 216B.14. All natural gas public utilities will be parties to this investigation.

The Commission invites comments on the Regulatory Staff Briefing Paper, which will be served with this Order, and specifically requests comments on the costs of implementing the individual recommendations of the Office of Pipeline Safety. The Commission delegates to the Executive Secretary the authority to identify other issues for comment and to set comment periods.

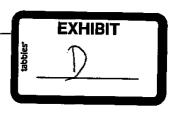
The Commission will so order.

#### ORDER

- 1. The Commission hereby initiates an investigation under Minn. Stat. § 216B.14 to determine whether it should require all Minnesota natural gas public utilities serving farm tap customers to develop farm tap safety, inspection, and consumer education programs.
- 2. All Minnesota natural gas public utilities are parties to this proceeding.
- 3. The Commission requests comments on the Regulatory Staff Briefing Paper on farm tap line safety inspection programs, which is served with this Order, including comments on the costs of implementing the individual recommendations of the Office of Pipeline Safety.
- 4. The Commission delegates to the Executive Secretary the authority to identify other issues for comment and to set comment periods.
- 5. This Order shall become effective immediately.

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# 2000 WL 668943 (Minn.P.U.C.) Slip Copy

Re Safety and Inspection Programs for Customer-Owned Natural Gas Lines

Docket No. G-999/CI-99-1365 Docket No. G-007/M-99-641

Minnesota Public Utilities Commission

March 16, 2000

Before Scott, chairman and Garvey, Jacobs, Johnson and Koppendrayer, commissioners.

BY THE COMMISSION:

# ORDER ACCEPTING FARM-TAP SAFETY INSPECTION PROGRAMS AND CLOSING DOCKET NO. G-007IM-99-641

#### PROCEDURAL HISTORY

In an order issued by the Commission on February 17, 1998, <sup>1</sup> the Commission set forth certain requirements for Peoples' farm-tap safety inspection program including requiring Peoples to continue its farm tap inspection program as previously ordered by the Commission but allowing the routine inspection interval to be five years, requiring information brochures to new and continuing farm-tap customers, requiring annual reports on the farm-tap inspection program as well as a five year report and directing Peoples to defer costs of the farm-tap inspection program for review in its next general rate case.

In the Matter of Peoples Natural Gas Company's Request to Establish a Tariff for Repairing and Replacing Farm Tap Lines, docket number G-011/M-91-989.

On May 4, 1999, Northern Minnesota Utilities (NMU), a division of Utilicorp United, Inc. (Utilicorp), filed an application to implement a farm-tap safety inspection program. This was assigned docket number G-007/M-99-641.

On July 29, 1999, a Regulatory Staff Briefing paper, on the subject of Farm-Tap Line Safety Inspection Programs, was prepared by staff members from the Commission, the Department of Commerce (formerly the Department of Public Service), and the Minnesota Office of Pipeline Safety, a division of the Department of Public Safety. The report summarized recent consumer farm tap complaints and set forth the findings of a statewide survey on farm tap issues conducted by the Minnesota Office of Pipeline Safety (MnOPS). It also presented that Office's recommendations for improving farm-tap safety, most of which would impose new duties on Minnesota's natural gas utilities.

On October 6, 1999, in docket number G-999/CI-99-1365, the Commission issued an ORDER OPENING INVESTIGATION AND REQUESTING COMMENTS. This order initiated an investigation into farm-tap safety and inspection programs and solicited comments from all natural gas public utilities on the Regulatory Staff Briefing Paper of July 29, 1999.

On November 23, 1999 Northern States Power Company (NSP) submitted initial comments.

On November 24, 1999 reply comments were submitted by Great Plains Natural Gas Co.(GPNG), Reliant Energy/Minnegasco (REM), and jointly by the Minnesota Department of Commerce (the Department) and the Minnesota Office of Pipeline Safety (MnOPS).

On November 24, 1999 Joint Comments were submitted by the MnOPS, the Department, Peoples Natural Gas Company (Peoples) and Northern Minnesota Utilities (NMU).

On December 7, 1999 reply comments to NSP were submitted by the Department.

On December 7, 1999 NSP submitted reply comments.

On February 10, 2000 the matter was heard by the Commission.

#### FINDINGS AND CONCLUSIONS

#### Historical Background

Farm-taps, of which there are approximately 2400 in Minnesota, are customer owned natural gas lines running from the interstate pipeline through the customer's property to the customer's home or business. Most of these lines were constructed at the same time as the major interstate pipeline, 40 to 60 years ago. Northern Natural Gas Company, which owned the pipeline, allowed rural landowners to tap into the pipeline in return for easements allowing Northern to run the main pipeline below their land. The landowners agreed to install the piping required from the pipeline tap to the point of use. Landowners had discretion as to the piping materials and installation techniques used and numerous farm taps were improperly installed. In most cases, facility maps were not recorded showing the location of farm-tap piping. Over time, land ownership changed, some farm tap lines were forgotten and some fell into disrepair. Few, if any, were maintained as well as the distribution lines owned by the natural gas distribution companies.

In the early 1990's concerns about farm-tap safety led Peoples, the public utility serving most of Minnesota's farm-tap customers, to file a tariff to clarify its farm tap responsibilities. On May 25, 1993, the Commission approved a final tariff which required Peoples to provide consumer education on farm-tap safety, to inspect all farm lines in its service area at regular intervals and to offer financing to farm-tap customers whose lines were repaired by Peoples. Annual reports filed with the Commission by Peoples for the calendar years 1994, 1995 and 1996 indicated that for that three year period 2,316 farm-taps had been inspected, with gas leaks being found on 18 percent of the taps.

In a February 17, 1998 ORDER PERMITTING COMPANY TO CONTINUE DEFERRED ACCOUNTING, in docket number G-011/M-91-989, the Commission set forth standards for Peoples farm-tap safety inspection program. The Commission authorized or required Peoples to:

- continue the farm-tap inspection program required by previous Commission orders in this docket;
- change the routine farm-tap inspection period from three to five years;
- continue to send farm-tap safety and informational brochures to new farm tap customers before they take service and to all existing farm-tap customers annually;
- file for review, a revised version of its farm-tap safety and information brochure;
- continue to file annual reports on its farm-tap safety program on or before April 1, of each year;
- within 90 days of the end of each five-year inspection cycle and in each general rate case, file with the Commission, the Department and MNOPS a five year report including cumulative results of the inspection program and any recommendations for future improvements; and

• continue deferring the costs of the farm-tap inspection program for review in its next general rate case.

A survey by the MnOPS indicated that there were approximately 110 other farm-tap customers in Minnesota being served by NMU, Minnegasco, Great Plains Energy Co. and the City of Hibbing.

In its October 6, 1999 ORDER OPENING INVESTIGATION AND REQUESTING COMMENTS the Commission initiated an investigation under Minn. Stat. § 216B.14 to determine whether it should require all Minnesota natural gas public utilities serving farm-tap customers to develop farm-tap safety, inspection and consumer education programs. The results of that investigation and the resulting Commission actions are addressed herein.

#### II. Position of the Parties

#### A. MnOPS Comments Regarding Peoples' Program

The MnOPS set forth 15 recommended guidelines for making farm-tap safety inspections. People's current farm-tap inspection program fell short of the MnOPS guidelines by limiting the program to facilities within 100 yards of the landowner's service, not requiring the installation of cathodic protection equipment that would allow annual testing for corrosion, not mapping any part of the farm-tap lines either on or off the public ROW, and not providing pertinent information to GSOC.

#### B. UtilicorplPeopleslNMU

Cost estimates by Peoples to expand their inspection program to include a safety evaluation and leak survey of all lines located in fields or other areas 100 yards beyond farmsteads, install cathodic protection at all farm-tap locations and develop maps for all fuel lines for location information to GSOC would be approximately \$1.5 million.

On May 4, 1999, NMU filed its own farm-tap safety inspection program which was identical to the program approved by the Commission for Peoples in the early 1990's. This was assigned docket number G007/M-99-641.

C. Joint Agreement Negotiated between MnOPS, the Department, and Utilicorp

In an agreement between MnOPS, the Department and Utilicorp, filed with the Commission on November 24, 1999, Utilicorp, on behalf of both Peoples and NMU, agreed to locate and map all farm-tap lines located in the public Right-of-Way (ROW), provide location information to Gopher State One Call (GSOC), and be available to locate the lines as needed on the public ROW. This mapping will be completed in three years. Utilicorp also agreed to provide all farm-tap owners additional information about the importance of cathodic protection and to continue its existing inspection program of odorant testing on 10 percent of the farm lines inspected each year. It was agreed that costs for these additional services could be deferred until the next rate case for each of these Companies.

D. Joint Agreement Negotiated between MnOPS, the Department and Great Plains Natural Gas (GPNG)

GPNG's farm-tap safety inspection program treats their 33 customers with farm-taps in the same manner as their customers served by their regulated natural gas distribution system. Their program meets the safety inspection criteria recommended by MnOPS. GPNG agreed to file an annual farm-tap safety report indicating continuing compliance and reporting any significant items.

E. Joint Agreement Negotiated between MnOPS, the Department and Reliant Energy/Minnegasco (REM)

REM's current farm-tap safety inspection program complies with 12 out of the 15 safety recommendations of MnOPS. REM has agreed to upgrade their mapping records for incorporation into GSOC and to incorporate all of their farm-taps into their annual equipment maintenance plan. REM further agreed to file an annual compliance report.

#### F. Comments of Northern States Power (NSP)

NSP stated that it has no customer-owned farm-tap facilities, in part because it replaced preexisting customer-owned lines with NSP-owned service lines. NSP supports the voluntary farm-tap inspection programs offered by the local gas distribution companies (LDCs). NSP's concern is that a decision by the Commission to require an LDC to provide inspection and maintenance on facilities that it does not own, with no fee to the beneficiary customers, could set a troubling precedent for other customer-owned gas systems, such as those in college, corporate, industrial or resort complexes.

NSP suggested actions the Commission could take to encourage existing farm-tap customers to take service over LDC-owned lines or to discourage construction of new farm-taps. These actions included allowing farm-tap customers to pay the higher cost of their non-standard facilities over time and/or through higher rates, encouraging LDCs to offer operation and maintenance services on customer-owned systems for a fee, and encouraging the Energy Issues Intervention Office of the Department to petition the Federal Energy Regulatory Commission (FERC) to establish strict criteria for the approval of new farm-taps.

#### G. The Department

The Department and the MnOPS support the adoption of the negotiated agreements between these agencies and the respective utilities.

#### III. Commission Action

The Commission finds that the negotiated agreements between the Department, MnOPS and Utilicorp expanding People's farm-tap safety inspection program to include:

- agreement to map on the public ROW;
- provide the public ROW mapping information and locating information to GSOC;
- provide all farm-tap customers information about the importance of cathodic protection;
- allow the costs of implementing these programs to be deferred to the Company's next rate case are reasonable and necessary expansions to the farm-tap safety program previously adopted by this Commission and will be approved.

For these same reasons, the adoption by NMU of the Peoples Farm-tap safety inspection program, including the additions set forth above, will be approved.

Similarly, the Commission notes that GPNG's existing safety program treats the Company's 33 farm-tap customers in the same manner as the remainder of their customers served by their regulated natural gas distribution system. The safety program meets all safety criteria recommended by the MnOPS. GPNG agreed to file an annual farm-tap safety report indicating continued compliance. The Commission will approve this program.

The farm-tap safety inspection plan of REM complied with 12 out of 15 safety recommendations of MnOPS and REM has agreed to upgrade their mapping for incorporation into GSOC and to incorporate all of their farm-taps into their annual equipment maintenance plan. REM has also agreed to file an annual compliance report verifying continued operation of its farm-tap safety inspection program. The Commission will approve this program.

The Commission has previously recognized that farm-tap customers, as owners of their farm-tap lines, should be held financially responsible for the repair and maintenance of these lines. The Commission continues to encourage local distribution companies to offer operating and maintenance services to farm-tap customers for a fee. Peoples and NMU already offer this service for a non-regulated fee. The Commission encourages local distribution companies to file rates and tariffs which properly reflect the costs to serve farm-tap customers, including any higher costs attributable to the operation of long and geographically isolated farm-tap services. The Commission further encourages working with FERC to establish a strict criteria for approval and construction of all new farm-taps.

#### **ORDER**

- 1. The Commission approves the expansion of Peoples farm-tap inspection program, as agreed to by the Department, MnOPS and Utilicorp, to include: a) mapping on the public ROW, b) providing public ROW mapping information and locating information to GSOC, c) providing information to all farm-tap customers about the importance of cathodic protection, and d) allowing the costs of implementing these programs to be deferred until the Company's next rate case.
  - 2. The Commission approves the adoption by NMU of the Peoples farmtap program as agreed to by the Department, MnOPS and Utilicorp.
  - 3. Docket No. G007/M-99-641, In the Matter of Northern Minnesota Utilities Application to Implement a Farm-Tap Safety Inspection Program, shall be closed.
    - 4. The Commission approves the farm-tap safety inspection program of GPNG as agreed to by the Department, MnOPS and GPNG.
    - 5. The Commission approves the farm-tap safety inspection program of REM as agreed to by the Department, MnOPS and REM.
  - 6. The Commission encourages the LDCs to continue to offer operating and maintenance services to farm-tap customers for a fee and file rates and tariffs which appropriately reflect the costs to serve farm-tap customers, including any higher costs attributable to operating long and isolated farm-tap services. The Commission encourages working with PERC to establish strict criteria for approval and construction of all new farm-taps.
    - 7. This Order shall become effective immediately.

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# STATE OF IOWA DEPARTMENT OF COMMERCE BEFORE THE IOWA UTILITIES BOARD

IN RE:	
REQUEST FOR APPROVAL OF TARIFFS THAT ESTABLISH MINIMUM SAFETY STANDARDS FOR FARM TAPS AS A CONDITION OF SERVICE AND CREATION OF A MANDATORY TESTING PROGRAM; UTILITY REPLACEMENT AND OWNERSHIP OF CUSTOMER-OWNED NATURAL GAS SERVICE LINES; AUTHORIZATION FOR RECOVERY OF REPLACEMENT CAPITAL COSTS; AND REQUEST FOR AN ACCOUNTING ORDER TO DEFER TESTING COSTS UNTIL THE COMPANY'S NEXT GENERAL RATE CASE	DOCKET NO.

## REQUEST FOR APPROVAL OF TARIFF AND OTHER RELIEF

# I. Background

A "farm tap" is an outlet off an interstate pipeline, consisting of a riser and valve. The interstate pipeline also normally owns above ground assets above the riser, including several pressure regulators to reduce high pipeline pressure to a lower distribution pressure, and a measurement meter. The end use customer, often the landowner, normally owns all assets downstream of the pipeline tap assets, including a device to inject odorant (mercaptan) into the natural gas stream, and the fuel line to the premise or facilities where another regulator reduces the pressure and the natural gas is consumed.

Farm taps were often granted by interstate pipelines to land owners in return for an easement prior to construction of the pipeline.

The uses of natural gas flowing through farm taps vary, including space heating of homes and other buildings, grain drying, fuel for irrigation engines, heating of poultry and farm animal enclosures, and other purposes.

Black Hills Energy (hereinafter "BHE," "Black Hills," or "the Company") normally owns no assets at the site of farm taps, but does provide services to Northern Natural Gas pursuant to a 1987 farm tap services agreement. The terms of that agreement are summarized below.

In addition to the service obligations in the 1987 agreement, BHE's responsibilities related to farm tap service vary by state, depending on the safety standards and regulatory rules. These responsibilities are described below.

# II. Origin of Farm Taps

Peoples Natural Gas, a legacy or predecessor operator of BHE's operations in lowa, was at one time a division of InterNorth, responsible for distribution services from Texas to Minnesota. Northern Natural Gas was InterNorth's interstate pipeline operator. The distribution and transmission functions of InterNorth were segregated by FERC Order 636. In 1987, Peoples Natural Gas and Northern Natural Gas executed a Farm Tap Services Agreement that moved the sales function for NNG's farm taps to PNG (and

subsequently to BHE). Although other utilities in lowa serve a small number of farm taps, BHE serves the vast majority of farm taps in lowa.

# III. Farm Tap Services Agreement

On April 1, 1987, Northern Natural Gas Company and Peoples Natural Gas Company ("PNG") executed an agreement which obligated PNG to provide the following services: (1) respond to farm tap gas leaks; (2) respond as a third party contractor to customer needs related to appliance purchase or service, fuel line or irrigation equipment, sales of materials and consultation on installation and repair of customer facilities; (3) service farm tap odorizers and check delivery pressure; (4) record meter readings, bill customer and collect accounts; (5) lock or read farm tap customer meters at NNG's request; (6) respond to customer requests for appliance relights; (7) total, report and account to NNG for total volumes delivered; (8) initiate requests for new farm tap sales facilities and revisions, and for terminations and removals; and (9) comply with all state regulations. The agreement terminates on May 31, 2017.

In 1987, PNG served 7,500 residential, small volume, irrigation and crop dryer farm tap customers and right-of-way grantor customers across the NNG system. BHE now serves approximately 1,558 farm tap customers in lowa.

IV. Changes in Safety Standards Changed BHE's Service Requirements
Safety standards have changed in Iowa since the NNG-PNG agreement was executed.
In 2007, IUB Staff issued an Advisory on Farm Tap odorometer tests, concluding that

testing 10% of the taps annually did not meet the definition of "periodic" as was intended by PHMSA Sec. 192.625. In 2008, BHE management agreed:

- BHE would continue to perform odorometer tests on 10 percent of farm tap customers annually;
- BHE would use best efforts to perform, on 20 percent of farm tap customer fuel lines annually, a partial leak survey on the first 100 yards from any building or riser toward the tap;
- BHE would add two staff positions to perform this work;
- When conducting a partial leak survey at each farm tap, a "best effort" shall be made in obtaining an odorometer test, and literature concerning customer fuel line responsibilities and safety would be left with or for the customer;
- Whether a leak is found or not on the customer fuel line, the technician will leave a note describing the work that was completed along with what was found at the location and a suggested remedy;
- Each partial leak survey completed on a farm tap customer fuel line shall be recorded on an "lowa Farm Tap Customer Fuel Line Partial Leak Survey" Form; and
- Odorometer test results shall be analyzed annually by local supervision,
   identifying any odorization trends of farm tap customer fuel lines.

This process change included customer appointments scheduled prior to the leak survey and odorometer tests to determine which buildings have natural gas; where lines

run; whether the customer knows the age, size or type of line; whether there have been any changes since the line was installed; and whether the customer has suspicions about the quality of their fuel line. The changes also resulted in additional documents being left with the customer, including an inspection report, fuel line safety information, and hazardous condition letter when appropriate. BHE agreed to summarize the results of these tests and problems corrected in an annual report to IUB Safety Staff. BHE has performed these tests since 2008. After seven years of testing, BHE management has concluded there are no available records on customer owned lines to establish the age of pipe or material, the type of material the fuel lines are made of, the location of or maps of customer owned fuel lines, the maximum allowable operating pressure of customer owned fuel lines, cathodic protection records, repair or damage records, maintenance records, or extension or changes to the fuel lines. In addition, BHE management estimates over 90 percent of the lines are not locatable for excavation safety due to lack of tracer wires, and almost all of current farm tap customers have very limited knowledge about these lines. BHE's odorometer testing has confirmed that odorization of gas is evident. BHE management believes leak surveys have value and can identify potential hazards, but Company technicians do not know where to survey when a line is not locatable. Most importantly, leaks have been found on pipe materials that did not meet codes or standards.

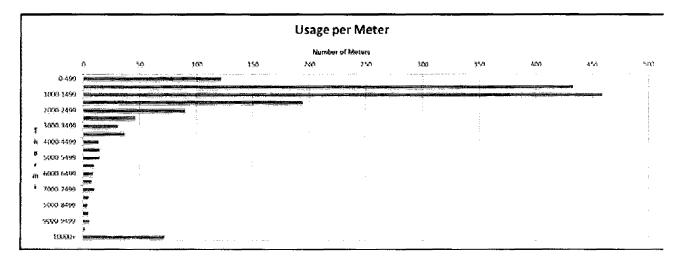
# V. Black Hills Iowa Farm Taps

The table below shows the number of farm tap customers at year-end 2012-14 with associated annual natural gas usage and margin revenue:

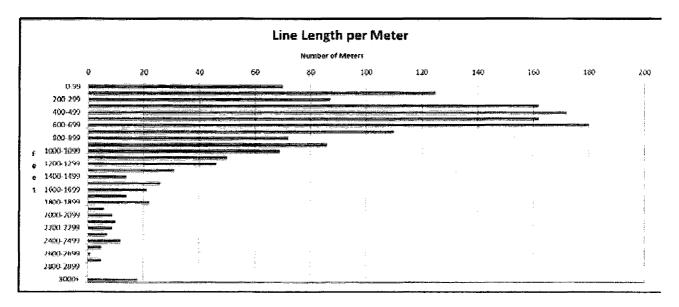
	2012	2013	2014
Year-end Customers	1,546	1,549	1,558
Volumes (Actual, Th)	5,002,579	7,159,054	6,526,595
Margin Revenue (\$000s)	\$718,079	\$867,614	\$871,698

All of these customers are sales customers; no farm tap customers receive transportation service. The annual usage for these customers varies from four (4) to over 600,000 Therms. Most of these customers use natural gas service for space heating, and some take natural gas for grain drying and other commercial uses.

The chart below shows the frequency distribution for customer usage per meter:



Customer owned fuel lines range in length from a few yards to over a mile. The chart below shows a frequency distribution for line lengths:



BHE's farm tap customers are spread across the state in locations that mirror the location of NNG's lines. Exhibit 1 provides a map of the NNG pipeline system in the states of lowa, Nebraska and Kansas showing the location of BHE farm tap customers.

BHE's farm tap customers do not have the same conditions of service or rights and responsibilities as town plant customers. For example, Black Hills tariff Sheets 30-33 address conditions under which service can be refused or discontinued, including nonpayment of bills, dangerous conditions found on a customer's premises, misuse of service, reselling natural gas, noncompliance, fraud, tampering with Company property, etc. Since BHE does not own property at farm tap locations, the Company cannot

always gain access to inspect facilities or perform required safety testing<sup>1</sup>. The location and condition of customer owned fuel lines is usually unknown, creating a potential hazard for Black Hills employees, customers and the general public.

BHE's farm tap leak testing process differs from its town plant customers. BHE performs odorometer and leak survey testing on all farm taps at least every five years; town plant customers do not have this requirement. Despite the testing, the lack of tracer wires on most customer owned fuel lines makes it difficult to locate and inspect these lines, which are made of unknown materials, have no safety records have not, in most cases, met any current material code or standard.

Farm taps present unique challenges and are therefore often difficult to serve.

Examples of these challenges include rural locations that impact response times and lack of technical support, unknown fuel line location and line marking challenges, unknown fuel line construction materials and unknown safety risks, tap locations in road ditches or farm fields, and summer/winter access difficulties.

As part of this application, Black Hills seeks to treat farm tap customers the same as all other BHE utility customers.

<sup>&</sup>lt;sup>1</sup> Occasionally, farm tap customers refuse to allow BHE technicians to enter their property to perform required testing. BHE cannot currently cite a tariff or regulation that requires access or safety testing as a condition of service.

#### VI. Issues

Black Hills management believes now is the time to address and resolve the following issues related to farm taps:

- Different safety standards exist for town plant and farm tap customers;
- Customer owned fuel lines often have unknown ages and condition, and cannot always be located with traditional tools due to lack of tracer wires;
- lowa ONE CALL does not represent this type of underground infrastructure (no one is notified to locate this kind of line);
- Lack of known material location and construction standards creates risk for BHE employees, customers, third party excavators and the general public;
- The original right-of-way grantors who granted an easement to NNG many
  years ago have likely passed on, and land parcels have in some cases
  been subdivided, so customer owned fuel lines sometimes pass through
  property that is not owned by BHE's customer, creating access issues;
- Changes to Federal and State safety inspection standards have increased the work and cost to serve these customers;
- Black Hills Energy believes abandonment of farm taps and conversion to propane is not appropriate. Farm tap customers have contributed to rate base for decades through general service rates. The loss of these customers and lower sales volumes implies spreading remaining costs

over a smaller pool of customers, which would result in higher rates for remaining ratepayers in the next rate case<sup>2</sup>.

# VII. Black Hills Proposals

BHE has considered solutions to the issues described above, including a Minnesota line replacement program established in the early 1990s. BHE management believes it is critically important assure all customer owned fuel lines meet applicable safety standards. BHE proposes the following plan and new tariff sheets attached as Exhibit 2 in both redline and clean form:

- Section 1 of the proposed tariff establishes conditions of service that require all farm tap customer owned fuel lines must comply with state and federal safety standards, the Conditions for New Service Rural and Agricultural Service to Right-of-Way Grantors found on Sheet 59, and a mandatory testing program to establish a maximum allowable operating pressure. BHE would not be authorized to serve farm tap customers unless these standards and conditions are met, and the lines pass inspection tests every five years.
- Section 2 mandates the safety testing that Black Hills currently performs on farm taps, as agreed to with IUB Staff in 2008.
- Section 3 authorizes a line replacement program for those fuel lines that do not pass the safety test mandated in Section 2.

<sup>&</sup>lt;sup>2</sup> Black Hills estimates the loss of approximately 1,558 lowa farm tap customers would result in \$871,000 of lost margin, based on 2014 data. If this lost revenue was allocated over all General Service customers, this would equate to a \$0.48 per month increase for the class.

 Section 4 establishes both Company and Customer liability for Customer owned yard line or fuel line.

BHE has considered an optional line replacement program, where farm tap customers would have the option to hire approved third party contractors to replace the line. This approach is similar to the Minnesota replacement program authorized in the early 1990s, where landowners continue to own the fuel lines and the utility or other contractors may rebuild the lines. BHE is concerned that this approach merely prolongs the safety issues, so the same concerns noted above will exist in the future. BHE believes the better solution is for the Company to replace and own lines that fail MAOP tests. Because of public safety risks associated with this service arrangement, BHE will strongly consider discontinuing service to tap customers unless the Company can test and own the service lines and establish and maintain maintenance and construction records to better ensure public safety.

BHE estimates the annual cost to perform pressure tests on approximately 275 farm taps annually will be about \$140,000<sup>3</sup>. BHE proposes to hold these costs in a regulatory asset account until the company's next rate case, at which time it will request inclusion of the costs in the test year cost of service.

<sup>&</sup>lt;sup>3</sup> \$500.00 per inspection. The estimate includes the costs of two technicians and a vehicle for four hours – one hour to drive to the premise, two hours to perform tests, and one hour to return form the appointment.

BHE proposes and requests approval to include line replacement capital costs as an additional type of eligible investment under the current investment tracker rule. This approach would allow BHE to earn a return on and return of these capital investments until the next case, reducing regulatory lag on the investments. BHE estimates the cost of replacing all these lines is currently about \$12 million, assuming 1.2 million feet of serve line at a replacement cost of \$10 per lineal foot.

In the Company's next rate case, BHE proposes to include these investments in rate base and assign approximately one half of the associated revenue requirement to the general system, and the remaining costs would be assigned to the farm tap customers whose lines are replaced. BHE proposes to segregate farm tap customers in a separate class and allocate the capital costs of the line replacements as follows:

The plant related to the first 1000 feet of service line replaced would be allocated to all customer classes, except Super Large Volume, using the general plant allocation factor. Black Hills estimates the monthly customer impact on General Service customers will be about \$.03 for the first year of replacements, assuming \$1 million of replacement capital.

The remaining plant would be borne by the farm tap customers that have lines replaced, and their customer charges would be increased to reflect the length of service line replaced. Black Hills proposes to increase farm tap customer charges slightly for every 500' of service line replaced. For example, BHE estimates tap customers with a 1500' line would experience a modest \$.25 per month higher customer charge. Customers

with longer lines would have a higher customer charge, so the customers with longest service lines would contribute more to retain service.

BHE has attempted to balance interests with this proposal. Some of the replacement cost will be borne by the general system customers, and this is appropriate, since farm tap customers have contributed to statewide capital additions for many years. Farm tap customers will bear a portion of the costs if their line replacement is over 1000 feet in length. Black Hills also shares a portion of the costs until the next rate case, because the return allowed on investment tracker assets is less than the Company's weighted average cost of capital.

# VIII. Alternatives to the BHE Proposal

BHE has considered numerous alternatives to the proposal, including terminating or extending the NNG contract, and a testing program with optional line replacements. Terminating the NNG agreement would reduce safety and rural response time challenges, reduce litigation risks and simplify rural staffing, but it would result in a loss of about \$871,000 in annual margin, accelerate the need for a rate case, and result in higher rates for all customers. Most importantly, this action would probably result in a loss of natural gas service for approximately 1,558 rural customers. BHE management believes this is not an acceptable outcome<sup>4</sup>. Extending the NNG farm tap services contract would allow BHE to continue to serve these customers, but it would not

<sup>&</sup>lt;sup>4</sup> Black Hills estimates the loss of approximately 1,558 lowa farm tap customers would result in \$871,000 of lost margin, based on 2014 data. If this lost revenue was allocated over all General Service customers, this would equate to a \$0.48 per month increase for the class.

address the safety risks of customer owned lines or the increasing costs related to changing safety standards. BHE believes the most important issue here is improving safety of these lines, so other alternatives provide a superior solution. BHE has also considered the creation of farm tap inspection and safety standards with continued customer ownership of the service lines. This approach would reduce some safety and litigation risks, and the costs of line replacements would continue to be borne by the landowner. However, under this approach, BHE would still not know the condition of the line after replacement. After significant analysis, BHE has concluded the best solution is the proposal described herein.

# IX. NNG Farm Tap Abandonments

Northern Natural Gas informed BHE in 2015 that it would abandon its "A Line" through Kansas, Nebraska and Iowa and upgrade its "B, C and D Lines." As a result of this capital improvement plan, 188 customers in three states (135 in Iowa, 41 in Nebraska and 10 in Kansas) were scheduled to lose farm taps, unless BHE could arrange to serve the customers off existing taps or BHE-owned facilities. In late October of 2015, NNG informed BHE that their capital replacement plan has been delayed and no abandonments are scheduled at this time.

#### X. Conclusion

BHE respectfully requests that the Board:

 Approve tariff to establish rights and responsibilities of farm tap customers: Establish a safety testing program;

Establish a line replacement program for lines that do not meet safety

standards;

Authorize inclusion of the capital replacement investments as eligible

investments in the Company's investment tracker mechanism;

Issue an accounting order to allow recovery of testing costs in the

Company's next rate case;

Authorize inclusion of the capital investments in rate base in the

Company's next rate case; and

Issue any waivers from IUB rules the Board deems appropriate.

Dated this 24<sup>th</sup> day of November, 2015.

Respectfully submitted,

Black Hills/Iowa Gas Utility Company, LLC d/b/a Black Hills Energy

By /s/ Adam Buhrman

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# BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF COMMISSION STAFF'S PETITION FOR DECLARATORY RULING REGARDING FARM TAP CUSTOMERS NG16-014

#### **CERTIFICATE OF SERVICE**

I, Jason R. Sutton, do hereby certify that I am a member of the law firm of Boyce Law Firm, LLP, attorneys for Northern Natural Gas Company and that on the 17<sup>th</sup> day of February, 2017 a true and correct copy of the (1) Petition for Rehearing; (2) Motion for Judicial Notice; and this Certificate of Service was served via email to the following addresses listed:

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