MONTANA-DAKOTA
UTILITIES CO.
A Division of MDU Resources Group, Inc.

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JAN 08 1993
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

January 6, 1993

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Mr. Marshall Damgaard
Executive Director
South Dakota Public Utilities Commission
State Capitol
Pierre, South Dakota 5701-5070

Re: In The Matter Of The Application Of The
South Dakota Intrastate Pipeline Company
For Approval Of Initial Rates and Tariffs
Docket No. NG92-005

Dear Mr. Damgaard:

Enclosed is an original and three copies of the Initial Brief of Montana-Dakota Utilities Co. in the above docket.

Also enclosed is a copy of the brief for Gustave F. Jacob, Staff Attorney.

Additional copies of the brief have been mailed as shown in the Certificate of Service.

Sincerely,

Douglas W. Schulz

Douglas W. Schulz
Senior Attorney

Enclosures

RECEIVED
JAN 8 1993
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

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

**IN THE MATTER OF THE APPLICATION)
OF THE SOUTH DAKOTA INTRASTATE)
PIPELINE COMPANY FOR APPROVAL OF)
INITIAL RATES AND TARIFFS)**

Docket No. NG92-005

INITIAL BRIEF OF MONTANA-DAKOTA UTILITIES CO.

A hearing on the application of South Dakota Intrastate Pipeline Co. (SDIPC) for approval of initial rates and tariffs was held by the Commission on December 17, 1992 at the State Capitol Building in Pierre. Following the hearing, the Commission invited briefs covering two areas: (1) the proper depreciation rate for the pipeline, and (2) SDIPC's proposed minimum take provision.

Montana-Dakota Utilities Co. (Montana-Dakota) is primarily concerned with the minimum take proposal and therefore will limit its comments to that area.

SDIPC's Minimum Take Proposal

SDIPC's Witness Terry C. Szklarski proposed a minimum take provision as part of his rebuttal testimony. He stated his proposed minimum take provision would require a customer to pay for a certain level of annual volume based on such annual volume multiplied by the proposed transportation rate of $2.38, even though the customer might not actually move that volume through SDIPC's pipeline in a particular year. Mr. Szklarski expects that the minimum take provision would involve annual increases in a customer's minimum take level as the volumes gradually build up on SDIPC's pipeline system.

Mr. Szklarski used a minimum take volume throughput estimate of 400,000 Mcf the first year of operation and, assuming a rate of $2.38, stated SDIPC would receive revenue of $952,000. If the volume exceeded the 400,000 Mcf level, SDIPC proposes to charge $2.38 for each Mcf in excess of that level. If the minimum take provision was doubled to 800,000 Mcf the second year, the revenue to SDIPC would increase to $1,904,000. Any volumes in excess of that would produce revenues of $2.38 for each additional Mcf.

Mr. Donald R. Ball, Montana-Dakota's Regulatory Affairs Manager, testified in response to Mr. Szklarski's proposal. Mr. Ball testified that Montana-Dakota supports the concept of a volumetric rate as initially proposed by SDIPC. He stated a volumetric rate would provide for a proper sharing of the losses anticipated in the initial years for both SDIPC and whomever has the distribution systems.

Mr. Ball said Montana-Dakota supports the concept of a 10 year levelized rate. Based on the now perceived economics of the project for Montana-Dakota and the critical need to maintain competitive and stable rates in the first 10 years to enhance growth, Mr. Ball said Montana-Dakota believes it is essential that SDIPC's rate must be as stable as possible since the rate would be a major part of a distributor's cost of service. Ideally, it should be guaranteed for the full 10 year period which is anticipated to be needed to achieve the potential volumes. Mr. Ball said Montana-Dakota would require some form of guarantee on the transportation rate before committing to construct and operate distribution systems.

Turning to Mr. Szklarski's minimum take proposal, Mr. Ball stated that Mr. Szklarski assumes any minimum take provision would be tied to the volumes set forth by Montana-Dakota Witness M.C. Miller of about 400,000 dk in the first year and about 800,000 dk in the second year. Montana-Dakota agrees that these volume levels, while aggressive in the early years of the project, are appropriate for use in determining rates given the long term nature of the project. However, for purposes of establishing a minimum take provision and the resulting minimum bill, Montana-Dakota believes that an additional risk must be considered.

Mr. Ball said the risk is that there likely will be intense competition between natural gas and the current fuels used in the area, particularly in the first few years. For example, propane dealers will likely cut their prices initially to retain customers. Mr. Ball said Montana-Dakota believes that natural gas will be the fuel of choice ultimately, but it may take longer than indicated in Mr. Miller's Exhibit 6 to obtain the volumes from conversions.

Mr. Ball stated that, should the Commission believe the adoption of a minimum take provision is in the public interest, Montana-Dakota has a recommendation concerning the appropriate level. He recommended that a volume level for a minimum take obligation should be expressed as a percent of the total anticipated ultimate volumes of 1,673,369 dk projected by Montana-Dakota witness Miller for Years 10-20 of the pipeline project (Exhibit 6). Mr. Ball recommended that the following levels should be set for the first five (5) years:

Year 1--10 percent or 167,337 dk
Year 2--20 percent or 334,674 dk
Year 3--40 percent or 669,348 dk
Year 4--50 percent or 836,685 dk
Year 5--65 percent or 1,087,690 dk

Mr. Ball said the use of these volume levels would provide for a sharing of the identified risk and, if actual volume levels are higher, SDIPC would receive higher compensation based on the actual throughput.

Montana-Dakota submits this type of sharing provision, if found by the Commission to be in the public interest, would adequately and properly divide the risks between SDIPC and any distributors on its system.

RESPECTFULLY SUBMITTED, this 6th day of January, 1993.

Douglas W. Schulz

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CERTIFICATE OF SERVICE

I, Douglas W. Schulz, attorney for Montana-Dakota Utilities Co. in the above-entitled matter, do hereby certify that a true and correct copy of the within and foregoing Initial Brief of Montana-Dakota Utilities Co. was mailed by first class mail, postage prepaid thereon, to:

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(Original and 3 copies)

Dated this 6th day of January, 1993, at Bismarck, North Dakota.

Montana-Dakota Utilities Co.,
a Division of MDU Resources Group, Inc.

By Douglas W. Schulz
Douglas W. Schulz
Senior Attorney