

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

**In the Matter of the Application
of South Dakota Intrastate Pipeline
Company for Authority to Increase its
Natural Gas Transportation Rate**

Docket No. NG17-009

DIRECT TESTIMONY

OF

LISA MURPHY

**ON BEHALF OF SOUTH DAKOTA INTRASTATE
PIPELINE COMPANY**

June 29, 2017

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1 **I. INTRODUCTION AND SUMMARY**

2 **Q. Please state your name and business address.**

3 A. My name is Lisa Murphy. My business address is South Dakota Intrastate Pipeline
4 Company, 1415 Airport Road, Pierre, SD, 57501.

5 **Q. What is your occupation and by whom are you employed?**

6 A. I am the Chief Financial Officer of South Dakota Intrastate Pipeline Company (“SDIPC”)

7 **Q. Please describe your education.**

8 A. I attended the College of St. Benedict

9 **Q. Please describe your professional experience.**

10 A. I have been Chief Financial Officer for 23 years. I am responsible for financial planning,
11 record keeping, bookkeeping, payroll, insurance, complying with state and Federal reporting
12 periods and reporting all financial matters to the Executive Board and Board of Directors. I
13 also develop and maintain our company’s yearly budget.

14 **Q. On whose behalf are you testifying?**

15 A. SDIPC.

16

1 **Q. What is the purpose of your Direct Testimony?**

2 A. The purpose of my testimony is to provide an overview of SDIPC's revenue requirement,
3 cost of service using a calendar year 2016 test year, and known and measurable changes to SDIPC's
4 2016 test year. In so doing, I will summarize Statements A through Q, as applicable to SDIPC's
5 operations and customer base, with adjustments that are known and measurable at the time of this
6 filing.

7 **II. FINANCIAL OVERVIEW**

8 **Q. Please describe the financial statements included in your filing.**

9 A. Consistent with South Dakota law, SDIPC is including information required by ARSD
10 20:10:13:49 through 20:10:13:107, inclusive. This information is based on a 2016 calendar year,
11 ending December 31, 2016 (the "Test Year"), as allowed by ARSD 20:10:13:44. In addition,
12 SDIPC is including adjustments that are known with reasonable certainty and measurable with
13 reasonable accuracy, and that will become effective before December 31, 2018. These
14 adjustments will be addressed in a subsequent section of my testimony. Consistent with recent
15 precedent from the South Dakota Supreme Court,¹ SDIPC reserves the right to make additional
16 adjustments that become known and measurable prior to any hearing date established by the
17 South Dakota Public Utilities Commission.

18 **Q. Please summarize SDIPC's revenue requirement as calculated using the Test Year.**

19 A. SDIPC's overall cost of service is set forth on Statement M. Because SDIPC only has
20 one customer, its rate for service could either be based on a flat monthly charge or a per
21 dekatherm charge, utilizing historical volumes transported as a guide. SDIPC is electing the

¹ *In the Matter of the Application of Black Hills Power, Inc. for Authority to Increase Electric Rates*, 2016 S.D. 92 (S.D. 2016).

- 1 former and therefore the rate it is seeking is simply the cost of service divided by twelve months.
 2 A table reflecting SDIPC's current and proposed revenue, including adjustments, appears below.

3 **Table 1.**

4

| South Dakota Intrastate Pipeline Company | | | | | | |
|---|---|--------------------|-------------------------------------|------------------|---------------------------------|------------------|
| Pipeline Pro Forma Revenue Requirement | | | | | | |
| Twelve Months Ended December 31, 2016 | | | | | | |
| Revenue Requirement Summary (Whole Dollars) | | | | | | |
| Line No. | DESCRIPTION | WITH PRESENT RATES | | | WITH PROPOSED RATES | |
| | | Per Books | Restating and Pro Forma Adjustments | Pro-forma Total | Proposed Revenues & Related Exp | Proposed Total |
| | <i>a</i> | <i>b</i> | <i>c</i> | <i>d</i> | <i>e</i> | <i>f</i> |
| <i>Operating Revenues</i> | | | | | | |
| 1 | Operating Revenues | 2,193,844 | - | 2,193,844 | 1,775,032 | 3,968,876 |
| 2 | <i>Total Operating Revenues</i> | 2,193,844 | - | 2,193,844 | 1,775,032 | 3,968,876 |
| <i>Operating Expenses</i> | | | | | | |
| 3 | Operation Expense | 1,776,587 | 254,608 | 2,031,195 | - | 2,031,195 |
| 4 | Maintenance Expense | 89,344 | 4,729 | 94,073 | - | 94,073 |
| 5 | Depreciation Expense | 857,546 | 512,204 | 1,369,750 | - | 1,369,750 |
| 6 | Taxes O.T.I.T. | 65,765 | 4,515 | 70,280 | - | 70,280 |
| 7 | <i>Total Operating Expenses</i> | 2,789,242 | 776,056 | 3,565,298 | - | 3,565,298 |
| 8 | <i>Operating Income Before Taxes</i> | (595,398) | (776,056) | (1,371,454) | 1,775,032 | 403,579 |
| <i>Provision for Income Taxes</i> | | | | | | |
| 9 | Deferred | - | - | - | - | - |
| 10 | Current | - | (548,581) | (548,581) | 710,013 | 161,431 |
| 11 | Debt Interest | - | - | - | - | - |
| 12 | <i>Total Provision for Income Taxes</i> | - | (548,581) | (548,581) | 710,013 | 161,431 |
| 13 | <i>Net Operating Income</i> | (595,398) | (227,474) | (822,872) | 1,065,019 | 242,147 |
| <i>Rate Base</i> | | | | | | |
| 14 | Utility Plant | 14,325,852 | (11,988,713) | 2,337,139 | - | 2,337,139 |
| 15 | Accumulated Depreciation | (12,601,686) | 12,187,139 | (414,547) | - | (414,547) |
| 16 | Deferred Income Taxes | - | - | - | - | - |
| 17 | Working Capital | - | 498,879 | 498,879 | - | 498,879 |
| 18 | <i>Total Rate Base</i> | 1,724,166 | 697,305 | 2,421,471 | - | 2,421,471 |
| 19 | <i>Rate Of Return</i> | -34.5% | | -34.0% | | 10.0% |

5
6

7

III. ADJUSTMENTS

1
2 **Q. Please summarize adjustments to SDIPC's Test Year.**

3 A. SDIPC has a number of adjustments to the test year, which are known with reasonable
4 certainty and measurable with reasonable accuracy, and set forth in detail on Statement M of its
5 application. These adjustments can be broken down into two categories, restating adjustments
6 and proforma adjustments.

7 **Q. Please summarize the restating adjustments.**

8 A. There are four restating adjustments which are summarized below.

- 9 • There is an adjustment to income taxes and ADIT. SDIPC, with the consent of its
10 stockholders, has elected under the internal revenue code to be treated as an S-corporation.
11 As such, the corporation is not subject to income taxes but the income from the company is
12 taxed at the shareholder level. Therefore, the company will be required to make cash
13 distributions to the shareholders to pay the taxes for the pass through income. We have
14 determined that this rate is 40% to cover federal and state taxes.
- 15 • There is an adjustment to working capital. Working capital was not included in the
16 calculation of the current transportation rate, but it is allowed by the rules and should be
17 factored into the revenue requirement.
- 18 • There is an adjustment to depreciation expense. The pipeline asset will be fully
19 depreciated as of August 31, 2018. But there remains a necessary adjustment for the
20 eventual retirement obligation of removing the pipeline asset. The estimated cost of
21 removal in today's dollars is \$10,000,000. Assuming an inflation adjustment of 2% and
22 a remaining useful life of 25 years, results in a projected cost of removal of roughly
23 \$13,394,976, which requires an annual amortization of \$512,204.

- 1 • There is an adjustment to rate base to account for a reasonable management fee for what
2 will be a fully depreciated asset. This adjustment is based on applying SDIPC's
3 proposed rate of return to 10% of the value of the utility plant.

4 **Q. Please summarize the pro forma adjustments.**

5 A. There are seventeen pro forma adjustments, which are summarized below. The 24-month
6 projected expenditure over the 2017-2018 time period has been averaged to adjust 2016 book
7 expenses upward or downward, as appropriate.

- 8 • There is an adjustment for rent expense, which relates to the building in which SDIPC's
9 main office operates. This expense rises slightly each year.
- 10 • There is an adjustment for utilities expense to cover all electrical and gas expenses. This
11 expense historically has risen given a market we cannot control.
- 12 • There is an adjustment for employee training expense for costs incurred to ensure our
13 employees stay informed and are sent to the classes needed to remain current. The
14 upward adjustment is slight and should reasonably account for new federal and state
15 mandates.
- 16 • There is an adjustment for professional services associated with this rate case filing.
- 17 • There is an adjustment for professional services associated with SDIPC's office to
18 account for its commitment to keep records in the format suggested by the Federal
19 Energy Regulatory Commission, which will require outside professional assistance.
- 20 • There is an adjustment for operations expense on expenses that continually inflate each
21 year as work load expands.
- 22 • There is an adjustment for integrity management expense, which is addressed in the
23 testimony of Gordon Woods.

- 1 • There is an adjustment for fixed asset expense regarding our office and operations. In the
2 coming 24 months we will be upgrading our computers, acquiring a new storage
3 building, replacing needed equipment specifically for the pipeline, new mower,
4 calibrator, replace fencing and purchasing new emergency stock pipe
- 5 • There is an adjustment for fixed assets, trucks. SDIPC replaces its vehicles in a 4 year
6 rotation. SDIPC will also be replacing its Bobcat and purchasing a dump truck.
- 7 • There is an adjustment for public awareness expense to account for historical inflation of
8 this mandated expense.
- 9 • There is an adjustment for employee benefits to include anticipated increases to costs
10 associated with SDIPC's benefit plan for employees and health insurance
- 11 • There is an adjustment for property taxes to incorporate inflation based on historical
12 experience.
- 13 • There is an adjustment for insurance expense to incorporate inflation based on historical
14 experience.
- 15 • There is an adjustment for pipeline safety expense, which accounts for two changes.
16 First, this expense was not included in SDIPC's original rate filing. Second, these costs
17 have increased since 2002. The adjustment accounts for the addition of the expense and
18 inflation based on historical experience.
- 19 • There is an adjustment for gross receipts tax to incorporate inflation based on historical
20 experience.
- 21 • There is an adjustment for payroll expense to incorporate inflation based on historical
22 experience.
- 23

1 **Q. Does this conclude your testimony?**

2 A. Yes.

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