

**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**

**SUPPLEMENTAL  
DIRECT TESTIMONY  
AND EXHIBITS  
OF  
GORDON WOODS**

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

**November 20, 2017**

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1 in this matter. Also, I will explain the costs associated with decommissioning SDIPC's  
2 pipeline and SDIPC's proposed action with respect to decommissioning.

## 3 II. O&M EXPENSE

4 **Q. Did SDIPC include detailed information on its O&M expenses with its petition to**  
5 **increase rates?**

6 A. Yes.

7 **Q. Has that information been updated?**

8 A. Yes. The updated information is set forth in SDIPC's revised Statement H, with  
9 adjustments thereto in a revised Statement M. In SDIPC's view, the expenses listed  
10 include the correct, reasonable and prudent costs of operating and maintaining SDIPC's  
11 assets to ensure the safe and reliable delivery of natural gas to its one customer, MDU.

12 **Q. Please provide an overview of the adjustments addressed in your supplemental**  
13 **testimony.**

14 A. My supplemental testimony covers the following adjustments:

- 15 • 2.07 - Operations Expense
- 16 • 2.08 - Integrity Management Expense
- 17 • 2.09 - Fixed Assets - Office and Operations
- 18 • 2.10 - Fixed Assets - Trucks and Equipment
- 19 • 2.11 - Public Awareness Expense
- 20 • 2.13 - Vehicle/Truck Expense

21

1 **Operations Expense**

2 **Q. What was the 2016 test year expense for operations?**

3 A. \$144,252. This amount is unchanged from the Company's initial filing. This value can  
4 be seen in SDIPC's updated Statement M, filed in conjunction with SDIPC's  
5 supplemental direct testimony.

6 **Q. What adjustment is SDIPC proposing to this 2016 test year expense?**

7 A. SDIPC is proposing an adjustment to \$165,880 (a \$21,628 increase to 2016 test year  
8 expense).

9 **Q. Please explain this adjustment.**

10 A. The Operations expense value proposed of \$165,880 represents the average of the  
11 projected expense levels for 2017 and 2018. For the 2017 value, that was derived by  
12 taking the three-year average for 2014, 2015, and 2016, were \$132,256, \$132,223, and  
13 \$70,743, respectively, for a three year average of \$111,741. To this value we added  
14 property of \$17,506 and office expense of \$33,416 (for a total of \$162,663). For 2018,  
15 we then took the three-year average of the 2015, 2016 and 2017 values. The unadjusted  
16 three-year average for 2018 is \$104,902  $((\$111,741 + \$70,743 + \$132,223)/3)$ . To that  
17 value, we again added in property tax and office expense whose values are \$29,442 and  
18 \$34,753. The 2018 value is then \$169,097. Averaging \$162,663 for 2017 with \$169,097  
19 for 2018, yields \$165,880.

20 **Q. Why do you support first starting with a three-year averaging approach?**

21 A. I support using the three-year average value because the value for 2016 is artificially low  
22 - many of the costs are cyclical, they just happen to not have been incurred in that year.

23

1 **Q. Please explain why you are adding in property tax and office expense?**

2 A. We included property tax and office expense in Operations expense because this cost  
3 category seemed the best match for those types of costs. Also, property tax and office  
4 expense was not included in any other category.

5 **Integrity Management Expense**

6 **Q. Does SDIPC have a pipeline integrity management program?**

7 A. Yes. As I noted in my direct testimony, the most recent version is dated 12-2016  
8 (“SDIPC IMP”).

9 **Q. Has SDIPC updated its proposal in this rate case with respect to pipeline integrity?**

10 A. Yes. After our review of our records and as detailed in the updated Statement M, costs  
11 associated with the SDIPC IMP totaled \$160,050 in 2016.

12 **Q. Please explain the \$406 difference.**

13 A. Public Awareness is a sub-account of SDIPC’s Integrity Management (“IM”) account.  
14 Town & Country Advertising and Ag News print ad were put in the IM account instead  
15 of the IM: Public Awareness account. The \$406 (rounded by Excel) was taken out of IM  
16 in the budget/actual and properly moved to the more appropriate Public Awareness  
17 account. The Public Awareness account is now correct per the budget. The IM account  
18 for 2016 now matches Exhibit (GW-1) from my direct testimony. In other words,  
19  $\$160,456 - \$406 = \$160,050$ .

20 **Q. Are 2016 costs representative going forward?**

21 A. Yes, with a qualification. As part of SDIPC IMP, there are meaningful costs that are not  
22 incurred annually but need to be taken into account to address the significant cost

1 volatility. For example, there is a significant IMP cost that occurs roughly every seven  
2 years.

3 **Q. What is SDIPC proposing in this case to address this volatility?**

4 A. For the years 2017 and 2018, SDIPC is proposing to take the actual IMP costs for 2015  
5 and 2016, add them together, and then divide by six.

6 **Q. Why is SDIPC proposing to use one-sixth of these costs?**

7 A. Per federal regulations, the maximum time period between IMP assessments is 7 years.  
8 By the time new rates in this proceeding take effect, more than one year will have passed  
9 since the completion of the last assessment, leaving roughly six years until federal  
10 regulations mandate the next IMP assessment. SDIPC believes it is reasonable to build  
11 into rates costs associated with the next IMP assessment, and proposes doing so by taking  
12 one-sixth of the costs incurred over the 2015-2016 time period, or roughly \$50,000. I  
13 should note that the 2015 and 2016 IMP costs were \$165,859 and \$160,050, respectively.  
14 These total \$325,909, and when divided by 6, yields \$54,318. I rounded down this value  
15 to \$50,000 to be conservative.

16 **Q. Incorporating this \$50,000 into integrity management expense, what is the two-year  
17 average of known and measurable costs for 2017 and 2018.**

18 A. For both 2016 and 2017, we use the value of \$50,000 for both years and so the average is  
19 \$50,000 as well.

20 **Fixed Assets - Office and Operations**

21 **Q. What was the 2016 test year rate base value for Fixed Assets - Office and  
22 Operations?**

23 A. We did not enter any value for this.

1 **Q. How did you develop your values for 2017 and 2018?**

2 A. First, SDIPC developed numbers for 2016. The 2016 values were then carried over to  
3 2017, as well as including known purchases. The 2018 value was developed by  
4 escalating the projected 2017 value by four percent, and then added in any expected  
5 purchases that were not carried out in 2017, as well as including a locator purchase in  
6 2018. \$73,190 is shown in Statement M, Adjustment 2.09.

7 **Fixed Assets - Trucks and Equipment**

8 **Q. What was the proposed adjustment for the 2017-2018 for trucks and equipment?**

9 A. \$155,000 addition to rate base.

10 **Q. What comprised that adjustment?**

11 A. It is comprised of a \$95,000 dump truck and a \$60,000 diesel truck.

12 **Public Awareness**

13 **Q. What was the 2016 test year expense for public awareness?**

14 A. \$11,271. I should note that the \$11,271 is roughly \$100 different from our responses to  
15 data request. The \$11,271 value reflects corrections identified in our audit.

16 **Q. What adjustment is SDIPC proposing to this 2016 test year expense?**

17 A. As SDIPC noted in its response to Commission Staff Data request 4-20, SDIPC was  
18 reconsidering the issue of an appropriate inflation factor for public awareness expense.  
19 Actual expense for public awareness expense over the 2014-2016 time period increased  
20 by roughly 40.7 percent, or 18.6 percent annually. Therefore, a 10.0 percent annual  
21 inflation adjustment, applied over two years and then averaged, is an appropriate and  
22 conservative adjustment.



1 Escalating the 2016 value of \$11,271 by 10.0 percent yields a 2017 value \$12,398.  
2 Escalating the 2017 value by 10.0 percent yields a 2018 value of \$13,638. The average  
3 of the 2017 and 2018 values is \$13,018. Therefore my adjustment to the 2016 value is  
4 \$1,747.

5 **Q. On Schedule H-3, SDIPC does not include expense associated with advertising.**  
6 **Does SDIPC incur costs associated with advertising and, if so, where is this expense**  
7 **included?**

8 A. Yes. SDIPC incurs cost associated with advertising. As noted above, SDIPC only has  
9 one customer. Any advertising is therefore directed to inform the public about SDIPC's  
10 operations. It therefore incurs these costs as part of its public awareness campaign, and  
11 has categorized this expense as public awareness, which is included in line 189 of  
12 Statement H (as opposed to Schedule H-3).

13 **Vehicle/Truck Expense**

14 **Q. What was the 2016 test year expense for operating, maintaining and making lease or**  
15 **loan payments for trucks, vehicles and other power equipment?**

16 A. The 2016 expense associated with this item is \$80,526.

17 **Q. What is the 2017 and 2018 projected expense amounts?**

18 A. The 2017 amount is \$82,485, and the 2018 amount is \$86,282. This averages to a  
19 requested amount of \$83,884. The adjustment to the 2016 value is \$3,628. These values  
20 include the operation and maintenance costs of essentially all of the power equipment as  
21 well as the loan and lease payments. I should note this expense category does not include  
22 any of the costs associated with the \$155,000-related vehicles being purchased in 2018.

23

1 **III. DECOMMISSIONING**

2 **Q. Has SDIPC commissioned a report on the cost of decommissioning and dismantling**  
3 **its pipeline?**

4 A. Yes. This report, entitled “Dismantling, Decommissioning and Deconstruction Report for  
5 the South Dakota Intrastate Pipeline” by David Howell of Pipeline Equities, was  
6 produced in discovery. It took longer to prepare than anticipated because Mr. Howell is  
7 located in Houston, Texas, which was ravaged by Hurricane Harvey. It is attached to my  
8 testimony as Exhibit (GW-SD-1).

9 **Q. What are the conclusions from this report?**

10 A. The cost to decommission and remove the pipe would be \$13.21 per foot. The total cost  
11 for SDIPC’s approximately 178-mile pipeline would therefore be approximately \$12.415  
12 million (178 \* 5,280 \* \$13.21). This amount is approximately \$2.415 million higher than  
13 the amount contained in SDIPC’s initial filing.

14 **Q. Should cost recovery for decommissioning start prior to the conclusion of the asset’s**  
15 **useful life?**

16 A. Yes. To ensure intergenerational equity, it would be unreasonable, in my opinion, for  
17 future customers of MDU, to be solely responsible for this cost.

18 **Q. How does SDIPC propose to address this potential cost?**

19 A. Consistent with the direct testimony of Marc Hellman, SDIPC proposes that in its order  
20 in this general rate case the Commission direct a new docket be opened where staff,  
21 interested parties, and SDIPC are charged with developing a rate mechanism and design  
22 that both collects the decommissioning costs, as well as ensures a sound investment of

1           such monies collected, so that the funds will be available and in sufficient amount to  
2           cover decommissioning costs.

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

4   A.    Yes.

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