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THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF SOUTH DAKOTA

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IN THE MATTER OF THE APPLICATION  
OF MONTANA-DAKOTA UTILITIES CO.  
FOR AUTHORITY TO INCREASE ITS  
NATURAL GAS RATES

NG12-008

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Transcript of Proceedings  
October 31, 2013  
9:30 a.m.

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BEFORE THE PUBLIC UTILITIES COMMISSION,  
GARY HANSON, CHAIRMAN  
CHRIS NELSON, VICE CHAIRMAN  
KRISTIE FIEGEN, COMMISSIONER

COMMISSION STAFF

John Smith  
Kristen Edwards  
Greg Rislov  
Brian Rounds  
Patrick Steffensen  
Brittany Mehlhaff  
Deb Gregg  
Sherry Dickerson

APPEARANCES

Brett Koenecke, Montana-Dakota Utilities Co.

Reported By Cheri McComsey Wittler, RPR, CRR

1                   TRANSCRIPT OF PROCEEDINGS, held in the  
2                   above-entitled matter, at the South Dakota State Capitol  
3                   Building, 500 East Capitol Avenue, Pierre, South Dakota,  
4                   on the 31st day of October 2013, commencing at 9:30 a.m.  
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1           CHAIRMAN HANSON: NG12-008, In the matter of the  
2 application of Montana-Dakota Utilities Company for  
3 authority to increase its natural gas rates.

4           The question before the Commission is today  
5 shall the Commission grant the Joint Motion For Approval  
6 of Settlement Stipulation and approve the rates, tariff  
7 sheets, terms and conditions stipulated therein, or how  
8 shall the Commission proceed?

9           We've had quite a bit of information on this,  
10 and there was an intervention. However, that was  
11 withdrawn, and the Commission accepted that. I am not  
12 aware of any Interveners at this time on this Docket.

13           We will proceed with MDU. Mr. Koenecke.

14           MR. KOENECKE: Good morning, Mr. Chairman,  
15 Commissioners and Staff, Brett Koenecke from Pierre  
16 representing Montana-Dakota Utilities.

17           We've got several company employees and  
18 officials from Bismarck. And if you'd permit me to  
19 introduce them, seated behind me is Mark Hanson from  
20 corporate communications; Galen Luder [phonetic], a  
21 regulatory analyst; Caitlin Straube [phonetic], a  
22 compliance officer.

23           Seated to your right is Tammy Aberle, director  
24 of regulatory affairs, and Garret Senger, vice president  
25 regulatory affairs and chief accounting officer. And to

1 my right is Frank Morehouse, president and CEO of  
2 Montana-Dakota Utilities.

3 We're here this morning seeking approval of the  
4 Settlement we reached with Staff in the natural gas rate  
5 case we filed last December to put interim rates in  
6 effect in July of this year.

7 We were asked more than 10 rounds of data  
8 requests by Staff throughout the late summer and into the  
9 early fall and responded to those as best we could.  
10 There was testimony filed on both sides.

11 There was a lot of work put into this case. I  
12 want to stress that back as I sit here. The company and  
13 Staff both worked very, very hard and very diligently on  
14 this case. There's no question about that.

15 And through the course of the fall we held  
16 several discussions, both telephonically and face to face  
17 at which we shared more information about the filing that  
18 we had made with Staff. And Staff was able to synthesize  
19 and put that together into a -- finally we reached a  
20 Settlement with Staff that we think is in the best  
21 interest of the customers and the company.

22 I really want to say a thank you to the Staff  
23 that worked hard on this case seated over here to your  
24 left. I know that I got e-mails at night frequently from  
25 Staff on this case. That was just not unusual at all.

1 They were working tremendously hard to put together the  
2 numbers and understand our position and where the  
3 business is and where it needs to go.

4 I would also like to say there's nothing out of  
5 the ordinary with this rate case. There's not a large  
6 installation of a electric facility that's driving a rate  
7 case like this. This is a very -- I hate to use the  
8 word, but it's true. It's a very ordinary rate case.

9 It's the first rate case in about 10 years. It  
10 consolidates the two rate areas in this state. That  
11 might be the only factor that's somewhat out of the  
12 ordinary in this rate case.

13 And so we would stand by to answer any questions  
14 that you might have. I know Frank's got a few words he'd  
15 like to say this morning. And we would hope to leave  
16 here having the Settlement be approved by the  
17 Commissioners this morning.

18 So thank you very much.

19 MR. MOREHOUSE: Good morning, Commissioners.  
20 It's truly an honor to be here in front of you today and  
21 present to you this Settlement. We are very proud as a  
22 company to be a member of the business community here in  
23 the State of South Dakota.

24 South Dakota is a great state for us to do  
25 business in, and we find it a great state for all

1 businesses. It's good for our business as we see the  
2 state's economy grow so we truly love being here.

3 Again, as Brett said, our compliments to your  
4 staff and our staff for a lot of hard work on this. I  
5 think both staffs are to be commended with the amount of  
6 effort put into this, and I think it's a very reasonable  
7 settlement position that we've obtained.

8 You know, it's been eight to nine years  
9 depending on which area we look at since we've been  
10 before you for a rate change. And one of the things that  
11 we look at is the total cost.

12 If you look back and combine our margin and the  
13 gas costs, we saw prices over \$13 back in 2005. And  
14 today with this rate change in effect we're going to see  
15 prices just a little over \$7. It's almost a 50 percent  
16 decrease in total energy cost delivered to a consumer.

17 While we look at that there's a lot of things  
18 that have gone into it. We've made considerable capital  
19 investments into the systems. More than \$30 million over  
20 that period of time.

21 We've also worked extremely hard to control our  
22 costs. Over that period of time you saw the consumer  
23 price index increase 21 percent. And believe it or not,  
24 our operations and maintenance costs have reduced that  
25 same amount 21 percent over that period of time.

1           That takes a lot of work, implementation of  
2           technology, very diligent work on the part of our  
3           operating staff that's here in these communities that we  
4           serve. And we're pretty proud of that fact that we've  
5           worked so hard to control these expenses in this very  
6           tough environment that we've seen with the economy over  
7           that period of time.

8           All in all, I think I'd boil it down and say our  
9           company provides very essential services that heat homes  
10          and businesses, help prepare food, dry our clothes, and  
11          heat our water at what we think is a very fair and very  
12          reasonable rate.

13          And with that, I'd look to you and say we'd ask  
14          that you approve this Settlement as has been presented,  
15          and we'd be available to answer any questions that we  
16          can.

17          Thank you very much.

18          CHAIRMAN HANSON: Thank you. Appreciate that  
19          very much.

20          Ms. Edwards, are you the lead for Staff on  
21          this?

22          MS. EDWARDS: I am. Thank you, Mr. Chairman.

23          Good morning, Kristen Edwards for Staff. Staff  
24          and Montana-Dakota Utilities filed a Joint Motion for  
25          Approval of the Settlement Stipulation in this matter.

1           The Settlement Stipulation reflects the efforts  
2 of many individuals. Staff did file testimony and, in  
3 fact, even answered at least one data request for  
4 Montana-Dakota. The parties worked through the issues  
5 and ultimately reached a result that is acceptable to  
6 both Montana-Dakota and to Staff.

7           Staff believes we have reached an appropriate  
8 balance of all of the issues and interests at stake.  
9 Staff analysts are available here or on the phone for  
10 questioning.

11           Staff would recommend the Commission grant the  
12 Joint Motion For Approval of the Settlement Stipulation  
13 and adopt the attached Stipulation without modification  
14 for Docket NG12-008.

15           Thank you, and we stand by for questions.

16           CHAIRMAN HANSON: Thank you, Ms. Edwards.

17           We will go to Commissioner questions in just a  
18 minute. I would like to point out one thing. Because of  
19 the -- well, in rate cases it's often a situation where I  
20 know I did when I -- before I was a regulator I always  
21 wondered about the protection of the consumer and the  
22 relationship of the regulator with the utility.

23           I'd just like to read a couple of chapters from  
24 the State law. In 49-34A-8 it states that "The Public  
25 Utilities Commission in the exercise of its power under



1     this chapter is to determine just and reasonable rates  
2     for public utilities, shall give due consideration to the  
3     public need for adequate, efficient, and reasonable  
4     service, and to the end of the public utility for revenue  
5     sufficient to enable it to meet its total current cost of  
6     furnishing such service, including taxes and interest and  
7     including adequate provision for depreciation of its  
8     utility property, and used when necessary in rendering  
9     service to the public and to earn a fair and reasonable  
10    return upon the value its property."

11           So in one very strong sense the State law states  
12    that it the Public Utilities Commission is to look out  
13    for the interests of the utility. We are to be certain  
14    that the utility has enough funds in order to operate, in  
15    order to provide the proper utility service to the  
16    customer.

17           In another chapter it states that, and I won't  
18    read the entire portion of it, but it states that The  
19    public shall pay only just and reasonable rates for  
20    service rendered.

21           So the State law has -- of which we, as  
22    quasi-judicial entity, have a responsibility for looking  
23    out for the interests of both the consumer as well as the  
24    utility. And it's a balancing act.

25           And I bring this up because we as Commissioners

1 are asked this question when we're out among the  
2 citizens, and they're concerned especially with rate  
3 cases, especially now with as many rate filings as there  
4 have been, that we do have to look out for and be very  
5 cautious from the standpoint of a balance to make certain  
6 that we are -- that the two entities are both treated  
7 fairly by this Commission.

8 And we will turn to questions at this time. I  
9 have several I assume that my other Commissioners have.  
10 I'll just ask one, and then I'll -- or one or two, and  
11 then I'll let the other Commissioners ask some. I have  
12 several, but I assume they have similar ones.

13 Brett -- excuse me. Mr. Koenecke, you stated in  
14 your opening remark that this is a very ordinary rate  
15 case. Of course, no rate case is ordinary for us, but I  
16 understand what you're saying. I won't worry about the  
17 semantics.

18 However, this is a little -- more than a little,  
19 but there is a twist to this particular rate case from  
20 the standpoint that we are blending the east with the  
21 west, which historically is often a challenge in  
22 South Dakota. And I'm wondering if -- since that is  
23 something that we have seen in the newspaper and we've  
24 been asked about, if you could touch on that. And then  
25 I'll turn and ask Staff to discuss that as well.

1           Because we have a situation here where the  
2     blending of the rates means that there's an increase in  
3     rates on one side of the river and a decrease on the  
4     other side of the river.

5           Would you address that, please.

6           MR. KOENECKE: We'd be glad to, Commissioner --

7           CHAIRMAN HANSON: Or excuse me. Would you have  
8     one of your Staff.

9           MR. KOENECKE: Thank you, Commissioner. I would  
10    expect that we're looking at more than a question but a  
11    conversation about that. I think there's a lot of things  
12    to be shared about the notion of putting the two  
13    historically separate rate areas together.

14           I'll probably turn to Tammy first to have her  
15    share what her thoughts are on that. But I wouldn't be  
16    surprised that Frank and Garret have thoughts that they  
17    want to share as well. So looking forward to having that  
18    conversation. And, of course, we expected that coming in  
19    here this morning. That is, I think, the central feature  
20    of the rate case is that very part.

21           So with that, I'll probably let Tammy take a  
22    swing at it first.

23           MS. ABERLE: Thank you, Commissioners.  
24    Tammy Aberle with Montana-Dakota Utilities.

25           We proposed the consolidation in this particular

1 case. We've been really watching and taking a look at  
2 what point in time does it make sense to try to roll  
3 those two rate areas together. That was truly always our  
4 intent.

5 When we first came into the East River area,  
6 which includes Pierre, Mobridge, you know, through that  
7 area, the east side of the river, that was approximately  
8 20 years ago. It was exactly 20 years ago. I think 1993  
9 when we brought gas into this area.

10 At that time the distribution costs were, of  
11 course, much higher as a completely new system and  
12 recognized that that was not a good time to try to roll  
13 that into one state jurisdictional rate.

14 But as time has passed, as I said, 20 years,  
15 those costs have come closer together. We do operate the  
16 two systems as one. The operations, there's a lot of  
17 similar costs between the two systems.

18 Depreciation rates are the same. You know,  
19 administrative costs -- administratively, we operate it  
20 as the same jurisdiction.

21 And so we see some value actually to the  
22 Black Hills customers over time. We see a lot of load  
23 growth over on this side of the system. And so as time  
24 goes on, that load growth helps to offset fixed costs  
25 that would otherwise be going just to Black Hills.

1           So there are those advantages. And it -- again,  
2     administratively and from both our side and I think even  
3     from customers' understanding, seeing one set of rates  
4     with really a minimal impact to the Black Hills  
5     customers.

6           Even with the rate increase that is part of this  
7     Settlement, the residential customers' increase is still  
8     just \$2 a month. And that includes, you know, the entire  
9     Settlement, the increase in the revenue requirement as  
10    well as the consolidation.

11          So those are some of the points that I had in  
12    mind to share.

13          CHAIRMAN HANSON: Thank you. Staff.

14          Ms. Mehlhaff.

15          MS. MEHLHAFF: Dave Peterson, would you care to  
16    comment?

17          MR. PETERSON: Sure. I was the one, I guess,  
18    that principally analyzed and helped the Staff make its  
19    ultimate recommendation on rate consolidation.

20          But I'm like MDU. We didn't begin looking at  
21    this with the idea that there should be rate  
22    consolidation. We were naturally skeptical of MDU's  
23    plan to consolidate at this time.

24          So we did like we do with most issues. We sat  
25    down and made a list of things that argued for

1 consolidation and then things that we thought argued  
2 against consolidation. And, you know, I can go over that  
3 list a little bit with you briefly to see, you know, our  
4 thought behind our recommendation.

5 On the con side, the against consolidation, you  
6 know, we know that the distribution systems are not  
7 physically interconnected. They have their own -- and to  
8 some extent the physical plant is different in certain  
9 respects. The plant in the Black Hills area was  
10 installed for the most part many years ago. And the  
11 terrain and conditions of fixing that plant underground  
12 is different than it is in eastern South Dakota.

13 So those were the differences, you know, that  
14 strike us as the most significant hurdle for this rate  
15 consolidation. So we want to look at both sides of the  
16 issues, though.

17 So we made a list of things that argued for  
18 consolidation. Perhaps one of the bigger issues that we  
19 looked at was the largest cost of service item for MDU is  
20 purchased gas costs. And those costs have been set on a  
21 system wide basis or a consolidated basis since 1998. So  
22 that's -- most of the MDU's revenue requirement has  
23 already been consolidated through the PGA file.

24 As Ms. Aberle mentioned, a great deal of MDU's  
25 A&G costs, the costs of managing the system, the human

1 resources, the executive management, employee benefits  
2 and such, are all managed on a centralized basis already.  
3 It's already consolidated.

4 There are system synergies, when utilities  
5 consolidate in a service company type environment and  
6 provide centralized services for diverse operations such  
7 as gas and electric, you know, unregulated.

8 And the same holds true for diversity between  
9 Montana and North Dakota, South Dakota operations and gas  
10 and electric operations. So those functions have already  
11 been to a large extent consolidated.

12 Labor costs are in a great sense consolidated  
13 already. Because they negotiate with a single labor  
14 union. So direct labor costs and benefits are for the  
15 most part consolidated.

16 Depreciation is another significant item for  
17 MDU. The depreciation rates are already consolidated  
18 between East River and Black Hills. The same set of book  
19 depreciation rates are used for both sets of property.

20 Ms. Aberle mentioned that, you know, it's been  
21 20 years since the East River system was developed. That  
22 plant is already aging. MDU in its Black Hills is  
23 replacing plants. Normally in their revenue requirement  
24 life cycle of a plant, the earlier years are more  
25 expensive than the later years. But as plant additions

1 are necessary in the Black Hills area, which we're going  
2 to expect to see that the remaining lives of plants which  
3 have a diverse cost initially between the Black Hills  
4 division and the East River division, we're going to see  
5 a diversion of that as a plant ages and a plant is being  
6 replaced.

7 And then, as Ms. Aberle mentioned also, the  
8 administrative costs of the company to keep two separate  
9 sets of books for South Dakota only operates -- even  
10 though most of their costs have already been  
11 consolidated. And the rate case simplification for the  
12 Staff, those elements argued for rate consolidation.

13 When we lined all of these up on a piece of  
14 paper we felt that the benefits far outweighed any  
15 detriment of keeping the rates separate. So that really  
16 was the basis for the Staff to recommend to the  
17 Commission that the rate areas now be consolidated.

18 We think it's an opportune time when the rate  
19 increase, the overall rate increase, is relatively small  
20 that rates now be consolidated.

21 CHAIRMAN HANSON: Thank you, Mr. Peterson.

22 And did you at the beginning of your remarks,  
23 did you state that you were somewhat skeptical at first  
24 as to whether or not the blending of the rates should  
25 took place?



1 MR. PETERSON: Yes.

2 CHAIRMAN HANSON: Okay. Well, I appreciate  
3 hearing that. And you attacking the question from that  
4 standpoint.

5 Is it your opinion that West River is not  
6 subsidizing East River and East River is not subsidizing  
7 West River?

8 MR. PETERSON: For distribution service, you  
9 know, there has been no subsidization in the past because  
10 the rates have been separate.

11 If you approve the Settlement, both East River  
12 and West River -- and the Black Hills division will be  
13 paying identical rates. There will be no subsidization  
14 within the class.

15 Where we saw subsidiaries in the past was  
16 that -- from the class cost of service study, the small  
17 general service and small interruptible customers were  
18 subsidizing -- there was a subsidy to the Black Hills  
19 residential customers. And we have eliminated that or  
20 attempted to eliminate most of that in this rate  
21 design.

22 CHAIRMAN HANSON: Thank you very much. There  
23 has been quite a bit -- as Mr. Morehouse and Mr. Koenecke  
24 pointed out, there's been a tremendous amount of  
25 information back and forth and questions asked and

1     answers given. And this is a rather -- it may be an  
2     ordinary case, but it's still a complex one.

3             And I'm sure my fellow Commissioners have  
4     some questions or comments, and so I will turn to Vice  
5     Chairman Nelson.

6             COMMISSIONER NELSON: Thank you. Just a couple.

7             I would say to both the company and to Staff,  
8     reading through your testimony and the Staff memo, which  
9     was very well done, frankly, answered most of my  
10    questions. There's not a lot of outstanding questions  
11    other than I think just a couple.

12            Mr. Koenecke, you did use the word "ordinary"  
13    rate case, and I focused in on that too. And  
14    Mr. Morehouse talked about the fact that the companies  
15    worked hard to drive down their operation and maintenance  
16    expenses.

17            So what's driving the increase? If you could  
18    summarize what's driving the increase?

19            MR. SENGER: In summary what's driving the  
20    increase would be the investment made over that 8- to  
21    9-year time frame where our net plant investment has  
22    grown from about over 60 million to over 90 million  
23    during that time frame.

24            That's really what's driven the request for  
25    the increase, the investments made in the system.

1           COMMISSIONER NELSON: Thank you. The only other  
2 question I've got maybe for Staff is I know there was  
3 this issue of the heating degree days, whether it was  
4 60 or 65.

5           And I saw in the Settlement that you had a  
6 change in your weather normalization dollar figure, but I  
7 didn't see where you ever divulged how you resolved the  
8 60 versus 65. And if you could share that with us, I  
9 would appreciate it.

10          MS. MEHLHAFF: The company agreed to use the  
11 65 degree database.

12          COMMISSIONER NELSON: Okay. That is all the  
13 questions I've got.

14          CHAIRMAN HANSON: Commissioner Fiegen, do you  
15 have any questions?

16          COMMISSIONER FIEGEN: Yes.

17          First of all, thank you so much for working so  
18 hard on this. It's easy as a consumer to look at the  
19 100,000 foot level and look at it but not study it and  
20 get it down into the detail. So a lot of my questions  
21 are kind of at the 100,000 foot level so you can talk  
22 about the detail and how we get places.

23          First of all, thank you for negotiating, Staff,  
24 about the MDU Billings landfill. That was an expensive  
25 gas cost and an expensive cost to our consumers in

1 South Dakota, and I appreciate your negotiations on that  
2 to really look out for the consumers in South Dakota on  
3 that. And for MDU to agree with what this Staff brought  
4 to you, and actually you even went further to what the  
5 Staff asked you to do to protect our consumers in  
6 South Dakota.

7 So you really had good faith in that, and I  
8 certainly appreciate what you did for the South Dakota  
9 consumers on that.

10 Just a couple of things on just education on the  
11 difference between gas and electric. And now I'm just  
12 going to be educated from you, if I could ask you a  
13 question on --

14 Dave Peterson talked about the cost of the PGA  
15 in gas, and he said it's a lot more expensive than  
16 electric, I'm assuming. I'm assuming the gas costs  
17 that we all pay that fluctuate and are volatile is  
18 around 60 to 70 percent of our bill compared to electric  
19 that is probably around 30.

20 But I'm just asking you so everybody knows that  
21 information.

22 MS. ABERLE: Commissioner Fiegen, Tammy Aberle.  
23 That would be correct. Our gas is running around  
24 70 percent of a typical residential bill. Yes.

25 COMMISSIONER FIEGEN: So what is interesting in

1 a gas case versus an electric case is that we're really  
2 looking at 30 percent when we look at rate base. Versus  
3 an electric it's the direct opposite. So gas cases are  
4 just fascinating in general.

5 Also it's interesting. I agree all three  
6 Commissioners really looked at the merge. And we wanted  
7 to make sure -- as you know, when you come to us in a  
8 rate case -- and thank you for not coming since 2004,  
9 2005, but when you come, you really look --

10 Our basic belief as Commissioners, I believe,  
11 and I think all three of us would say this especially  
12 when we look at it, our basic belief is to bring and make  
13 sure that other classes aren't subsidizing each other.  
14 And when you bring a rate case we get to relook at that  
15 and make sure that's not happening.

16 If you look at the 100,000 foot level it looks  
17 like in Eastern South Dakota if you don't use very much  
18 gas and, in fact, if you even shut it off a month, you're  
19 paying a lot of money, or your increase is extremely  
20 high.

21 I'm assuming that your basic service charge is  
22 a fixed cost. And before you came to us today actually  
23 the larger user was subsidizing the very small user; is  
24 that correct?

25 MS. ABERLE: Commissioner Fiegen, this is

1 Tammy Aberle again, and that is correct.

2 The basic service charge is the component of  
3 the bill where we collect fixed costs and so in the  
4 East River system it was well below what we had  
5 identified as our cost. While we're not necessarily in  
6 total agreement, our class cost of service study  
7 indicated that the customer cost is -- that fixed  
8 component is more like \$13.

9 So we're making moves toward that, recognizing,  
10 you know, there's subsidiaries within that class and  
11 there will continue to be to the extent we're collecting  
12 fixed costs on a volumetric basis.

13 But, again, those class studies Staff would have  
14 a little bit different opinion. We both agreed that at a  
15 minimum it needed to be at -- we chart it on a daily  
16 basis just to account for cutins and cutouts of service,  
17 but at 28 cents a day.

18 COMMISSIONER FIEGEN: Thank you.

19 And I appreciate Dave Peterson's work on that  
20 and the negotiations that you had. Because that fixed  
21 cost should be as accurate as possible so that we're not  
22 having classes subsidize other classes or users  
23 subsidizing other users.

24 And I appreciate that basic belief that  
25 Commissioners believe is trying not to subsidize.

1           Dave Peterson, you investigated, and you get the  
2 work papers that we don't get to see on incentive pay.  
3 And the very first thing you did is you threw out all  
4 incentive pay because your belief and I'm sure it's  
5 because you got different work papers and asked for more  
6 information from MDU that we didn't get to see. But the  
7 first time you threw everything out.

8           And then you brought it all back in except  
9 one-third cost. Tell me how you came up with that rate  
10 payers are paying two-thirds of the cost?

11           And also just again sometimes at the 100,000  
12 foot level it's interesting, but incentive pay in  
13 South Dakota for gas we pay a very small percentage of  
14 that because there's other states that pay part of that.  
15 There's nonregulated and regulated that pay for that. So  
16 South Dakota's incentive pay is actually very small -- or  
17 I don't know very small. But small.

18           But could you tell us, Dave Peterson, how you  
19 changed your opinion and how you came up with  
20 two-thirds?

21           MR. PETERSON: Okay. Well, first of all, I did  
22 not change my opinion. I'm very passionate about this  
23 issue.

24           MDU has a type of a incentive compensation plan,  
25 as do many other utilities, that requires it -- that

1     require that the shareholders be compensated adequately  
2     through a threshold earnings per share before any  
3     incentive compensation is paid.

4             And in my mind, that places the utility's  
5     interests and the stockholders' interests above rate  
6     payer interests, and that -- the stockholders should then  
7     pay for all incentive compensation.

8             Other utilities, including Black Hills, don't  
9     have that threshold requirement before incentive  
10    compensation is paid. In other words, if there are  
11    safety objectives or customer service objectives and  
12    they're met, those are paid regardless of what the  
13    company's earnings are. Those types of plans I have no  
14    problem with, except for those elements that relate to  
15    utilities' financial earnings.

16            But, you know, traditionally the Staff has taken  
17    the position for settlement purposes to eliminate only  
18    those incentive compensation plans or payments that are  
19    made strictly on the basis of achieving financial  
20    performance measures.

21            So --

22            COMMISSIONER FIEGEN: Okay. You know, I asked  
23    the wrong question. I'm sorry. I asked the wrong  
24    question, Dave Peterson.

25            I didn't mean you changed your opinion. You



1 modified the dollars. And so there must have been  
2 something that you saw, and it appeared to me when I read  
3 your testimony you thought all of it was financially  
4 based. So what did you see --

5 MR. PETERSON: No. It's not all financially  
6 based, but there is a financial trigger. In other  
7 words, they have to achieve 85 percent of their target  
8 earnings per share before any incentive compensation is  
9 paid.

10 COMMISSIONER FIEGEN: Correct. And that says  
11 that in your testimony that --

12 MR. PETERSON: That's the financial trigger that  
13 I objected to. That doesn't change or didn't change.  
14 What did change in the negotiations is that we accepted a  
15 lesser amount based on what we've done for all the other  
16 utilities in the state in the last several years.

17 In other words, if this were to remain a  
18 litigated case, I would stand by my initial position.  
19 But because of, you know, other concessions made on other  
20 issues, we were willing to back off on this one, at least  
21 with respect to consumer safety, customer satisfaction,  
22 and other operating performance measures but not on the  
23 financial measures.

24 COMMISSIONER FIEGEN: Okay. So you're convinced  
25 that the incentive pay that you put back in the

1 negotiations is for rate payers' benefit for safety,  
2 customer service, et cetera?

3 MR. PETERSON: Yeah. This one MDU's doesn't  
4 really have a safety component in their overall plan.  
5 There are other safety incentives that are given, but in  
6 their annual incentive plan safety isn't a  
7 specific component. But operational goals and customer  
8 satisfaction goals are included, and we think those are  
9 worthwhile goals, if they didn't have a financial trigger  
10 attached to them.

11 COMMISSIONER FIEGEN: So you're convinced your  
12 negotiations is rate payer benefited based?

13 MR. PETERSON: The rate payers do benefit when  
14 those goals are achieved, yes. And this is the same  
15 treatment that we've given for every other utility in the  
16 state.

17 COMMISSIONER FIEGEN: Okay. And just one more  
18 question for Mr. Pous. You did a very lengthy analysis  
19 of depreciation. And I'm not for sure if we've hired  
20 somebody before to do a very lengthy analysis of  
21 depreciation. You worked really hard it looks like in  
22 your negotiations with MDU. And MDU, of course, had a  
23 study too prior to. So we had to have somebody really to  
24 look for the rate payer to make sure that was accurate.

25 Could you just give us maybe a 30,000 foot level

1 of -- and we see a little bit in your Staff memo, but  
2 could you just give us a little bit more information  
3 since this was kind of new for us?

4 MR. POUS: Okay. Basically, depreciation is the  
5 recovery of capital over time plus the recovery of  
6 expected future net salvage. So you've got two  
7 components. Both of them are projections.

8 One, you've got more data. You've got a  
9 historical plan activity level where you can do some  
10 historical analysis. And you have to assume will history  
11 be a reasonable predictor of the future. Net salvage is  
12 a little bit more difficult because --

13 COMMISSIONER FIEGEN: You know what, I'm sorry.  
14 Because a lot of us have worked in depreciation. But  
15 could you kind of tell us the differences in what you saw  
16 and what MDU was showing in their study? Sorry about  
17 that.

18 MR. POUS: Oh, that's no problem. What I saw,  
19 the main issue was that they were seeking a 47-year  
20 average --

21 COMMISSIONER FIEGEN: And I'm sorry. Are you on  
22 a speaker phone or a cell phone? Because you're cutting  
23 out about every other word.

24 MR. POUS: I'm sorry. I'm on a landline.

25 COMMISSIONER FIEGEN: You are on a landline.

1 And that landline must have a quality service issue.

2 Commissioner Nelson, are you on the telecom  
3 committee? Could you find out who the service provider  
4 is?

5 MR. POUS: I think it's Century Link. But I'll  
6 try and speak slowly, and if I'm cutting out too much,  
7 I'll try again.

8 But the key issue is on the life side is  
9 Account 376. That's distribution name's largest account.  
10 The company was proposing a 37-year average service high.  
11 After I did the analysis on the available data, I thought  
12 something closer to the 60 was more realistic.

13 For settlement purposes, given the subjectivity  
14 of the overall process and the company's willingness to  
15 bring on the net salvage components, which I'll get to in  
16 a moment, it was reasonable to accept that as a  
17 reasonable overall settlement.

18 On the net salvage side, the company's proposals  
19 reflect some of the largest negative net salvage you're  
20 going to find anywhere in the industry. And the company  
21 was agreeable to restrict the level of increase that they  
22 were asking on that. But this will be an issue in the  
23 future also.

24 So the concept is that you have to analyze the  
25 history. You have to look at what future expectations

1 are. The company's study did not do what I would  
2 consider as detailed an analysis as probably was  
3 warranted and made it a little bit more difficult to do  
4 our analysis.

5 Hopefully in the future they will present a more  
6 detailed and thorough study. But for a current certainty  
7 as to what depreciation should be going forward, the  
8 blending of the life adjustment and the salvage  
9 adjustment was a reasonable compromise.

10 CHAIRMAN HANSON: Sir.

11 MR. POUS: Yes.

12 CHAIRMAN HANSON: Are you wearing a headset?

13 MR. POUS: No.

14 CHAIRMAN HANSON: I'm going to suggest that you  
15 move the mouth piece just a little bit away from your  
16 mouth. Maybe it's the air hitting it that's creating a  
17 little bit of a challenge for us. But -- and perhaps I'm  
18 dilatory in asking you to do that. If you --

19 MR. POUS: No problem.

20 CHAIRMAN HANSON: If you're already done.

21 MR. POUS: Yes. I'm done. I can go back and  
22 repeat anything that you want me to repeat or talk  
23 about.

24 CHAIRMAN HANSON: I'll look at the court  
25 reporter, if you'll pause. Cheri.

1           No. We're fine. Thank you, sir.

2           MR. POUS: Sorry about the connection.

3           CHAIRMAN HANSON: Commissioner Fiegen.

4           COMMISSIONER FIEGEN: You know, those are my  
5 questions.

6           But I want to thank Staff again for your very  
7 hard work on looking out for rate payers and really  
8 working on to make sure that the consolidation plan  
9 really benefited not only West River but East River. As  
10 we know, West River certainly has older infrastructure  
11 than East River so it will certainly be a benefit for  
12 them in the future too.

13           So thank you so much for all of your hard  
14 work.

15           CHAIRMAN HANSON: Good points. Good questions  
16 by fellow Commissioners. Appreciate the give and take  
17 and the information that was provided.

18           It's really hard to express just how much  
19 information is exchanged during a rate case without  
20 someone going to our website and reading it themselves --  
21 or attempting to read it themselves.

22           In a Rapid City Journal editorial they remarked  
23 that they were directed to examine the documents and  
24 testimony and they used the word "voluminous" and it  
25 certainly is. There's a tremendous amount of work that

1 goes into these rate cases, and we all appreciate very  
2 much the give and take that's taken place.

3 And especially as Commissioner Fiegen and I  
4 believe Commissioner Nelson already pointed out, the  
5 safeguarding and protection that the PUC Staff made and  
6 the work that they did in making certain that the  
7 consumer doesn't pay any more than they need to.  
8 Certainly they did an excellent job in going through all  
9 of the information.

10 It's apparent that there was a -- I'm glad that  
11 I was not on the MDU side and had to answer all of the  
12 questions and go through all of the work that you had to  
13 for Staff. But we sincerely appreciate the give and take  
14 that took place there.

15 I have a couple more questions. One is just my  
16 own inability to find some information. And whoever can  
17 answer it, please do.

18 But in the Billings landfill the gas  
19 production facilities, the Billings, Montana landfill,  
20 the methane there, Staff recommended the company be  
21 allowed to recover its Billings landfill  
22 production-related costs.

23 I could not find where the revenue was included  
24 in the analysis. Was that included, the revenue from  
25 the --

1           MR. PETERSON: I can answer that, Chairman  
2           Hanson.

3           CHAIRMAN HANSON: Would you identify yourself,  
4           please.

5           MR. PETERSON: Yes. This is Dave Peterson  
6           again. And I was the one who analyzed it for the  
7           Commission Staff.

8           The Commission Staff's recommendation, and it  
9           was ultimately adopted by MDU and it's reflected in the  
10          Settlement, is that the investment revenues and expenses  
11          would be excluded from base rates but be recovered  
12          through the PGA. So that's why you don't see any  
13          revenues in the base rate calculation.

14          CHAIRMAN HANSON: Thank you. And here I thought  
15          I found something that all of you experts missed. I  
16          guess not.

17          Thank you very much. Appreciate that.

18          I would ask our counsel, Mr. Smith, and  
19          Mr. Rislov, an analyst who works with the Commissioners,  
20          if either one of them saw any major surprises in this  
21          and, Counsel Smith, if there's any legal issue or error  
22          or unreasonableness that you've seen in this.

23          MR. SMITH: Not that I perceive, no. Again,  
24          we've talked about the consolidation, and it's obviously  
25          a different type of issue than we usually see but I guess



1 I -- from my opinion on a long-term basis I think it  
2 really makes sense. And I think it's a reasonable thing  
3 to do.

4 It will consolidate and I think significantly  
5 reduce the amount of cost associated with these rate  
6 proceedings for one thing. And other things: Billing  
7 costs and so on and so on. So to me it makes sense.

8 Nothing jumped out to me. I thought  
9 everything -- every part of the Settlement that I saw  
10 looked like a reasonable decision.

11 CHAIRMAN HANSON: Thank you.

12 Mr. Rislov.

13 MR. RISLOV: Yeah. I had a couple of things.  
14 Number one, the term "fairly ordinary rate case" was  
15 used, and from an analyst's point of view there were no  
16 tricky issues. It was a fairly garden variety case so  
17 I'm not going to take issue with that description.

18 I think that's accurate when one looks at the  
19 individual issues. There was nothing that jumped off the  
20 page of being strange or unusual. This is fairly garden  
21 variety type of issues that we and other states have  
22 handled for the last 80 years at least.

23 But I did have one thing I wanted to point out.  
24 The statement was made that blending means East River  
25 gets a decrease and West River gets an increase. And I

1 don't know if that's an accurate statement. As a matter  
2 of fact, I would question its accuracy.

3 I would expect it's very possible had East River  
4 done a stand-alone, it would have perhaps had a larger  
5 decrease and had West River done a stand-alone, it would  
6 perhaps have had a larger increase. We don't know  
7 because it wasn't done that way.

8 But in theory just because one went down, one  
9 division, and the other went up, doesn't necessarily mean  
10 that one caused the movement of the other. I think they  
11 probably moved the way they would have standing alone.  
12 We don't really know.

13 But I would certainly like Staff and the company  
14 to comment on that statement, whether or not they agree  
15 that perhaps there's any validity to it.

16 MS. ABERLE: This is Tammy Aberle for MDU. And  
17 as you mentioned, we did look at this in its totality so  
18 we don't have any specific numbers to support that.  
19 However, we would not have been asking for an increase on  
20 the East River system. I can confirm that.

21 MR. PETERSON: Yeah. This is Dave Peterson for  
22 Commission Staff. We did ask in discovery for a breakout  
23 of the Black Hills and East River division before any  
24 rate increase. And we saw in percentage terms a larger  
25 deficiency for Black Hills than we did for the East

1 River.

2 So if we scale that back -- you know, that was  
3 at roughly \$1.5 and a half million proposed increase. If  
4 we scale that back to the \$800,000 Settlement, I would  
5 expect that the East River would probably be slightly  
6 negative and that the Black Hills division would still  
7 show a significant revenue deficiency.

8 So that it wasn't necessarily rate consolidation  
9 that shows a decrease for the East River and an increase  
10 for Black Hills. Just as you said, Mr. Rislov.

11 CHAIRMAN HANSON: Thank you all for your  
12 comments.

13 Thank you, Mr. Rislov, for pointing that out.  
14 Appreciate it.

15 A couple of housekeeping items for me at this  
16 juncture are that it's my understanding that within the  
17 conditions stipulated in the agreement that the company  
18 agrees to refund customers the difference between the  
19 interim rates and the new rates that were collected  
20 during the period between July 22 through November 30  
21 with interest. Is that correct?

22 MR. KOENECKE: I'll let Tammy answer that,  
23 Commissioner.

24 MS. ABERLE: Chairman, that is correct.

25 CHAIRMAN HANSON: So we don't need to include

1       that as part of the Motion. That is part of the  
2       Stipulation already.

3               MS. ABERLE: Correct.

4               CHAIRMAN HANSON: Thank you. And it's my  
5       understanding the company will file a separate proposal  
6       for the interim rate refund following if the Commission  
7       approves the Settlement.

8               MS. ABERLE: Chair, that is also correct.

9               CHAIRMAN HANSON: Okay. Thank you. Are there  
10      any other items that we need to cover at this juncture  
11      that anyone knows of?

12              Mr. Copeland, are you on the phone?

13              MS. COPELAND: Yes, sir.

14              CHAIRMAN HANSON: Thank you. Counsel just  
15      wanted to check and make certain that you were on in case  
16      we had missed someone.

17              MS. COPELAND: Yes. I've been on.

18              CHAIRMAN HANSON: Appreciate that very much.

19              Are there any -- I should ask Commissioners if  
20      any further questions have cropped up.

21              Hearing none, is there a Motion on NG12-008?

22              COMMISSIONER NELSON: Mr. Chairman, on NG12-008  
23      I move that the Commission grant the Joint Motion For  
24      Approval of Settlement Stipulation and approve the rates,  
25      tariff sheets, terms, and conditions stipulated therein.

1           CHAIRMAN HANSON: Thank you.

2           Any discussion on the Motion?

3           COMMISSIONER NELSON: If I might, Mr. Chairman,  
4 obviously the apparent issue for me as I looked at this  
5 the first time I looked at it was the disparity in the  
6 rate change between the Black Hills customers and the  
7 East River customers.

8           And when you look at those percentage  
9 differences, one being positive and one being negative,  
10 that's going to get anybody's attention.

11           So I went into that -- like Mr. Peterson, went  
12 into this pretty skeptical about that. But as I analyzed  
13 it and understood two things, basically. Number one,  
14 that this is going to lead to greater efficiency.  
15 Greater efficiency drives down costs for business and  
16 ultimately drives down costs for customers. And so that  
17 tells me it's the right thing to do.

18           But, secondly, I think a little bit of history  
19 is in order also. If we look back at the last rate case  
20 that MDU brought before this Commission, the East River  
21 residential rates increased 17.8 percent. The Black  
22 Hills residential rates increased 1.6 percent.

23           Wow. That's quite a difference between what  
24 Black Hills did and what East River did. And so if I net  
25 out the last rate increase and this current proposed rate

1     increase, the East River customer residential increase  
2     comes out at 13.7 percent and the Black Hills increase  
3     comes out at 5.9 percent. Pretty stark difference yet,  
4     if you net those two together.

5             And so what that tells me is that if we don't  
6     put these two units together today, we're going to have  
7     this ping pong match between West River and East River  
8     every time we do a rate case. Somebody's going to be  
9     paying more; somebody's going to be paying less. One  
10    time it's going to be West River. One time it's going to  
11    be East River.

12            And I don't think that makes sense for anybody.  
13    And it certainly doesn't make sense for the efficient  
14    operation of a business.

15            And so as I analyzed all of that, I came to the  
16    conclusion that this is, in fact, the right thing to do  
17    with these two business entities is to put them together.

18            And with that, Mr. Chairman, I hope we can  
19    support the Motion.

20            CHAIRMAN HANSON: Thank you.

21            Any further discussion on the Motion?

22            I appreciate the statement that Commissioner  
23    Nelson made. The efficiencies from blending the two are  
24    well documented from the information that we've received.  
25    And, obviously, the rate payers are the ones who are

1 going to benefit from that. Certainly there will be  
2 administrative benefits for the company as well, and we  
3 sincerely appreciate the fact that that was worked  
4 through and that was accomplished.

5 With that, hearing no further discussion --  
6 excuse me.

7 Commissioner Fiegen, did you have --

8 Commissioner Nelson on the vote.

9 COMMISSIONER NELSON: Aye.

10 CHAIRMAN HANSON: Commissioner Fiegen.

11 COMMISSIONER FIEGEN: Fiegen votes aye.

12 CHAIRMAN HANSON: Hanson votes aye. The Motion  
13 carries.

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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 31st day of  
11 October, 2013, and that the attached is a true and  
12 correct transcription of the proceedings so taken.

13 Dated at Onida, South Dakota this 9th day of  
14 December, 2013.

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Cheri McComsey Wittler,  
Notary Public and  
Registered Professional Reporter  
Certified Realtime Reporter

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