

BEFORE THE
PUBLIC UTILITIES COMMISSION
STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF MONTANA-DAKOTA UTILITIES CO.
FOR AUTHORITY TO INCREASE ITS NATURAL GAS RATES
DOCKET NG12-008

TESTIMONY AND EXHIBITS OF PATRICK J. STEFFENSEN
ON BEHALF OF THE COMMISSION STAFF
OCTOBER 1, 2013

BEFORE THE
PUBLIC UTILITIES COMMISSION
STATE OF SOUTH DAKOTA

Montana-Dakota Utilities Co.
Docket NG12-008

Testimony and Exhibits of Patrick J. Steffensen
On Behalf of Commission Staff

October 1, 2013

1 **Q. Please state your name, business address, and current position.**

2

3 A. My name is Patrick J. Steffensen and my business address is South Dakota Public
4 Utilities Commission, State Capitol Building, 500 East Capitol Ave., Pierre, South
5 Dakota 57501. I am presently employed as a utility analyst with the Public Utilities
6 Commission (PUC or Commission).

7

8 **Q. Please describe your educational background and experience.**

9

10 A. I have been with the Commission since February of 2012. I received a
11 Bachelor of Science Degree in Business Economics and Economics from South Dakota
12 State University in May of 1999 and a Master of Business Administration from the
13 University of South Dakota in December of 2010. I have participated in two rate case
14 dockets (Northern States Power, EL12-046 and Black Hills Power, EL12-061) and
15 attended a number of seminars and workshops on utility-related matters during my
16 employment with the Commission.

17

18 **Q. Are you familiar with Montana-Dakota Utilities Co.'s ("MDU" or "Company")**
19 **application for an increase in natural gas rates in South Dakota, Docket No.**
20 **NG12-008?**

21

22 A. Yes. I have reviewed the Company's prefiled testimony, exhibits, working papers,
23 and data responses supplied by MDU as it pertains to the issues that I am addressing.

24

25 **Q. What is your role in this docket?**

26

27 A. I will present testimony addressing the following revenue requirement issues:

- 1 1. Uncollectible Accounts
- 2 2. Postage
- 3 3. Advertising
- 4 4. Industry Dues
- 5 5. Regulatory Commission Expense
- 6 6. Economic Development
- 7 7. Lobbying
- 8 8. Demand Side Management
- 9 9. Charitable Contributions
- 10 10. Aviation Expense
- 11 11. Mains Maintenance Expense
- 12 12. Rate Design

13 **UNCOLLECTIBLE ACCOUNTS**

14

15

16 **Q. Please explain MDU's adjustment for uncollectible accounts.**

17

18 MDU is proposing to decrease test year expenses to 0.30% of pro forma revenues.

19 This percentage is based on a five year average of revenues and net write-offs. This

20 proposed adjustment decreases the cost of service by \$9,486.

21

22 **Q. Do you agree with MDU's adjustment?**

23

24 A. I generally agree with this adjustment and have only made minor changes to 1)

25 update the five year averages to include July 1, 2012 through June 30, 2013,

26 increasing the uncollectible percentage to 0.31%, 2) replace MDU's pro forma

27 revenue amount with staff's pro forma revenue amount, and 3) provide an additional

28 increase to uncollectible account expense by 0.31% of staff's revenue deficiency.

29 These changes decrease the cost of service by an additional \$5,053 for a total

30 decrease of \$14,539. This adjustment can be found on Staff Exhibit_(PJS-1),

31 Schedule 1.

32 **POSTAGE EXPENSE**

33

34

35 **Q. Please explain MDU's adjustment for postage expense.**

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37 A. MDU proposes a 2.73% increase to test year postage expense to reflect the postage

38 increase effective January 2013. This results in a pro forma increase to the cost of

39 service of \$6,085.

40

1 **Q. Do you agree with MDU's adjustment?**

2

3 A. Yes. I agree this is a known and measurable increase that has happened since the
4 end of the test year and should be reflected in the cost of service.

5

6

ADVERTISING EXPENSE

7

8 **Q. Please explain MDU's adjustment for advertising expense.**

9

10 A. MDU's adjustment proposes to eliminate all promotional advertising expense from
11 the test year as well as certain informational and institutional advertising expenses
12 which are not applicable to South Dakota gas operations. This results in a pro forma
13 decrease to the cost of service of \$27,606.

14

15 **Q. Do you agree with MDU's adjustment?**

16

17 A. I agree with the eliminations MDU has proposed, but believe further adjustments are
18 necessary. First, I accepted MDU revisions to the adjustment to disallow additional
19 institutional advertisements and allow a children's safety advertisement which was
20 initially miscoded as institutional. Second, I eliminated the remaining \$20,445 in
21 institutional advertising, as these advertisements do not benefit ratepayers with the
22 provision of safe, adequate, and reliable natural gas service. These adjustments
23 result in a total disallowance of \$53,843 in test year advertising expense. This
24 adjustment can be found on Staff Exhibit_(PJS-1), Schedule 4.

25

26

INDUSTRY (ASSOCIATION) DUES EXPENSE

27

28 **Q. Please explain MDU's adjustment for industry dues expense.**

29

30 A. MDU proposes a pro forma adjustment to eliminate "other" industry dues and
31 increase certain industry expenses beyond test year levels. These adjustments
32 provide a net decrease to the cost of service of \$14,595.

33

34 **Q. Do you agree with MDU's adjustment?**

35

36 A. I agree with the elimination of "other" industry dues and further eliminate \$10,318 in
37 industry dues which are related to lobbying, charitable giving, and economic
38 development for a total disallowance of \$24,913. These industry dues do not benefit
39 ratepayers with the provision of safe, adequate, and reliable natural gas service. I do
40 agree to allow a pro forma increase to the American Gas Association, as a known and

1 measurable increase occurred since the end of the test year. This adjustment can be
2 found on Staff Exhibit__(PJS-1), Schedule 3.

3
4 **REGULATORY COMMISSION EXPENSE**

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6 **Q. Please explain MDU's adjustment for regulatory commission expense.**

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8 A. MDU proposes a pro forma increase to reflect estimated expenses incurred in this
9 filing, amortized over three years, plus a three year average of ongoing regulatory
10 commission expenses. This proposed adjustment increases the cost of service by
11 \$113,158.

12
13 **Q. Do you agree with MDU's adjustment?**

14
15 A. No. I believe recovery should be limited to actual expenses incurred in this filing
16 with a five year amortization. With the last MDU rate proceeding occurring over
17 seven years prior to this proceeding, a longer amortization period provides for a
18 more appropriate recovery of these costs. I further recommend a five year average
19 of ongoing regulatory commission expenses to be consistent with other
20 normalization adjustments. The net effect of these changes decreases MDU's
21 proposed adjustment by \$103,240 resulting in a pro forma increase to the cost of
22 service of \$9,918.

23
24 **Q. Do you propose a regulatory commission expense adjustment to rate base?**

25
26 A. Yes. I propose a \$47,046 addition to rate base to include the average unamortized
27 balance of expenses incurred in this docket. These adjustments can be found on Staff
28 Exhibit__(PJS-1), Schedule 2.

29
30 **ECONOMIC DEVELOPMENT**

31
32 **Q. Did MDU include economic development expenses in the test year claimed cost
33 of service?**

34
35 A. No. MDU does not have an economic development program and there is no economic
36 development expense included in the cost of service. Economic development
37 expenses were recorded as below-the-line items for rate making purposes.

38
39 **LOBBYING EXPENSES**

40

1 **Q. Did MDU include lobbying expenses in the test year claimed cost of service?**

2
3 A. No. MDU did not include any lobbying expense (labor or non-labor) in the cost of
4 service. Lobbying expenses were recorded as below-the-line items for rate making
5 purposes.
6

7 **DEMAND SIDE MANAGMENT**

8
9 **Q. Did MDU include demand side management expenses in the test year claimed**
10 **cost of service?**

11
12 A. No. All costs associated with MDU's demand side management program were
13 recorded in a separate tracking adjustment and recovered through the Conservation
14 Programs Tracking Mechanism Rate 90 (CTA).
15

16 **CHARITABLE CONTRIBUTIONS**

17
18 **Q. Did MDU include charitable contribution expenses in the test year claimed cost**
19 **of service?**

20
21 A. No. MDU did not include charitable contribution amounts in the cost of service.
22 Charitable contributions were recorded as below-the-line items for rate making
23 purposes.
24

25 **AVIATION EXPENSE**

26
27 **Q. What was the purpose of staff's review of MDU's aviation expense?**

28
29 A. My primary purpose of discovery was to ascertain whether MDU's choice to partially
30 own two corporate jets and a corresponding hangar in lieu of using additional
31 commercial travel is a prudent use of ratepayer dollars.
32

33 **Q. Please provide an analysis of this cost comparison.**

34
35 A. In an attachment to an email from Rita Mulkern on September 27, 2013, provided in
36 Staff Exhibit_(PJS-1), Schedule 7, she indicated MDU (total gas and electric utility)
37 incurred test year operating expense of \$430,934 relating to the use of the two
38 private jets. Further, in response to Data Request 9-43, Attachment A, MDU provided
39 a detailed list of passenger flights occurring during the test year. This list, which has
40 been included as Staff Exhibit_(PJS-1), Schedule 8, shows approximately 179

1 passenger flights for directors and employees, for a cost per passenger flight of
2 approximately \$2,407. Staff Exhibit__(PJS-1), Schedule 9 shows commercial flight
3 cost data compiled by the Bureau of Transportation Statistics, and page 3, line 156
4 indicates an average cost of \$487.66 for 2012 flights with an origin of
5 Bismarck/Mandan.
6

7 **Q. What is your recommendation regarding MDU's aviation expense?**

8
9 A. I am recommending a 50% disallowance of all operating costs associated with the
10 use of these private jets and a 50% reduction to all associated rate base items. These
11 adjustments can be found on Staff Exhibit__(PJS-1), Schedule 5.
12

13 **Q. Why do you only recommend a 50% disallowance when the cost of flying**
14 **commercially is 20% (\$487.66/\$2,407) the cost of using private jets?**

15
16 A. I acknowledge this simple calculation comparing costs of commercial versus private
17 air travel has its flaws.
18 1) The average reported by the Bureau of Transportation Statistics may not be
19 completely representative of the true cost of commercial travel specific to MDU.
20 2) The average reported by the Bureau of Transportation Statistics also includes one-
21 way fares with a Bismarck/Mandan origin.
22 3) Not all of the flights reported in Schedule 8 have an origin of Bismarck.
23 4) This comparison does not account for the extra residual travel costs and the
24 opportunity cost of lost labor while traveling commercially. With the remoteness of
25 Bismarck and many of the destinations listed in Schedule 8, commercial travel adds
26 substantial costs to this analysis. While staff believes there is merit to this particular
27 argument, MDU has not performed an analysis of comparative costs of commercial
28 air travel. Staff would recommend MDU perform such an analysis for further review,
29 consideration, and support in this proceeding and file these studies in all future rate
30 case proceedings.
31

32 **MAINS MAINTENANCE EXPENSE**

33
34 **Q. Please explain your adjustment for mains maintenance expense.**

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36 A. During a review of MDU's actual test year expenses in Statement H and prior years'
37 expenses supplied in response to a data request, I discovered a substantial upward
38 trend in the Mains Maintenance account, Account 887, culminating with a test year
39 expense of \$169,021. This is even more concerning considering 1) MDU has spent
40 approximately \$660,000 replacing mains, as seen on page 2 of Exhibit__(BAM-11),

1 and 2) this account has decreased to \$82,800 for the year ending June 30, 2013, as
2 seen in MDU's response to data request 9-41 in Exhibit__(PJS-1), Schedule 10. In an
3 email provided by Rita Mulkern, seen in Exhibit__(PJS-1), Schedule 11, she explained
4 that maintenance and repairs of mains is now caught up and the recent cost level is
5 expected to remain fairly stable. Thus, I propose an adjustment to normalize these
6 expenses to a 5 year average of costs, representing a pro forma decrease of \$71,471.
7 These adjustments can be found on Staff Exhibit__(PJS-1), Schedule 6.

8
9 **RATE DESIGN**

10
11 **Q. Are there any rate design issues examined by Staff not discussed in your**
12 **testimony?**

13
14 A. Yes. Staff Witness Dave Peterson discusses the appropriateness of the proposed
15 customer and volumetric charges and provides direction for the pending rate design,
16 including the proposed rate consolidation. Final rates should be based on the
17 revenue requirement the Commission ultimately approves.

18
19 **Q. Does this conclude your testimony?**

20
21 A. Yes.
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23
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25