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 RATES

STAFF MEMORANDUM SUPPORTING AMENDMENT TO SETTLEMENT STIPULATION

DOCKET NG17-009

Commission Staff (Staff) submits this Memorandum in support of the Amendment to the Settlement Stipulation of October 23, 2019, among Staff, South Dakota Intrastate Pipeline Company (SDIP or Company), Montana-Dakota Utilities Co. (MDU), and Ring-Neck Energy & Feed, LLC, dba Ringneck Energy, LLC (Ring-neck), (jointly, the Parties) in the above-captioned matter.

BACKGROUND

Upon expiration of the 25-year transportation agreement resulting from rate case NG92-005 and consistent with this agreement between the Company and MDU dated September 1, 1993, the Company was required to propose new rates to take effect September 1, 2018.

On June 1, 2017, the Company filed a letter of transmittal with the South Dakota Public Utilities Commission (Commission) requesting approval to increase rates for natural gas service to its customers. On June 29, 2017, the Company filed a confidential application for authority to increase its natural gas rates. This application was subsequently made public on August 8, 2017. In the application, SDIP requested authority to increase annual revenues by approximately $1.8 million, or 80.9 percent.

After responding to several rounds of discovery from Staff, reconciling discrepancies with numbers provided, and recognizing some Staff concerns with proposed adjustments, SDIP filed supplemental testimonies and exhibits, revised statements, and supporting schedules on November 20, 2017. This revised filing saw a reduction in the requested increase of annual revenues to approximately $250 thousand, or an increase of 11.4 percent.

SDIP's proposed increase was based on a historical test year ended December 31, 2016, adjusted for what SDIP believed to be known and measurable changes, a 10.00% return on common equity, and an 8.91% overall rate of return on rate base.

The Commission officially noticed SDIP's filing on June 8, 2017, and set an intervention deadline of July 31, 2017. On June 22, 2017, MDU filed a Petition to Intervene. On July 6, 2017, the Commission issued an Order assessing a filing fee and granting intervention to MDU. On February 15, 2018, Ring-neck filed a Petition to Intervene. On March 2, 2018, the Commission granted intervention to Ring-neck.

Settlement discussions among the Parties commenced on February 21, 2018. After several discussions, the Parties arrived at a mutually acceptable resolution of the issues presented in SDIP's filing. The Parties reached a comprehensive agreement on SDIP's overall revenue deficiency and other issues presented in this case including, but not limited to, rate design and tariff concerns due to Ring-neck's addition to SDIP's system. On July 6, 2018, the Commission issued an Order Granting Joint Motion for Approval of Settlement Stipulation.

On September 24, 2019, SDIP filed a letter requesting a rate adjustment due to unforeseen circumstances regarding its insurance costs. The Parties once again held several discussions to work toward an amendment to the original Settlement. The Parties ultimately reached a comprehensive agreement on SDIP's overall revenue deficiency, rate design, and tariff concerns.

OVERVIEW OF AMENDED SETTLEMENT

Insurance Expense Adjustment

In May 2019, SDIP's insurance broker, USI Insurance Services LLC (USI), informed the Company that its long-standing general liability insurance provider, AIG, was no longer serving the energy sector and a new provider would need to be found for the plan year starting September 1, 2019. SDIP and USI conducted a search for a replacement provider that ultimately led them to choosing Hartford for its general liability policy and James River for its excess liability policy. These providers were the least cost among the providers that were able to offer the necessary coverage to SDIP. Staff reviewed this information and confirmed the details provided to Staff by SDIP.

Staff believes this situation is an "unpredictable extraordinary occurrence" as required to break the moratorium agreed to in the original settlement stipulation. Further, Staff views the approximate $130 thousand increase to SDIP's general and excess liability insurance as a "material increase" given the current revenue requirement (less rate case expense) of approximately $1.8 million. Considering SDIP is only slightly more than one year removed from the effective date of its current rates and that Staff performed a thorough review of SDIP's other expenses, Staff is comfortable amending the original stipulation to address this single issue with regard to the revenue requirement. Staff also believes this settlement does not violate the matching principle, as essentially all of SDIP's revenues come from MDU's fixed monthly rate that does not deviate with variable usage. Staff is confident that the expense of processing a new rate case would far outweigh any potential benefit in having a full rate case.

Staff Exhibit___(EJP-2), Schedule 2 provides the calculation of the amended adjustment to the test year for insurance expense using actual 9/1/2019 to 8/31/2020 insurance cost as provided by USI. Staff would also note that where insurance expense was inflated by 2.5 percent per year during the moratorium period to arrive at a levelized cost of service in the initial settlement, this expense is not inflated in the Amended Settlement Levelized Operating Income Statement shown on Exhibit___(PJS-4), Schedule 4.

Cash Working Capital, Interest Synchronization, Rate Case Expense (Return on Rate Base), and Cost of Capital Adjustments

The Amended Settlement uses the same calculations for these adjustments as the initial settlement. However, the revenue requirement value of each adjustment changes based on the resolution of various issues in the case. These adjustments are dependent on the pro forma rate base, expenses, and revenues and were recalculated as a result of the insurance expense update.

Amended Revenue Requirement

The cumulative effect of these changes results in a $132,957 increase to SDIPS's revenue requirement for a total revenue requirement of $2,047,447 as shown on Exhibit___(PJS-4), Schedule 1. This revenue requirement will be effective November 1, 2019 through August 31, 2023 at which point rate case expense recovery will cease and the revenue requirement will decrease to $1,928,893 effective September 1, 2023. SDIP may file for a rate case once its moratorium is complete and could have revised rates effective no sooner than September 1, 2021, which could affect the revenue requirement numbers above.

Rate Design

The parties have agreed in the Amendment to the Settlement Stipulation for revised rates to be effective November 1, 2019. Exhibit___(BAM-8), Schedule 1 calculates the revised interruptible rate for Ring-neck and new annual bill (billed monthly) for MDU using the came calculations used in the initial rate design but using the revised revenue requirements stated above. The update results in a $132,957 increase to MDU's annual bill for a total annual bill (prior to MDU's credit from Ring-neck) of $2,047,447, or $170,620.58 per month. Likewise, this update results in a $0.0234 per dk increase in the interruptible rate for an amended rate of $0.3599 per dk. If SDIP has not filed an application for a rate increase to be effective prior to August 31, 2023, the annual bill charged to MDU and the per dk interruptible rate will decrease to $1,928,893 ($160,741.08 per month) and $0.3390, respectively, effective September 1, 2023 to account for the decrease in the revenue requirement due to rate case expense recovery.

Tariff Changes

Attached to the Amendment to the Settlement Stipulation are SDIP's revised tariff sheets. These tariff sheets revise the rates in the Firm Transportation Service (Rate 1) and Interruptible Transportation Service (Rate 2) sections to reflect the amended rates as described above. These tariff revisions also address multiple other issues as agreed to among all the Parties during settlement discussions. These issues range from minor clean-up issues to revisions that bring language already in SDIP's agreements with MDU and Ring-neck into its tariff. This should prepare SDIP for the possibility of additional customers coming on their system in the future.

RECOMMENDATION

For the reasons stated above, Staff recommends the Commission grant the Joint Motion for Approval of the Amendment to Settlement Stipulation and adopt the Amendment to Settlement Stipulation without modification. Upon any material modification, Staff reserves the right to withdraw its recommendation.