

**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
AND EXHIBITS
OF
WILLIAM MURPHY**

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

June 29, 2017

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DIRECT TESTIMONY OF WILLIAM MURPHY

1 **I. INTRODUCTION AND SUMMARY**

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

3 A. My name is William 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 President and CEO of South Dakota Intrastate Pipeline Company (“SDIPC”)

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

8 A. I attended Southern Illinois University

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

10 A. I have been President of SDIPC for 12 years. Prior to that, I was President and CEO of
11 Murphy Bros., Inc. from 1971 – 2005. Murphy Bros., Inc. was a large pipeline construction,
12 distribution construction and station pipeline company that did business in North and South
13 America. I also owned two different pipeline construction companies based out of Alberta, Canada.
14 These companies had revenues in the high seven figures. I was an integral part of starting SDIPC
15 and have been actively involved in it since day one.

16

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

2 A. SDIPC.

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

4 A. The purpose of my testimony is to provide background on SDIPC's operations, support
5 SDIPC's filing and introduce the other two witnesses in this proceeding, Lisa Murphy and Gordon
6 Woods.

7 **Q. Would you please summarize your recommendations in this case?**

8 A. I recommend that the Commission approve a flat monthly rate of \$330,739.66 for its one
9 transportation customer, which includes the increase in O&M expenses, reasonable and prudent
10 costs for operating SDIPC's assets, and a just and reasonable management fee.

11 **II. OVERVIEW OF SDIPC AND THE TRANSPORTATION AGREEMENT**

12 **Q. Please briefly describe SDIPC's Operations.**

13 A. SDIPC is dedicated to ensuring the safe and reliable delivery of natural gas to its
14 customers through diligent operation and maintenance of its facilities. The safety of the
15 community, employees, and environment is our top priority. We only use qualified personnel to
16 operate and maintain our pipeline, are a member of South Dakota One Call, work hand-in-hand
17 with all utilities and land owners in our area, and strive to be community minded and a good
18 neighbor.

19 SDIPC operates an approximately 178-mile natural gas pipeline in central South Dakota.
20 SDIPC uses underground pipeline facilities to transport pipeline quality natural gas to its one
21 customer, which is MDU. This service commenced in 1993 and is exclusively governed by the
22 Transportation Agreement, which was approved by the South Dakota Public Utilities

1 Commission (the “Commission”) in Docket NG95-008. I am attaching the Transportation
2 Agreement as Exhibit A to my testimony. MDU is SDIPC’s one and only customer.

3

4 **Q. Please provide an overview of the Transportation Agreement.**

5 A. Service commenced under the Transportation Agreement on September 1, 1993, and
6 continues for a period of twenty-five years expiring on August 31, 2018. SDIPC receives natural
7 gas at the facilities of Northern Border Pipeline Company and transports that natural gas to
8 facilities designated by MDU consistent with the Transportation Agreement. According to
9 Article VIII of the Transportation Agreement, the transportation charge was not to exceed
10 \$2.34/dk during the first ten years of the term of the Transportation Agreement unless SDIPC
11 sought Commission approval for an adjustment made necessary by any mandated changes in
12 federal or state taxes or catastrophic event or series of events that seriously threatened the ability
13 of SDIPC to provide safe and adequate gas service.

14 **Q. Did SDIPC ever seek Commission approval for such an adjustment?**

15 A. Yes. Due to an increase in property taxes, SDIPC filed for Commission approval of an
16 amendment on February 15, 2000. *See* Findings of Fact and Conclusions of Law; Notice of
17 Entry of Order, Commission Docket No. NG00-001 (January 9, 2001) (“January 2001 Order”).
18 At an evidentiary hearing, MDU and SDIPC agreed that the new transportation rate should be
19 \$2.398/dk. *Id.* at ¶ 4. This revised transportation rate was effective pursuant to the terms of the
20 Commission’s January 2001 Order.

21 **Q. Did this rate allow SDIPC to recover its costs plus a reasonable rate of return?**

22 A. No. The significant variation in volumes transported impacted SDIPC’s ability to
23 recover its costs plus a reasonable rate of return. In terms of Transportation Agreement

1 contracting years (a 12-month period starting September of one year and running through August
2 of the year following, hereafter “Transportation Agreement Contract Year”), volumes of
3 transported gas could fluctuate significantly. For example, looking at the 2009-2010
4 Transportation Agreement Contract Year through the 2015-2016 Transportation Contract Year,
5 annual volumes transported ranged from a low of 734,381 dk to a high of 1,266,090 dk and
6 averaged 816,859 dk. In our original rate filing, MDU showed throughput in excess of
7 1,500,000 dk after the fifteenth year, and that is one of the components on which we based our
8 rate. Historical data shows that MDU has never consumed the amount of dekatherms forecasted.
9 Furthermore, and since SDIPC entered into the Transportation Agreement with MDU, we have
10 been required by law to undertake a number of pipeline integrity issues. These issues are
11 discussed in greater detail in the testimony of Gordon Woods.

12 **Q. Given these fluctuations and additional investments for pipeline integrity, did**
13 **SDIPC incur a loss in the 2016 test year?**

14 A. Yes, as explained in greater detail in the testimony of Lisa Murphy, SDIPC suffered a
15 loss of \$595,398, in the test year (or a -34.5% rate of return). To simply recover SDIPC’s
16 operating expenses, SDIPC would need to increase the transportation rate to approximately
17 \$3.415/dk, assuming an average volume transported of 816,859 dk. But even this increase would
18 be insufficient, because it would not provide SDIPC with an opportunity to earn a return on its
19 investment.

20 **III. SUMMARY OF CURRENT FILING AND INTRODUCTION OF WITNESSES**

21 **Q. If the term of the Transportation Agreement expires on August 31, 2018, why is**
22 **SDIPC submitting this petition now?**

1 A. On June 10, 2016, MDU filed a complaint (the “Complaint”) with the Commission to,
2 *inter alia*, commence an investigation into the transportation rate currently authorized under the
3 Transportation Agreement. On September 16, 2016, MDU, SDIPC, and the Commission entered
4 into a settlement agreement (the “Settlement Agreement”) whereby MDU agreed to dismiss the
5 Complaint, and SDIPC agreed to provide certain financial information and submit a rate case
6 filing with the Commission pursuant to SDCL Chapter 49-34A and ARSD 20:10:13:26 and
7 20:10:13:104, inclusive, no later than June 1, 2017.

8 **Q. Have there been any communications with Commission Staff and/or MDU**
9 **regarding the timing of this filing?**

10 A. Yes, pursuant to agreement, we are submitting this filing June 30.

11 **Q. Please provide additional detail on complying with applicable South Dakota law.**

12 A. As I understand the legal requirements for a rate case filing set forth in the Settlement
13 Agreement, we are obligated to provide a historical test year, updated with known and
14 measurable changes that will take effect within two years of the conclusion of our SDIPC’s
15 historical test year. SDIPC’s historical test year for purposes of this filing is calendar year 2016.

16 **Q. Please introduce the witnesses who will provide testimony on the rate case**
17 **schedules.**

18 A. Lisa Murphy, Vice President and Chief Financial Officer, will offer testimony supporting
19 the majority of financial schedules, including known and measurable adjustments and the
20 reasonable management fee for managing SDIPC’s pipeline assets. Gordon Woods, Vice
21 President and Chief Operating Officer, will offer testimony supporting the operations and
22 maintenance (“O&M”) expenses and pipeline integrity management, many of which have
23 increased since the Transportation Agreement was first approved.

1 **Q. Please explain the management fee SDIPC is seeking.**

2 A. SDIPC's pipeline assets are fully (or will be) fully depreciated at the end of the term of
3 the Transportation Agreement; August 31, 2018, which is within two years of the end of
4 SDIPC's 2016 calendar year test year. As such, ordinary calculations, including a rate of return,
5 are difficult to reconcile with the schedules contemplated under South Dakota law. Nonetheless,
6 it would be reasonable for a utility like SDIPC to receive some form of a return on the risk and
7 maintenance associated with operating SDIPC's assets. To account for the historic fluctuations
8 in transportation volumes, SDIPC is seeking Commission approval of a flat monthly rate of
9 \$330,739.66 for its one transportation customer, which includes the increase in O&M expenses,
10 reasonable and prudent costs for managing SDIPC's assets, and a just and reasonable
11 management fee.

12 **Q. By what percentage would rates increase for MDU under your proposal?**

13 A. That depends. MDU recently advised SDIPC that it anticipates significant increase in
14 future demand on its system, which would average 1,385,500 dk over the 2017-18 to 2026-27
15 heating seasons. Assuming that figure is accurate, then the monthly flat rate of \$330,739.66
16 would equate to \$2.864/dk, or a roughly 19.4% increase over the current rate of \$2.398/dk. In
17 my opinion, this is a very reasonable increase given the more than 15 years that have passed
18 since our last rate increase.

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

20 A. Yes.