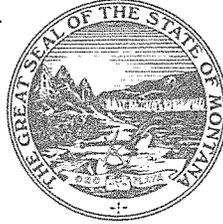


# Montana Public Service Commission



Brad Johnson - Chairman  
Travis Kavulla - Vice Chairman  
Roger Koopman - Commissioner  
Bob Lake - Commissioner  
Tony O'Donnell - Commissioner

November 20, 2017

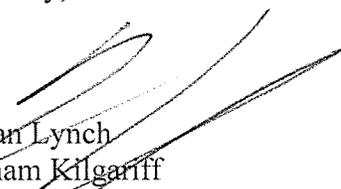
Nik S. Stoffel  
Thorvald A. Nelson  
Holland & Hart LLP  
6380 Fiddlers Green Circle, Suite 500  
Greenwood Village, CO 80111

RE: Data Requests in Docket D2017.9.80

Dear Messrs. Stoffel and Nelson:

Enclosed please find Data Requests PSC-025 through PSC-043 of the Montana Public Service Commission to Energy West Montana and Cut Bank Gas Company (EWM/CBGC) in the above referenced Docket. Please begin the response to each new numbered data request on a new page. If the initial data request is objectionable or seeks confidential information, EWM/CBGC must respond accordingly and proceed to object or file a motion for protective order no later than the deadline to respond. Please provide responses on or before December 6, 2017. If you have any questions, please contact Dagan Lynch at (406) 444-6184 or Graham Kilgariff at (406) 444-6188.

Sincerely,



Dagan Lynch  
Graham Kilgariff  
Analysts, Regulatory Division  
Montana Public Service Commission

Enclosure

cc: Service List

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

IN THE MATTER OF the Joint Application     )     REGULATORY DIVISION  
for Approval to Change and Establish Natural     )  
Gas Delivery Service Rates for Energy West     )     DOCKET NO. D2017.9.80  
Montana, Inc. and Cut Bank Gas Company     )

**DATA REQUESTS PSC-025 THROUGH PSC-043 OF THE  
MONTANA PUBLIC SERVICE COMMISSION TO  
ENERGY WEST MONTANA AND CUT BANK GAS COMPANY**

PSC-025

Regarding: SME Pipeline  
Witness: Charles E. Loy

On page 43 of your Direct Testimony you represent that existing EWM customers receive benefits from the pipeline acquisition in the form of an uninterruptible backup feed. Please quantify this benefit to the existing residential customers.

PSC-026

Regarding: SME Pipeline  
Witness: Charles E. Loy or as appropriate

In a free market transaction, what price would a reasonable consumer pay for uninterruptible service given the number of outages during the test period as described in the testimony of Kevin J. Degenstein (page 9)?

PSC-027

Regarding: SME Pipeline  
Witness: Charles E. Loy

- a. Regarding the future system expansion of the SME pipeline were studies performed to determine the maximum number of customers this pipeline could potentially service, prior to the acquisition?
- b. Please provide the studies and the anticipated number of ratepayers that could be served by the pipeline. If a study was not conducted, please explain why.

## PSC-028

Regarding: SME Pipeline  
Witness: Charles E. Loy

- a. Pursuant to Generally Accepted Accounting Principles (GAAP), what was the change in the book value of shareholder equity immediately after the acquisition took place?
- b. If the book value per share increased, in your opinion, should EWM's cost of equity be adjusted downward to reflect the reduced risk resulting from having a greater asset base servicing EWM's liabilities?

## PSC-029

Regarding: SME Pipeline  
Witness: Jed D. Henthorne

- a. At what amount did EWM value the pipeline on its GAAP books? Was it recorded at fair value, per FASB Statement No. 141?
- b. What valuation methodology was used to determine the fair value?

## PSC-030

Regarding: SME Pipeline  
Witness: Jed D. Henthorne

Regarding the original sale of the pipeline to SME, what factors were considered in agreeing on a \$5 million sales price?

## PSC-031

Regarding: Financing Sources  
Witness: Gregory E. Scheig

- a. Pursuant to the acquisition of GNI by F.R. Bison Holdings, Inc. (First Reserve Corporation) (Docket D2016.11.91), please explain the process by which the joint applicants now receive equity financing.
- b. Please explain the process by which the joint applicants now receive debt financing.

## PSC-032

Regarding: Small Stock Risk Premium  
Witness: Gregory E. Scheig

In reference to the *Size Premia Study* by Duff & Phelps, if the market capitalization of BlackRock, Inc., the indirect "owner" of the joint applicants, and the level at which the public can indirectly purchase stock in the joint applicants is not the appropriate amount to use in the determination of the Small Stock Risk Premium (SSRP), please provide your reasoning for using a market capitalization of less than \$263 million in your determination of the SSRP.

PSC-033

Regarding: Small Stock Risk Premium  
Witness: Gregory E. Scheig

Throughout your testimony you cite the Duff & Phelps 2017 Valuation Handbook. Please provide copies of the pages from that Handbook. Please be sure to include the page with the table summarizing the inverse relationship between market capitalization and the amount of the SSRP, as shown on page 33 of your testimony.

PSC-034

Regarding: Small Stock Risk Premium  
Witness: Gregory E. Scheig

Please illustrate how you arrived at a 1.25% SSRP. Specifically, how do the various results from the analyses you perform on pages 32–36 of your testimony arrive at the 1.25%?

PSC-035

Regarding: SAP Software  
Witness: Jed D. Henthorne

Since a sale-leaseback is essentially a financing arrangement, is the interest rate stated in the lease agreement factored into the embedded cost of debt used in calculating the proposed weighted average cost of capital (rate of return)?

PSC-036

Regarding: SME Pipeline  
Witness: Jed D. Henthorne

- a. Per FASB Statement No. 141, in a bargain purchase arrangement (such as a purchase in bankruptcy), the acquirer is required to recognize a gain equal to the difference between the fair value of the asset acquired and the consideration paid. Please provide the book/GAAP accounting entries related to the bargain purchase.
- b. Additionally, please describe how this transaction was treated for tax purposes.
- c. Was EWM's tax expense (liability) increased as a result of recording a gain? If so, what was the amount of the increased tax expense? Also, was this "one time" increased expense accounted for in your normalizing adjustments?

PSC-037

Regarding: SME Pipeline  
Witness: Kevin J. Degenstein

Prior to receiving the opportunity to acquire the SME pipeline as a "bargain purchase," did EWM have other plans to expand their system capabilities to serve a

larger customer base and provide another source of uninterruptible service to existing customers? If so, please describe these plans and provide supporting documentation.

PSC-038

Regarding: SME Pipeline  
Witness: Kevin J. Degenstein

Would EWM have purchased the pipeline without the “bargain purchase” opportunity provided through SME’s bankruptcy?

PSC-039

Regarding: Cost of Debt  
Witness: Jed D. Henthorne

- a. Exhibits JDH-EWM-2 represents that the amount of debt used in calculating the capital structure for EWM for the test period was \$7,579,000 and the cost of that debt (the “return”) was 4.66%. JDH-EWM-9 identifies the \$7,579,000 as a “note payable, less current portion.” In Docket D2016.2.17, a copy of the intercompany note-term debt (signed October 19, 2016) was provided to the Montana Public Service Commission. This document, which is signed by representatives from GNI & EWM, identifies a note payable in the amount of \$7,579,000 at an annual interest rate of 4.23%. Since this agreement appears to be the amount represented as debt in Exhibit JDH-EWM-2, and the “note payable, less current portion” in Exhibit JDM-EWM-9. Please explain the difference between the cost of debt as identified in the signed agreement of 4.23% and the return on debt of 4.66% requested in JDH-EWM-2?
- b. Exhibit JDH-CBG-2 represents that the amount of debt used in calculating the capital structure for EWM for the test period was \$550,000 and the cost of that debt (the “return”) was 4.31%. JDH-CBG-6 identifies the \$550,000 as a “note payable, less current portion.” In Docket D2016.2.17, a copy of the intercompany note-term debt (signed October 19, 2016) was provided to the Montana Public Service Commission. This document, which is signed by representatives from GNI & EWM, identifies a note payable in the amount of \$550,000 at an annual interest rate of 4.23%. Since this agreement appears to be the amount represented as debt in Exhibit JDH-CBG-2, and the “note payable, less current portion” in Exhibit JDM-CBG-6. Please explain the difference between the cost of debt as identified in the signed agreement of 4.23% and the return on debt of 4.31% requested in JDH-CBG-2?

PSC-040

Regarding: SAP Software  
Witness: Jed D. Henthorne

- a. Can you please further explain the rationale behind the determination of a loss on the sales-leaseback transaction? Specifically, why does the contribution of cash by GNI beyond the amounts received from Verilease automatically equate to a loss?

- b. Please provide the total amount paid to SAP for the software, the amount financed through Verilease, the sale price of the software was “sold” to Verilease, and the amount paid to Verilease for lease-back of the system.
- c. Please provide a summary of the accounting entries (both for regulatory purposes and GAAP purposes) related to the purchase of the SAP software as well as the sales-leaseback transaction.

## PSC-041

Regarding: SAP Software  
Witness: Jed D. Henthorne

Please explain the reason for three separate lease schedules related to the master lease transaction.

## PSC-042

Regarding: SAP Software  
Witness: Jed D. Henthorne

Since 2016 is the test year for this application, why does the accounting order request that the unamortized portion of this prepaid asset at January 1, 2016, be included in rate base as opposed to the average of the December 31, 2016 balance & expected balance at December 31, 2017?

## PSC-043

Regarding: Financial Reporting  
Witness: Applicable

Please provide the 2014–2016 the EWM and CBGC Annual Reports to Shareholders and the SEC Form 10Ks for EWM and CBGC. If GNI information will be provided instead, please use the GNI shareholder and SEC reports.