

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

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

**DATA REQUESTS MCC-001 THROUGH MCC-059  
OF THE MONTANA CONSUMER COUNSEL TO  
ENERGY WEST MONTANA AND CUT BANK GAS COMPANY**

**MCC-001**

Regarding: Weather Normalization Methodology  
Witness: Charles E. Loy

Please provide electronic copies in Excel format, including all supporting workpapers and data, with all links and formulas intact of the regression models developed to Normalize Average Mcf of Use per Customer, as discussed in your testimony at pages 7-8 of 44.

**MCC-002**

Regarding: Exhibits and Workpapers  
Witness: Charles E. Loy

Please provide electronic copies in Excel format, including all supporting workpapers with all links and formulas intact of Exhibits CEL-EWM-2 and CEL-EWM-3.

**MCC-003**

Regarding: GIRC Monthly Bill Impact  
Witness: Charles E. Loy

Please provide electronic copies in Excel format, including all supporting workpapers with all links and formulas intact of Tables 2 and 3 as shown on your testimony at pages 12 and 13 of 44.

**MCC-004**

Regarding: Exhibits and Workpapers  
Witness: Charles E. Loy

Please provide electronic copies in Excel format, including all supporting workpapers with all links and formulas intact of Exhibits CEL-EWM-5, CEL-EWM-6, CEL-EWM-7 and CEL-EWM-8.

**MCC-005**

Regarding: Exhibit and Workpapers  
Witness: Charles E. Loy

Please provide electronic copies in Excel format, including all supporting workpapers with all links and formulas intact of Exhibit CEL-EWM-9.

**MCC-006**

Regarding: Exhibits and Workpapers  
Witness: Charles E. Loy

Please provide electronic copies in Excel format, including all supporting workpapers with all links and formulas intact of Exhibits CEL-CBG-1 and CEL-CBG-2.

**MCC-007**

Regarding: Exhibits and Workpapers  
Witness: Charles E. Loy

Please provide electronic copies in Excel format, including all supporting workpapers with all links and formulas intact of Exhibits CEL-CBG-4, CEL-CBG-5, CEL-CBG-6 and CEL-CBG-7.

**MCC-008**

Regarding: Exhibit and Workpapers  
Witness: Charles E. Loy

Please provide electronic copies in Excel format, including all supporting workpapers with all links and formulas intact of Exhibit CEL-CBG-8.

**MCC-009**

Regarding: Exhibit and Workpapers  
Witness: Charles E. Loy

Please provide electronic copies in Excel format, including all supporting workpapers with all links and formulas intact of Exhibit CEL-EWM-10 - Allocated Cost of Service Study (ACOS) with Negotiated Contracts, from your supplemental testimony.

**MCC-010**

Regarding: Exhibit and Workpapers  
Witness: Charles E. Loy

Please provide electronic copies in Excel format, including all supporting workpapers with all links and formulas intact of Exhibit CEL-EWM-11 - Marginal Cost of Service Study with Negotiated Contracts, from your supplemental testimony.

**MCC-011**

Regarding: Capital structure  
Witness: Most appropriate witness

For the following time periods: September 30 and December 31, 2016, March 31, June 30, and September 30, 2017, please provide the per book capital structure for Gas Natural (FR Bison), PHC Utilities, Inc., Energy West Montana and Cut Bank Gas Company. For the purposes of this data request, please provide long-term Debt (including that maturing within one year), short-term debt, other debt (specify), preferred or preference stock, common stock, additional paid-in capital, retained earnings, and total common equity (total common equity as well as common equity attributable to unregulated operations, if any).

**MCC-012**

Regarding: Balance sheet  
Witness: Most appropriate witness

Please also provide published balance sheet support for each of the above-requested capital structures, and, if the amounts provided in response to this Data Request are different from those contained in the published balance sheets, please explain why.

**MCC-013**

Regarding: Debt and preferred stock costs  
Witness: Most appropriate witness

For the quarterly time periods September 30 and December 31, 2016, March 31, June 30, and September 30, 2017, please provide the following information for Energy West Montana and Cut Bank Gas Company:

- a. Embedded cost rates for long-term debt, short-term debt, other debt and preferred or preference stock;
- b. Computation of embedded cost rates of long-term debt;
- c. Computation of embedded cost rates of short-term debt; and
- d. Computation of embedded cost rates of preferred or preference stock.

Note: Schedules should include date of issue, maturity date, dollar amount, coupon rate, net proceeds, annual interest paid and balance of principal, where applicable.

**MCC-014**

Regarding: Corporate structure  
Witness: Most appropriate witness

- a. Are Cut Bank Gas Company and Energy West Montana separate corporations or are they operating divisions of PHC Utilities, Inc.?
- b. If they are separate corporations, please list the officers and members of the board of directors of FR Bison Holdings, Gas Natural Inc., and PHC Utilities, as well as the officers and members of the board of directors of Cut Bank Gas Company and Energy West Montana.

**MCC-015**

Regarding: Balance sheet  
Witness: Most appropriate witness

Please provide the most recent consolidating (not consolidated) balance sheet for PHC Utilities or predecessor entity. If the Company is unable to provide the most recent consolidating balance sheet, please explain why.

**MCC-016**

Regarding: Bond rating agency report  
Witness: Most appropriate witness

Please provide the most recent bond rating agency report(s), if any, on FR Bison Holdings, Inc. and on Gas Natural Inc., if rated separately. [Note: report should be a full report, not an update of a previous report] If such reports are not available, please explain why.

**MCC-017**

Regarding: Debt rates and balances  
Witness: Most appropriate witness

- a. Please provide the monthly short-term debt balances for Energy West Montana and Cut Bank Gas Company for each month from January 2015 through the most recent month available.
- b. Please provide, for each month, the monthly cost-rate of that short-term debt for Energy West Montana and Cut Bank Gas Company.
- c. Please provide a narrative description of Energy West Montana and Cut Bank Gas Company's short-term debt financing arrangements, as well as inter-company borrowing arrangements between Energy West Montana and Cut Bank Gas Company and parent companies.

**MCC-018**

Regarding: Industrial customers  
Witness: Most appropriate witness

For Energy West Montana and Cut Bank Gas Company (if applicable), please provide a description of each utility's ten largest industrial and/or commercial customers in Montana (name of customer should be withheld), and indicate what percentage of the Company's total 2015 and 2016 Mcf throughput and revenues each represents. Also, please provide copies of any internal company reports analyzing the potential for any of the listed customers to bypass the utility system, and outlining how the Companies would respond to that event.

**MCC-019**

Regarding: Financial forecast  
Witness: Most appropriate witness

Please provide a copy of each Company's (Energy West Montana and Cut Bank Gas Company's) most recent five-year financial forecast (or most similar document). If the Company does not prepare a five-year financial forecast, please explain why and provide a complete copy of the most recent and longest-term financial forecast employed by the Company for capital budgeting purposes.

**MCC-020**

Regarding: Balance sheet and cash flow  
Witness: Most appropriate witness

Please provide an income statement, balance sheet and cash flow statement for Energy West Montana and Cut Bank Gas Company, each year for the most recent ten years.

**MCC-021**

Regarding: Ratemaking capital structure  
Witness: Most appropriate witness

- a. Please explain how the ratemaking capital structure for each company (EWM and CBGC) was determined.
- b. If the ratemaking capital structure requested for each company was based on each Company's book value capital structure for 2016, please so state.

**MCC-022**

Regarding: Kevin J. Degenstein Testimony, pg.11, lines 2-4  
Witness: Degenstein

What is CBGC's decrease in residential per customer gas usage since 2005? Please provide supporting documentation.

**MCC-023**

Regarding: Kevin J. Degenstein Testimony, pg. 12, lines 1-10  
Witness: Degenstein

How many of the 200 gas customers on the SME Pipeline are “new EWM customers”? Are the customers that are not “new EWM customers” paying anything for their gas? Please explain your response and provide supporting data.

**MCC-024**

Regarding: Kevin J. Degenstein Testimony, pg.12, lines 13-14  
Witness: Degenstein

How was reliable, safe service supplied to “the core of Great Falls, including critical hospital facilities,” prior to the existence of the SME pipeline? Please cite instances during the time prior to the SME pipeline when reliable, safe gas service was not provided by the Company.

**MCC-025**

Regarding: Kevin J. Degenstein Testimony, pg. 15-19  
Witness: Degenstein

What is the estimated annual cost impact for residential customers of the GIRC, alone, for each company, as opposed to the current regulatory mechanism? Please provide data to support your response.

**MCC-026**

Regarding: Copies of references  
Witness: Scheig

Please provide complete copies of all documents, treatises, publications, and textbooks (relevant chapters containing cited portions) cited in footnotes and in the body of the testimony by witness Scheig.

**MCC-027**

Regarding: Previous testimony  
Witness: Scheig

Please provide a list of all cost of capital testimonies filed by witness Scheig since the beginning of 2012 on behalf of a regulated public utility in a utility rate proceeding.

**MCC-028**

Regarding: Exhibit GES-1  
Witness: Scheig

Please provide complete copies of the following (for “lectures and appearances”, if a transcript of remarks is not available, please provide the slide deck or power point presentation accompanying the lecture or appearance.)

- a. Mr. Scheig’s rate of return analysis in “Review of the Rates of Sharlyand Utilities, L.P., Establishment of Rates for Sharlyand Distribution & Transmission Services, L.L.C., and Request for Grant of a Certificate of Convenience and Necessity and Transfer of Certificate Rights.”;
- b. “Rate of Return Analysis: Why Smart People Can Get Different Answers” Texas Society of CPA’s 2011 Energy Conference, May 2011;
- c. “Cost of Capital”, “Capital Structure and Leverage” and “International Investment Risk” – Lighthouse Seminar Group’s Accounting and Finance Primer for Attorneys, Dallas and Houston, Texas – February 2005.

**MCC-029**

Regarding: Gregory Scheig Testimony, pg. 2, lines 11-12  
Witness: Scheig

Are the “cost of equity” and the “return on equity” always equivalent? If not, why not; and what are the consequences of those parameters being different?

**MCC-030**

Regarding: Gregory Scheig Testimony, pg. 3, lines 16-18  
Witness: Scheig

For each of the *Value Line* gas utilities used to determine the cost of equity, please list the percentage of revenues of each that are from regulated gas distribution utility operations.



**MCC-031**

Regarding: Gregory Scheig Testimony, pg. 6, lines 9-11  
Witness: Scheig

How was the requested capital structure for each of the Companies determined? Was Mr. Scheig involved in the determination of the requested capital structures? If so, how?

**MCC-032**

Regarding: Gregory Scheig Testimony, pg. 7, footnote 3  
Witness: Scheig

Please explain why Mr. Scheig is relying on a document published in 2013.

**MCC-033**

Regarding: Gregory Scheig Testimony, pg. 9, lines 1-3  
Witness: Scheig

Please detail and describe the “transactions with Blackrock Real Assets’ Global Energy & Power Infrastructure Group” referenced in the question.

**MCC-034**

Regarding: Gregory Scheig Testimony, pg. 12, lines 10-18  
Witness: Scheig

Please explain how the “Expected Earnings” analysis is different from “Comparable Earnings.” If those cost of equity capital analyses are the same, please so state.

**MCC-035**

Regarding: Gregory Scheig Testimony, pg. 15, line 2  
Witness: Scheig

Please provide a copy of the source for Moody’s Baa-rated Utility bond yield.

**MCC-036**

Regarding: Gregory Scheig Testimony, pg. 15, footnote 13  
Witness: Scheig

If not provided in response to another data request, please provide a complete copy of the IBISWorld Report 22121 cited in footnote 13.

**MCC-037**

Regarding: Gregory Scheig Testimony, pg. 15, lines 11-12  
Witness: Scheig

Please provide analyses and/or documentation supporting the claim that natural gas “prices have remained extremely volatile over the past five years...”

**MCC-038**

Regarding: Gregory Scheig Testimony, pg. 15, lines 13-14  
Witness: Scheig

Please provide analyses and/or documentation supporting the claim that “Over the next five years, natural gas production is projected to slow...”

**MCC-039**

Regarding: Gregory Scheig Testimony, pg. 15, lines 14-15  
Witness: Scheig

Please respond to the following:

- a. Please provide analyses and/or documentation supporting the claim that Henry Hub prices will “increase at an annualized rate of 9.6%...”
- b. Please specify the time period at which these price increases are expected to occur.

**MCC-040**

Regarding: Gregory Scheig Testimony, pg. 15, line 16  
Witness: Scheig

Please provide analyses and/or documentation supporting the claim that “Natural gas consumption is forecast to fall slightly.”

**MCC-041**

Regarding: Gregory Scheig Testimony, pg. 15, lines 4-16  
Witness: Scheig

Was the IBISWorld industry report the only source reviewed by Mr. Scheig that provided an outlook for the natural gas industry? If so, please explain why other sources were not reviewed.

If not, please provide other forecasts reviewed by Mr. Scheig that pertain to any of the following:

- a. natural gas production
- b. natural gas prices
- c. natural gas industry revenue
- d. natural gas consumption

**MCC-042**

Regarding: Gregory Scheig Testimony, pg. 17, lines 8-10  
Witness: Scheig

Please provide support from the financial literature for the statement made.

**MCC-043**

Regarding: Gregory Scheig Testimony, pg. 17, lines 13-14  
Witness: Scheig

Does Mr. Scheig agree that one of the tenets of the Capital Asset Pricing Model is that unsystematic risk is diversified away by diversified investors and, therefore, is not priced in the market and not included in the cost of capital. If not, please explain why not and provide support for that view from the financial literature regarding the CAPM. If so, please explain why.

**MCC-044**

Regarding: Gregory Scheig Testimony, pg. 18, lines 3-4  
Witness: Scheig

Does Mr. Scheig's comment that he has "not considered whether an additional unsystematic risk premium is required at this time" mean that he has included one unsystematic risk premium but not two, or does it mean that he has included no unsystematic risk premium in his analysis? Please explain. Please also provide support from the financial literature for the use of one or two unsystematic risk premium(s) in a CAPM analysis.

**MCC-045**

Regarding: Gregory Scheig Testimony, pg. 20, lines 7-16  
Witness: Scheig

- a. Is it true that the SSRP (small stock risk premium) is derived from historical return data beginning in 1926? If not, please explain why not.
- b. Please provide a copy of the source information from which the SSRP is derived.
- c. Please explain why an historical market risk premium from Duff and Phelps is unreliable but a historical SSRP, derived over the same historical time period, is reliable.

**MCC-046**

Regarding: Gregory Scheig Testimony, pg. 21, footnotes 14 and 18  
Witness: Scheig

Mr. Scheig cites two "anti-CAPM" articles from the early 1980s. Has Mr. Scheig employed the standard CAPM in his professional work since that time? If so, why?

**MCC-047**

Regarding: Gregory Scheig Testimony, pg. 21, footnote 18  
Witness: Scheig

If not provided in response to a prior Data Request, please provide a complete copy of the document cited.

**MCC-048**

Regarding: Gregory Scheig Testimony, pg. 22-23  
Witness: Scheig

Please provide support to show that the ECAPM has been accepted by utility regulators as a reliable estimator of the cost of common equity capital in utility rate proceedings.

**MCC-049**

Regarding: Gregory Scheig Testimony, pg. 24  
Witness: Scheig

Please provide any support from the financial literature for a current expected CAPM market risk premium of 9% or higher.

**MCC-050**

Regarding: Gregory Scheig Testimony, pg. 29, Schedules D.1-D.3  
Witness: Scheig

Please explain how the gas companies used in Mr. Scheig's cost of capital analysis were selected. Was consideration given to dividend cuts or merger activity when selecting the group of sample companies? Please explain why or why not.

**MCC-051**

Regarding: Gregory Scheig Testimony, pg. 30, line 10  
Witness: Scheig

If not provided in response to a prior data request, please provide a copy of the *Regulatory Focus*, April 15, 2016 publication cited.

**MCC-052**

Regarding: Gregory Scheig Testimony, pg. 33, line 10 through pg. 34, line 2  
Witness: Scheig

Please respond to the following:

- a. Please explain which of the "risk factors reflected in Duff and Phelps' study" are "offset by the regulated nature" of the Companies' business.

- b. Please also explain how that impact was quantified to reach the conclusion that the small firm risk premium should be 1.25% rather than 5.59%. Please provide all supporting documentation and analysis.
- c. Please identify the regulated companies included in the Duff & Phelps study of portfolio returns and what percentage of the total number of companies studied were natural gas utility companies? If Mr. Scheig is unable to respond to this question, please explain why.

**MCC-053**

Regarding: Gregory Scheig Testimony, pg. 34, footnote 22  
Witness: Scheig

If not provided in response to a prior data request, please provide a complete copy of the paper cited.

**MCC-054**

Regarding: Gregory Scheig Testimony, pg. 34-36  
Witness: Scheig

Please respond to the following:

- a. Is it Mr. Scheig's testimony that because EWM and CBGC are now owned by a private equity firm (BlackRock), the cost of equity of those companies is higher than it would have been absent the acquisition? If not, please explain why not; and if so, was that expectation made clear to the Montana Commission in the re-organization proceedings in 2016? Please explain.
- b. If the manner in which EWM and CBGC are owned makes no difference in those companies' cost of capital, please so state and explain why Mr. Scheig elected to discuss private equity return expectations in his cost of capital testimony in this proceeding.

**MCC-055**

Regarding: Gregory Scheig Testimony, pg. 37  
Witness: Scheig

Please provide the source document(s) used to determine the capital structure of the gas companies in Mr. Scheig's sample group.

**MCC-056**

Regarding: Gregory Scheig Testimony, pg. 21, line 17- pg.22, line 2  
Witness: Scheig

Has Mr. Scheig ever recommended that CAPM estimates of return on equity for high beta securities be adjusted upward? If so, please provide analyses and/or documentation showing those recommendations.

**MCC-057**

Regarding: Exhibit JDH-CBG-6, Statement A- Balance Sheet, pg. 2 of 2  
Witness: Henthorne

Please respond to the following:

- a. Please explain why the addition to Paid-In-Capital occurred in 2016, when it occurred and provide the accounting entries used to record the change.
- b. What was the source of funds used to increase the Paid-in-Capital account?
- c. Please explain when the \$550,000 Note Payable was issued, to whom it was issued, why it was issued and how the amount of the Note was determined. If Mr. Henthorne is unable to answer these questions please identify the person(s) that can do so.
- d. Please provide the accounting entries used to record the issuance of the Note Payable.

**MCC-058**

Regarding: Exhibit JDH-CBG-6, Statement A- Balance Sheet, pg. 2 of 2  
Witness: Henthorne

Please respond to the following:

- a. Please explain how the cost rate of the Note Payable was determined. (Provide supporting calculations.)
- b. Does Mr. Henthorne agree that, prior to the issuance of the Note Payable (and absent consideration of CBG's Line of Credit), the Company had a capital structure consisting of 100% common equity? If not, why not?

- c. Does Mr. Henthorne agree that a capital structure consisting of 100% common equity is not appropriate for ratemaking purposes? Why?

**MCC-059**

Regarding: Exhibit JDH-CBG-6, Statement B-Income Statements, pg. 1 of 1  
Witness: Henthorne

Please respond to the following:

- a. Please explain why the Interest Charges for the Line of Credit in 2016 are three times greater than they were in 2015.
- b. Please detail and describe the source of “Other” Interest Charges.
- c. Please explain where the Interest Charges for the \$550,000 Note Payable appear in the Income Statement.
- d. The way the rows are arranged in Statement B makes it appear that taxes were paid prior to interest expense. Is that the case? If so, please explain why. If not, please provide detail to show how income tax obligations were determined and reconcile Statement B with Statement J-Income Taxes.