

**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 FOR APPROVAL TO  
CHANGE AND ESTABLISH NATURAL  
GAS DELIVERY SERVICE RATES FOR  
ENERGY WEST MONTANA, INC. AND  
CUT BANK GAS COMPANY

UTILITY DIVISION  
  
Docket No. D2017.9.80

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**ENERGY WEST MONTANA’S AND CUT BANK GAS COMPANY’S  
RESPONSES TO DATA REQUESTS MCC-001 THROUGH MCC-059**

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Energy West Montana (“EWM”) and Cut Bank Gas Company (“CBGC”) provide the attached responses to the Montana Consumer Council’s Data Requests MCC-001 through MCC-059.

Respectfully submitted this 8th day of December, 2017.

*s/ Nikolas S. Stoffel*  
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**COUNSEL FOR ENERGY WEST MONTANA,  
INC. AND CUT BANK GAS COMPANY**

## **DATA REQUESTS**

**MCC-001:** RE: 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.

### **Response to MCC-001:**

The regression models used to normalize average Mcf of use per customer were developed using MetrixND software, an energy forecasting package licensed by Itron, Inc. The data used to develop the models, and all corresponding coefficients and statistics, are in the following Excel spreadsheets which are provided in the folder named Attachment MCC-001:

- GTF-R\_Use - Great Falls Residential
- GTF-SG\_Use - Great Falls Small General Service
- GTF-LG\_Use - Great Falls Large General Service
- GTF-EG\_Use - Great Falls Extended General Service
- GTF-LC\_Use - Great Falls Large Commercial
- Cascade-R\_Use - Cascade Residential
- Cascade -SG\_Use - Cascade Small General Service
- Cascade -LG\_Use - Cascade Large General Service
- Cascade -EG\_Use - Cascade Extended General Service
- Cascade -Propane - Cascade Propane
- WYell-R\_Use - West Yellowstone Residential
- WYell -SG\_Use - West Yellowstone Small General Service
- WYell -LG\_Use - West Yellowstone Large General Service
- Cutbank-Use - Cutbank Total Use

**MCC-002:** RE: 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.

**Response to MCC-002:**

Electronic copies of Mr. Loy's exhibits and workpapers are provided in the folder named Attachment MCC-002. Please refer to the file "EWM -GIRC Example" in Attachment MCC-002.

**MCC-003:** RE: 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.

**Response to MCC-003:**

Please refer to the files “EWM -GIRC Example” and “CBG -GIRC Example” provided in Attachment MCC-002.

**MCC-004:** RE: 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.

**Response to MCC-004:**

Please refer to the following files provided in Attachment MCC-002:

- “EWM COS”
- “Cascade Case Analysis - 2016-12-31 (updated 9.18.2017)”
- “Great Falls Rate Case Analysis - 2016-12-31 (updated 9.18.2017)”
- “WYell Rate Case Analysis - 2016-12-31 (updated 9.19.2017)”
- “Statements HM-2016-R EWM”
- “Summary EWM Rate Case Analysis - 2016-12-31-R (updated 9.18.2017)”
- “Dist COS WPs”

**MCC-005:** RE: 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 Exhibit CEL-EWM-9.

**Response to MCC-005:**

Please refer to the following files provided in Attachment MCC-002:

- “EWM Marginal COS”
- “08.2017”
- “Inflation page 26”
- “trans-rate-summary”
- “Long Term Nymex Futures AUG 16 (002)”
- “Proof of Revenue After New MT Refining Contract-Dec 2014”
- “Copy of EWM-HardyCreek-Propane-GasCostDetail-2016”
- “Copy of EWM-Mains Services-New Renewals-2012-2016 (003)”
- “Copy of Meter Size Summary-installation costs”
- “Marg. COS WPs”

**MCC-006:** RE: 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.

**Response to MCC-006:**

Please refer to the file “CBG -GIRC Example” provided in Attachment MCC-002.

**MCC-007:** RE: 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.

**Response to MCC-007:**

Please refer to the following files provided in Attachment MCC-002:

- “CBG COS”
- “Cut Bank Rate Case Analysis - 2016-12-31 (updated 9.18.2017)”
- “Statements H&M-2016-CBG”

**MCC-008:** RE: 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.

**Response to MCC-008:**

Please refer to the following files provided in Attachment MCC-002:

- “CBG Marginal COS.”
- “08.2017 Cut Bank”
- “T-FUGC-1 for CB”
- “Marg. COS WPs”

**MCC-009:** RE: 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.

**Response to MCC-009:**

Electronic copies of Mr. Loy's exhibits and workpapers from his supplemental testimony are provided in the folder named Attachment MCC-009. Please refer to the file "EWM COS - Breakout Contract" in Attachment MCC-009.

**MCC-010:** RE: 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.

**Response to MCC-010:**

Please refer to the file “EWM Marginal COS - Breakout Contract” provided in Attachment MCC-009.

**MCC-011:** RE: 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).

**Response to MCC-011:**

Please see Attachment MCC-011 with tabs for EWM, CBGC, PHC, and GNI.

**Sponsor:** Henthorne

**MCC-012:** RE: 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.

**Response to MCC-012:**

Please see Attachment MCC-012 with tabs for EWM, CBGC, PHC, and GNI.

**Sponsor:** Henthorne

**MCC-013:** RE: 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.

**Response to MCC-013:**

- a. Please see Attachment MCC-013.
- b. Please see Attachment MCC-013, rows 13-23 for EWM and 60-63 for CBGC.
- c. Please see Attachment MCC-017, and specifically the EWM-Detail tab and Cut Bank-Detail tab, for quarterly calculations used for the calculation of the embedded cost rates for short-term debt.
- d. N/A. There is no preferred or preference stock.

**Sponsor:** Henthorne

**MCC-014:** RE: 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.

**Response to MCC-014:**

- a. Separate.
- b. See below.

<b>FR Bison Holdings</b>	
<p><b><u>Officers</u></b></p> <p>President - Ryan Shockley            Vice President and Secretary - Matt Raben            Vice President - David A. Cerotzke            Treasurer - George M. Behrens</p>	<p><b><u>Board of Directors</u></b></p> <p>Mark Florian            David A. Cerotzke            Ryan Shockley            Akhil Mehta            Matt Raben            George M. Behrens</p>
<b>Gas Natural, Inc.</b>	
<p><b><u>Officers</u></b></p> <p>President &amp; Chief Executive Officer - David A. Cerotzke            Chief Operating &amp; Chief Compliance Officer - Kevin J. Degenstein            Chief Financial Officer - George M. Behrens            Vice President Finance &amp; Administration - Jed Henthorne            Corporate Controller - Jennifer M. Haberman            Corporate Secretary - Christopher J. Hubbert            Assistant Secretary - Cheryl Johnson            Assistant Secretary - Mary Stanich</p>	<p><b><u>Board of Directors</u></b></p> <p>Mark Florian            David A. Cerotzke            Ryan Shockley            Akhil Mehta            Matt Raben            George M. Behrens</p>

<b>PHC Utilities, Inc.</b>	
<p><b><u>Officers</u></b></p> <p>President - Jerry Livengood  Treasurer - Marty Whelan  Secretary - Fred Steele  Assistant Secretary - George M. Behrens</p>	<p><b><u>Board of Directors</u></b></p> <p>Kevin Degenstein  Jed Henthorne  Jerry Livengood  Fred Steele  Marty Whelan</p>
<b>Cut Bank Gas Company</b>	
<p><b><u>Officers</u></b></p> <p>President – Jed Henthorne  Vice President – Kevin Degenstein  Secretary – Cheryl Johnson  Assistant Secretary – George M. Behrens</p>	<p><b><u>Board of Directors</u></b></p> <p>Kevin Degenstein  Jed Henthorne  Jerry Livengood</p>
<b>Energy West Montana, Inc.</b>	
<p><b><u>Officers</u></b></p> <p>President – Jed Henthorne  Vice President – Kevin Degenstein  Secretary – Cheryl Johnson  Assistant Secretary – George M. Behrens</p>	<p><b><u>Board of Directors</u></b></p> <p>Kevin Degenstein  Jed Henthorne  Jerry Livengood</p>

**MCC-015:** RE: 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.

**Response to MCC-015:**

Please see Attachment MCC-015 for the October 31, 2017, consolidating balance sheet for PHC Utilities.

**Sponsor:** Henthorne

**MCC-016:** RE: 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.

**Response to MCC-016:**

There are no such recent reports for either FR Bison Holdings, Inc. or Gas Natural Inc. FR Bison Holdings is a newly formed company funded solely with equity from the infrastructure fund and so there was no requirement to obtain a bond agency rating. For at least the past 10 years, GNI has obtained its debt in the private market and was not required to and did not seek a rating from Fitch, S&P, or Moody's.

**Sponsor:** Henthorne

**MCC-017:** RE: 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.

**Response to MCC-017:**

- a. Please see Attachment MCC-017.
- b. Please see Attachment MCC-017.
- c. Energy West Montana has an intercompany line of credit arrangement with its parent GNI. The maximum borrowing limit is \$10 million. Cut Bank Gas Company has an intercompany line of credit arrangement with its parent GNI. The maximum borrowing limit is \$450,000.

Energy West Montana also has an intercompany long-term debt agreement with GNI for \$7,579,000, payable in 12 years. The loan accrues interest at a coupon rate of 4.23%. Cut Bank Gas Company also has an intercompany long-term debt agreement with GNI for \$550,000, payable in 12 years. The loan accrues interest at a coupon rate of 4.23%.

Please refer to Docket D2016.2.17 for additional details regarding the financing arrangements of EWM and CBGC.

**Sponsor:** Henthorne

**MCC-018:** RE: 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.

**Response to MCC-018:**

Please see Attachment MCC-018 for Energy West Montana. There are no internal reports analyzing the potential for any EWM's customers to bypass the utility system, but it has been established in Docket D2010.9.90 that the refinery is a bypass threat. In addition, the air force base and Hospital-A have alternative fuel capability.

The customers of Cut Bank Gas Company are small commercial, and there are no transportation-only customers on CBGC's system. Additionally, CBGC does not have a transportation-only tariff. Consequently, the company does not believe this question is applicable to CBGC.

**Sponsor:** Henthorne

**MCC-019:** RE: 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.

**Response to MCC-019:**

Please see Attachment MCC-019 – EWM and Attachment MCC-019 – CBGC. These are the most recent forecasts for EWM and CBGC and were prepared in the Summer of 2016 based on the information available at that time.

**Sponsor:** Henthorne

**MCC-020:** RE: 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.

**Response to MCC-020:**

Please see attached MCC-020-EWM for the requested EWM balance sheets, income statements, and cash flow statements.

Please see attached MCC-020-CBGC for extracted pages of Cut Bank's annual PSC files containing the requested balance sheets, income statements, and cash flow statements.

**Sponsor:** Henthorne

**MCC-021:** RE: 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.

**Response to MCC-021:**

- a. As discussed in Mr. Henthorne's testimony on page 7, lines 10-12, and page 33, lines 2-4, the ratemaking capital structure used for each company was based on the actual December 31, 2016 balance sheet amounts.
- b. See response to subpart (a).

**MCC-022:** RE: 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.

**Response to MCC-022:**

There is currently one rate class in CBGC. The customer count at the 12 months ending December 31, 2016, was 1,263 residential customers and 249 commercial customers totaling 1,511 customers. Therefore, the residential customers are included in the total percent change for CBGC; there is no historical usage breakdown by type of customer.

The usage for all CBGC customers in 2005 was 219,677 MCF and the average number of customers was 1,514. See PDF pages 36, 41 and 42 of "Attachment MCC-022 (1)". This equates to an average use of approximately 145 MCF. In 2016, the weather-normalized usage for all customers is 196,912 MCF and the average number of customers was 1,511. This equates to an average use of approximately 130 MCF. This is a reduction of approximately 10.34%.

Please see the attached rate case documentation for CBGC using a 2005 test year (Attachment MCC-022 (1)). Also CBGC Statement H (Attachment MCC-022 (2)).

**MCC-023:** RE: 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.

**Response to MCC-023:**

All of the 200 gas customers on the SME Pipeline are new EWM customers. See the response to PSC-016(a).

**MCC-024:** RE: 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.

**Response to MCC-024:**

See responses to PSC-025, 026, 027, and Attachment PSC-037.

**MCC-025:** RE: 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.

**Response to MCC-025:**

For purposes of responding to this request, EWM and CBGC interpret “current regulatory mechanism” to mean the filing of general rate cases. With that understanding, EWM and CBGC provide the following response:

Exhibits CEL-EWM-2 and CEL-CBG-1 calculate the cumulative revenue requirements using the five year forecast of “GIRC eligible” mains and services replacements. The impact on residential customers is shown in Mr. Loy’s testimony on pages 12 and 13. Under the current regulatory mechanism, it would be necessary to file a rate case or revised tariffs each year to achieve the prompt recovery of costs as would be available under the GIRC. While the recovery of the GIRC eligible costs under a rate case or tariff filing would be equivalent to those under the rider, there would be substantial additional regulatory, legal and payroll costs associated with preparing documents and supporting the request before the commission for recovery each year.

Also, please see the response to PSC-022 and Attachment PSC-022.

**MCC-026:** RE: 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.

**Response to MCC-026:**

Electronic copies of Mr. Scheig's workpapers are provided in the folder named Attachment MCC-026.

**MCC-027:** RE: 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.

**Response to MCC-027:**

Please see Exhibit GES-1. Rate of return projects pertained to the following companies:

- Double Diamond Utilities (*this testimony was after Direct Testimony was filed here*)
- Sharlyand Utilities, L.P.
- Rio Concho Aviation, Inc.
- Quadvest, LP
- SWWC Utilities, Inc.
- Hughes Natural Gas, Inc.
- Monarch Utilities I, L.P
- Canyon Lake Water Service Company

**MCC-028:** RE: 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.

**Response to MCC-028:**

- a. See Attachment MCC-028.
- b. Mr. Scheig does not have a copy of the requested materials.
- c. Mr. Scheig does not have a copy of the requested materials.

**MCC-029:** RE: 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?

**Response to MCC-029:**

They are sometimes equivalent and the terms are often considered synonymous. However, the “cost of equity” can be characterized as the future return that equity investors expect to earn on an investment. The term “return on equity” sometimes refers to the returns realized (after an investment is made).

**MCC-030:** RE: 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.

**Response to MCC-030:**

Please see the table below.

<u>Company</u>	<u>Ticker</u>	<u>12 Month Reporting</u> <u>Period Ended</u>	<u>Distribution Revenue</u>	<u>Total Revenue</u>	<u>Distrib. Revenue</u> <u>as % of Total</u>
Atmos Energy	ATO	9/30/2017	\$2,649,200,000	\$2,759,700,000	96.00%
Chesapeake Utilities	CPK	12/31/2016	\$305,700,000	\$498,900,000	61.27%
New Jersey Resources	NJR	9/30/2017	\$695,600,000	\$2,268,600,000	30.66%
NiSource	NI	12/31/2016	\$2,830,600,000	\$4,492,500,000	63.01%
Northwest Natural Gas	NWN	12/31/2016	\$650,500,000	\$676,000,000	96.23%
ONE Gas	OGS	12/31/2016	\$1,427,200,000	\$1,427,200,000	100.00%
South Jersey Industries	SJI	12/31/2016	\$461,100,000	\$1,036,500,000	44.49%
Southwest Gas Holdings	SWX	12/31/2016	\$1,321,400,000	\$2,460,500,000	53.70%
Spire	SR	9/30/2017	\$1,667,900,000	\$1,740,700,000	95.82%
UGI	UGI	9/30/2017	\$887,600,000	\$6,120,700,000	14.50%
WGL Holdings	WGL	9/30/2017	\$1,167,000,000	\$2,354,700,000	49.56%

Source: S&P Capital IQ

**MCC-031:** RE: 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?

**Response to MCC-031:**

Mr. Scheig relied upon actual the capital structures from the rate case filing.

**MCC-032:** RE: Gregory Scheig Testimony, pg. 7, footnote 3  
Witness: Scheig

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

**Response to MCC-032:**

Ibbotson's "Stocks Bonds Bills and Inflation," SBBI was purchased by Duff & Phelps in 2014 and now updates it annually. The data in the graphic is from 1926 – 2013, or approximately 87 years. Extending the observation period from 87 years to 90 years would not make a material difference.

**MCC-033:** RE: 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.

**Response to MCC-033:**

Please refer to the Supplemental Testimony of Ryan Shockley filed in Docket No. D2016.11.91 and Order No. 7534e issued in that proceeding. Please also refer to the responses to data requests MCC-031, MCC-044, and PSC-036 in Docket No. D2016.11.91.

**Sponsor:** Degenstein

**MCC-034:** RE: 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.

**Response to MCC-034:**

Mr. Scheig utilized an Expected Earnings approach based on “comparable companies.” Mr. Scheig does not know what the term “comparable earnings” means in this question, but he did not reference a “Comparable Earnings” approach in his testimony.

**MCC-035:** RE: Gregory Scheig Testimony, pg. 15, line 2  
Witness: Scheig

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

**Response to MCC-035:**

Please see "Moody's UBAA Yields Combined" provided in Attachment MCC-026.

**MCC-036:** RE: 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.

**Response to MCC-036:**

Please see Mr. Scheig's workpapers provided in Attachment MCC-026.

**MCC-037:** RE: 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...”

**Response to MCC-037:**

Please see IBIS report 22121 provided with Mr. Scheig’s workpapers in Attachment MCC-026.

**MCC-038:** RE: 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...”

**Response to MCC-038:**

Please see IBIS report 22121 provided with Mr. Scheig’s workpapers in Attachment MCC-026.

**MCC-039:** RE: 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.

**Response to MCC-039:**

- a. Please see IBIS report 22121 provided with Mr. Scheig’s workpapers in Attachment MCC-026.
- b. Per the IBIS report, over the next five years.

**MCC-040:** RE: 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.”

**Response to MCC-040:**

Please see IBIS report 22121 provided with Mr. Scheig’s workpapers in Attachment MCC-026.

**MCC-041:** RE: 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

**Response to MCC-041:**

Mr. Scheig also relied on his experience, education, and continuing education for his knowledge of the natural gas industry.

**MCC-042:** RE: Gregory Scheig Testimony, pg. 17, lines 8-10  
Witness: Scheig

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

**Response to MCC-042:**

Larger stocks reflected in this study are public and are considered marketable. Smaller stocks are often for private companies and are less marketable, requiring higher returns, all else equal.

**MCC-043:** RE: 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.

**Response to MCC-043:**

Mr. Scheig agrees that one of the tenets of the Capital Asset Pricing Model is that unsystematic risk is assumed to be diversified away by diversified investors. However, the Capital Asset Pricing Model has its limitations and that is why other analyses were considered in determining a market-based cost of equity.

**MCC-044:** RE: 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.

**Response to MCC-044:**

Mr. Scheig did not include an unsystematic risk premium in his analysis.

Outside of a regulatory setting, unsystematic risk premia are often considered by investors and valuation professionals.

**MCC-045:** RE: 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.

**Response to MCC-045:**

- a. Yes, as described in the Duff and Phelps' materials.
- b. Please see "Duff & Phelps 2017" file provided in Attachment MCC-026.
- c. The equity risk premium compared equity returns to bond returns. However, the SSRP compares large-company equity returns to smaller-company equity returns. I did not rely on the full value shown for a utility as small as EWM and CBGC in the Duff and Phelps' text.

**MCC-046:** RE: 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?

**Response to MCC-046:**

Yes, but Mr. Scheig and other investors and valuation professionals routinely make adjustments as required to the “basic” CAPM model.

**MCC-047:** RE: 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.

**Response to MCC-047:**

This cite should have been attributed to Roger Morin's text in which he cited this specific article. Mr. Scheig does not have a complete copy, but the page from Roger Morin's book is provided as Attachment MCC-047.

**MCC-048:** RE: 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.

**Response to MCC-048:**

This is an accepted approach used by many experts in rate case testimonies. Given that their opinions are given weight by regulators, Mr. Scheig believes this supports ECAPM's reliability.

**MCC-049:** RE: 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.

**Response to MCC-049:**

Please see Mr. Scheig's testimony and analyses. Given that most academic texts deal with very long-term relationships, Mr. Scheig does not know of a financial text that specifically addresses this issue.

**MCC-050:** RE: 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.

**Response to MCC-050:**

These were selected based on the gas utilities in Value Line. Given the historical and forward-looking information provided by Value Line, it is considered a standard source for comparable companies.

**MCC-051:** RE: 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.

**Response to MCC-051:**

Please see the “RRA Rate case report” file provided in Attachment MCC-026.

**MCC-052:** RE: 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.

**Response to MCC-052:**

- a. As stated, Mr. Scheig believes this to be true of the SSRP.
- b. This is described in Mr. Scheig’s testimony, based on the SSRP of the guideline groups as well as consideration of other measures.
- c. Mr. Scheig has not researched this question; however, the specific characteristics of a natural gas utility are reflected in the beta term.

**MCC-053:** RE: 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.

**Response to MCC-053:**

Please see “Gompers Kaplan Kharlamov-What do PE Firsts Say They DO-Feb 2014wp-SSRN-id2447605” provided in Attachment MCC-026.

**MCC-054:** RE: 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.

**Objection:**

Energy West Montana and Cut Bank Gas object to this request on the grounds that it misstates and misrepresents the relationship between EWM, CBGC, and BlackRock. As explained in Docket No. D2016.11.91, EWM and CBGC are now owned by a private equity fund, and BlackRock owns no more than a 0.2% indirect partnership interest in the private equity fund that now owns FR Bison Holdings, Inc., the indirect upstream parent company of EWM and CBGC. See the Supplemental Testimony of Ryan Shockley in Docket No. D2016.11.91.

**Response to MCC-054:**

- a. No, that is not Mr. Scheig's testimony. The private equity study was a consideration of small companies like EWM and CBGC, it did not relate to BlackRock's "ownership."
- b. See response to subpart (a).

**MCC-055:** RE: 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.

**Response to MCC-055:**

Please see the Value Line pages provided in Attachment MCC-026.

**MCC-056:** RE: 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.

**Response to MCC-056:**

Yes, it is a common practice in appraising a private company's enterprise and equity values.

**MCC-057:** RE: 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.

**Response to MCC-057:**

- a. Cut Bank Gas Company received \$500,000 paid-in-capital in October 2016. This capital was infused into CBGC to help pay for costs of capital projects completed in Cut Bank. The accounting entry was as follows:  
  
Cash     \$500,000  
  
Paid-In-Capital (\$500,000)
- b. The \$500,000 was contributed to Cut Bank by its former parent EWI from the proceeds of the sale of EWI's subsidiary Energy West Wyoming. The cash was designated to be used for special projects in Montana as part of Order 7399a in Docket D2015.1.11.
- c. Please refer to Docket D2016.2.17 for details regarding the issuance of the \$550,000 Note Payable.
- d. Cash     \$550,000  
  
Notes Payable (\$550,000)

**MCC-058:** RE: 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?

**Response to MCC-058:**

- a. The interest rates charged to Cut Bank Gas Company for the Intercompany note payable to GNI are the same interest rates that GNI pays to its creditors. So the debt and associated interest is passed 1-1 on to the subsidiaries, including CBGC. The other components of the cost rate, the debt issue costs, are based on actual closing costs and capitalized legal fees related to the refinance.
- b. Agreed.
- c. Utilities need to be permitted to recover all prudently incurred costs, which include a return on equity and borrowing costs associated with their capitalization. Whatever those prudent costs are determined to be, those are the costs that should be recovered through the ratemaking process.

**MCC-059:** RE: 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.

**Response to MCC-059:**

- a. There is a classification error in Statement B – Income Statements. The actual line of credit interest for 2015 should have been \$17,585 and the other interest should have been \$3,399.
- b. Other interest charges consist of interest on long term debt, interest on capital leases, interest on customer deposits, amortization of debt issue costs, and finance charges.
- c. The interest charges for the \$550,000 Note Payable are included in other interest charges. For 2016, the interest expense on the note payable was \$4,718.
- d. The presentation of Statement B with the taxes above the interest expense line was done to emulate the presentation of the overall cost of service, which does not include other income or interest expenses. Total operating expenses of \$1,366,671 on Statement B is the total cost of service of \$1,364,467 on Exhibit JDH-CBG-2 page 2 plus an adjustment to add back taxes related to the other income and interest expense not included on the cost of service.

## CERTIFICATE OF SERVICE

I certify that on the 8th day of December, 2017, **ENERGY WEST MONTANA'S AND CUT BANK GAS COMPANY'S RESPONSES TO DATA REQUESTS MCC-001 THROUGH MCC-059** was e-filed with the Commission and served via U.S. mail and e-mail, unless otherwise noted, to the following:

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*s/ Adele C. Lee*

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