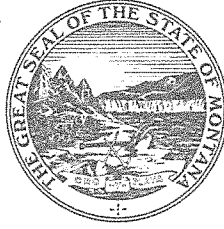


Montana Public Service Commission



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

February 15, 2018

Jason T. Brown
Montana Consumer Counsel
PO Box 201703
111 North Last Chance Gulch, Suite 1B
Helena MT 59620-1703

RE: Data Requests in Docket D2017.9.79

Dear Mr. Brown:

Enclosed please find data requests of the Montana Public Service Commission to the Montana Consumer Counsel numbered PSC-109 through PSC-137 in the above-referenced Docket. Please begin the response to each new numbered data request on a new page. Please respond to the data requests by March 5, 2018. If the initial data request is objectionable or seeks confidential information, MCC must respond accordingly and proceed to object or file a motion for protective order no later than the deadline to respond.

If you have any questions, please contact me at (406) 444-6193.

Sincerely,

A handwritten signature in cursive script that reads "Scott Fabel".

Scott Fabel
Rate Analyst
Regulatory Division

Enclosure

cc: Service List

Service Date: February 15, 2018

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

IN THE MATTER OF the Application of the) REGULATORY DIVISION
Application of Montana-Dakota Utilities Co. for)
Authority to Establish Increased Rates for Gas) DOCKET NO. D2017.9.79
Service in the State of Montana)

**DATA REQUESTS PSC-109 THROUGH PSC-137 OF
THE MONTANA PUBLIC SERVICE COMMISSION
TO MONTANA CONSUMER COUNSEL**

PSC-109

Regarding: Exhibits and statements in electronic format
Witness: All Witnesses

- a. Please provide working electronic copies of all statements, in Microsoft Excel format with all links and formulas intact.
- b. For any Exhibit which has Microsoft Excel as its originating file type, please provide a working electronic copy with all links and formulas intact.

PSC-110

Regarding: Cost allocation
Witness: All Witnesses

Provide, in electronic format, an exhibit similar to Exhibit No.__(GLD-2) which summarizes the demand-, energy- and customer-components as a percent of MDU’s total cost of service based on MCC’s ECOS study.

PSC-111

Regarding: Oregon PUC
Witness: Smith

- a. Please provide a copy of Dkt. No. UG 287, Order No. 15412 (Dec. 28, 2015), referenced on page 19, line 21 of your testimony.
- b. Please provide a copy of the final order in Dkt. No. UM 1633, referenced on page 19, line 12 of your testimony.

- c. Please provide a copy of Dkt. No. UG 287, Order No. 15226 (Aug. 3, 2015), referenced in page 23, line 6 of your testimony.
- d. Please explain why the Montana Commission should rely on the Oregon PUC's decisions in this docket?
- e. Please explain whether these decisions are persuasive or controlling authority upon the Commission's decision in this case.

PSC-112

Regarding: Stock-based compensation

Witness: Smith

- a. Has MDU previously included stock-based compensation within a rate case before this Commission?
- b. If the answer is yes in part a, how did the Commission utilize stock-based compensation in reaching a final decision?
- c. If the Commission reached a discrete finding on stock-based compensation for MDU, please provide a citation to the finding.

PSC-113

Regarding: Short run capacity-related costs

Witness: Donkin

Provide specific, recent (within 20 years) examples that support the use of the factors for allocating short-run capacity-related fixed costs you identify on page 15, lines 12-14 of your direct testimony.

PSC-114

Regarding: Shifting class revenues

Witness: Donkin

- a. Please define, in terms of a percentage increase or decrease, the term "moderate" as it is used on page 16, line 15 of your testimony.
- b. Please define, in terms of a percentage increase or decrease, the phrase "large or dramatic" as it is used on page 16, line 16 of your testimony.

PSC-115

Regarding: Allocation of mains

Witness: Donkin

- a. To your knowledge, has the Montana Commission ever allocated the cost of natural gas mains based on 50% peak day Dkt demand and 50% annual Dkt demand? If so, please provide the relevant order numbers.

- b. Provide or cite commission orders from other jurisdictions in which the cost of natural gas mains was allocated to customer classes based on 50% peak day Dkt demand and 50% annual Dkt demand.

PSC-116

Regarding: Allocation of A&G expenses

Witness: Donkin

- a. Is it your position that MDU's A&G expenses do not vary based on the number of customers it serves?
- b. Provide commission orders from other jurisdictions in which A&G expenses were allocated to customer classes in the same manner you are recommending in this case. That is, based on 50% peak day Dkt demand and 50% annual Dkt demand.
- c. To your knowledge, has the Montana Commission ever allocated A&G expenses to customer classes based on 50% peak day Dkt demand and 50% annual Dkt demand? If so, provide relevant order numbers.
- d. Would you agree that MDU has allocated A&G expenses in a manner consistent with the recommended approach contained in the National Association of Regulatory Utility Commissioners *Electric Utility Cost Allocation Manual* (January 1992)? Please review page 106 of that manual for reference.
- e. In general, do you believe A&G expenses for a natural gas utility should be allocated differently than A&G expenses for an electric utility? If so, please explain why.

PSC-117

Regarding: Cost allocation of tax tracker

Witness: Donkin

Provide or cite all authority, including Commission Orders, relevant administrative rules, or Montana statutes that support your recommended allocation of base tax tracker revenue increases among customer classes.

PSC-118

Regarding: Basic service charge

Witness: Donkin

- a. Explain why you used MDU's 2016 Annual Report to calculate the daily O&M expense per customer (contained on pages 44 and 45 of your testimony), instead of the ECOS study provided by either MDU or MCC in this case.

- b. Does Exhibit No.__(GLD-9) calculate the daily O&M expense per customer for all of MDU's customers in total, or the O&M expense per customer for only the residential class?
- c. Please use an ECOS study that has been provided in this docket to calculate MDU's daily O&M expense per residential customer. Provide supporting work papers if necessary.

PSC-119

Regarding: SSIP

Witness: Donkin

Do you support MDU's SSIP mechanism – an allocation based on non-gas revenues which is collected through a daily or monthly customer charge – to recover SSIP related investments? If not, please explain why and offer an alternative.

PSC-120

Regarding: Saco-Bowdoin farm tap customers

Witness: Donkin

- a. If the Commission were to find that MDU should provide financial assistance to the Saco-Bowdoin farm tap customers in order to convert their service from natural gas, are you arguing that the financial assistance should be limited to the approximate gross distribution margin MDU currently receives from these customers?
- b. If the Commission were to find that MDU should provide financial assistance to the Saco-Bowdoin farm tap customers in order to convert their service from natural gas, please explain how and why the gross distribution margin received from these customers should have an impact on the amount of financial assistance provided by MDU.
- c. Confirm that an estimate of the construction cost to convert the natural gas distribution system in the Saco-Bowdoin area from natural gas to propane would not include gross distribution margins received from those customers.
- d. If part c is confirmed, would you agree that if the Commission were to find that MDU should provide financial assistance to the Saco-Bowdoin farm tap customers in order to convert their service from natural gas to propane, that MDU would need to adjust its revenue requirement in order to account for both the cost of converting the system to a new fuel source as well as account for the natural gas revenues lost from the Saco-Bowdoin farm tap customers?

PSC-121

Regarding: Saco-Bowdoin farm tap customers

Witness: Donkin

- a. Please estimate the cost to upgrade the infrastructure for these customers to provide reliable gas service.
- b. Using the estimate in a. and comparing it to the \$300,000 MDU is requesting, which of these options should be included in expense recovered from all ratepayers, why or why not.

PSC-122

Regarding: Saco-Bowdoin farm tap customers

Witness: Donkin

If MDU had upgraded the infrastructure for these customers, would you still argue these cost should be addressed in a separate proceeding? Please explain why or why not.

PSC-123

Regarding: Account 376.10

Witness: Garrett

- a. Please provide the type of pipe, such as 'early vintage steel,' you base your suggestion on to extend the average service life.
- b. If you have not identified the type of pipe and correlative amount of pipe in the ground, please explain your basis for extending the service life.
- c. Have you integrated the SSIP plan that MDU proposes into your suggestions and extended or decreased the life or net salvage value of the pipe to account for the SSIP?

PSC-124

Regarding: Account 376.20

Witness: Garrett

- a. Please provide the type of pipe, such as Aldyl A, you base your suggestion on to extend the average service life?
- b. If you have not identified the type of pipe and correlative amount of pipe in the ground, please explain your basis for extending the service life.
- c. Have you integrated the SSIP plan that MDU proposes into your suggestions and extended or decreased the life or net salvage value of the pipe to account for the SSIP?

PSC-125

Regarding: Account 380.10

Witness: Garrett

- a. Please provide the type of pipe, such as 'early vintage steel,' you base your suggestion on to extend the average service life.
- b. If you have not identified the type of pipe and correlative amount of pipe in the ground, please explain your basis for extending the service life.
- c. Have you integrated the SSIP plan that MDU proposes into your suggestions and extended or decreased the life or net salvage value of the pipe to account for the SSIP?

PSC-126

Regarding: Account 380.20

Witness: Garrett

- a. Please provide the type of pipe, such as Aldyl A, you base your suggestion on to extend the average service life.
- b. If you have not identified the type of pipe and correlative amount of pipe in the ground, please explain your basis for extending the service life.
- c. Have you integrated the SSIP plan that MDU proposes into your suggestions and extended or decreased the life or net salvage value of the pipe to account for the SSIP?

PSC-127

Regarding: Account 396.20

Witness: Garrett

- a. Please provide the type of equipment you base your suggestion on to extend the average service life.
- b. If you have not identified the type of equipment please explain your basis for extending the service life.

PSC-128

Regarding: Depreciation

Witness: Garrett

Is the consultant proposing any phase in period for the new depreciation adjustments to common and gas plant? If not, please explain your reasoning.

PSC-129

Regarding: Depreciation
Witness: Garrett

- a. Please provide a list of all physical site inspections conducted on the various representative properties.
- b. Please indicate the person responsible for inspecting the sites.
- c. Please provide the inspection reports from all site visits.

PSC-130

Regarding: Depreciation
Witness: Garrett

Referencing the 1986 Tax Reform Act, the effect act generally lengthened the life over which most utility property was depreciated. What do you anticipate the Tax Cuts and Jobs Act of 2017 will have upon Common Plant and Gas Division Plant depreciation with MDU?

PSC-131

Regarding: Economic Environment
Witness: Hill

As part of your overall assessment of MDU's cost of equity you note that a review of the larger economic environment is an important consideration in the determination of investor expectations. Page 10 (lines 16-18) and page 11 (lines 1-10) of your testimony discuss the Federal Reserve's decision to end its quantitative easing program. You note that although the Federal Reserve ended this program and investors have been well aware of the Federal Reserve's reversal of its accommodative policies, investors held onto long-term Treasury instruments and the desired increase in yields has yet to materialize. This is an indication that investors continue to find the bond markets attractive. On page 9 of your testimony (lines 8-9) you reference the exceptional growth of the S&P 500 in the past year of 22%. This indicates that investors find the equity market attractive. Please discuss these seemingly contradictory phenomena.

PSC-132

Regarding: DCF Sustainable Growth (Rates as found in Appendix B as well as Exhibit SGH-3, page 1 ("BR" component).
Witness: Hill

Using the information provided in SGH-2 (page 1), please clearly illustrate how you derived the calculation of (br) for each company as shown in SGH-3 (page 1).

PSC-133

Regarding: DCF Sustainable Growth (Rates as found in Appendix B as well as Exhibit SGH-3, page 1 (“SV” component) and total DCF cost of equity capital (calculated in SGH-5).

Witness: Hill

- a. Since (v) essentially represents the percentage (fraction) of funds received from the sale of new stock (MP) that exceeds book value (BV) (i.e. accrues to the current shareholders, see (b) below), would you agree that in the determination of (s) it is necessary to account for the market-to-book ratio in addition to the share growth as (s) is intended to represent the increase in funds raised from the issuance of new shares as a percentage (fraction) of existing equity?

- b. If your answer to (a) is “no,” please explain and reconcile it with the following representation made in Appendix B (page 3 of 5):

v = fraction of new common stock sold that accrues to the current shareholder,

$$v = 1 - BV/MP$$

s = funds raised from the sale of stock as a fraction of existing equity

- c. Exhibit SGH-3 (page 1) indicates that in your calculation of “sustainable” DCF growth rates you used expected growth in number of shares outstanding for (s). This is indicated by the following disclosures in the exhibit:

$$sv = g * (1 - (1/(M/B)))$$

g* = expected growth in number of shares outstanding

Please recalculate the sustainable growth rates for each company identified in the exhibit utilizing the market-to-book ratio in your determination of (s).

- d. Please re-perform the “DCF Cost of Equity Capital” calculations for the companies shown in Exhibit SGH-5, utilizing the growth rates calculated in (c) above. Please display the results of this calculation for each company in the same format as SGH-5. Additionally, please include the re-calculated “total overall average.”
- e. Please re-perform the “Market-to-book Cost of Equity” calculations shown the companies shown in Exhibit SGH-10 utilizing the growth rates calculated in (c) above. Please display the results of this calculation for each company in the exact same format as SGH-10. Additionally, please include the re-calculated “total overall average.”

PSC-134

Regarding: Growth in EPS

Witness: Hill

For each company used in your DCF analyses, please provide the trailing 1, 3 and 5 year growth in earnings per share. In support of these “trailing” EPS growth figures, please submit the applicable source data in conjunction with your response.

PSC-135

Regarding: Mechanical DCF analysis

Witness: Hill

- a. In your testimony (pages 38-42) you describe your reasons for not relying exclusively on earnings projections as your proxy for growth in your Mechanical DCF analysis. Since capital gains (i.e. increases in BVPS) and dividends (DPS) are both components of earnings, in your opinion, are these indicators of growth subject to the same shortcomings you cite in support of not relying exclusively on earnings as a proxy for growth?
- b. Since growth in DPS and BVPS are subject to retention ratios (and payout ratios), please explain your reasoning for giving these indicators of growth equal “weighting” to earnings (as identified in SGH-6 by taking an average of all growth indicators in your determination of “average growth”).
- c. Would you agree that, amongst investors, earnings expectations are the most widely used proxy regarding overall growth expectations?

PSC-136

Regarding: Flotation Costs

Witness: Hill

- a. On page 72 of your testimony you argue that flotation costs are not “out of pocket expenses for the issuing company.” Typically, “out of pocket” expenses incurred by a company would run through the income statement and eventually result in a decrease to the Retained Earnings component of shareholder equity as shown on a balance sheet. For accounting purposes, issuance costs are typically treated as a direct reduction to the Paid-In Capital component of shareholder equity as shown on a balance sheet (in the instance that there is not a stated par value of stock, they would be netted against common equity directly, thereby decreasing owners’ equity). Therefore, would you agree that, although these costs are not expenses per se, they have the same effect on shareholder equity as an expense?
- b. On page 70 of your testimony you state that you don't "cite additions to the cost of capital for flotation costs." However, in support of your final cost of equity recommendation, you compare your DCF results (your “primary” indicator of the cost

of capital as noted on page 58, line 12 of your testimony) to Dr. Gaske's DCF results illustrated on page 67 of your testimony (TABLE IV) which represent his "primary market" returns and therefore include flotation costs (see JSG-2, Schedule 4, pages 5-6). Please explain why, in this comparison, you chose to include results that include flotation costs in your comparison if you do not "cite additions to the cost of capital for flotation costs."

PSC-137

Regarding: Market Risk Premium Expectations

Witness: Hill

Please provide a copy of the report referenced on page 92 (line 17) of your testimony. If the report is too voluminous to provide to staff in a cost effective manner, please provide the page and/or pages describing Professor Aswath Damodaran's "forward-looking" estimate of the return on the S&P 500. In addition to providing this report (or pages), please specify where in the documentation staff can find his market risk premium expectation as well as a descriptor specifying that his estimate is "forward-looking."

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