

Ronald L. Williams, ISB No. 3034
Williams Bradbury, P.C.
1015 W. Hays St.
Boise, ID 83702
Telephone: (208) 344-6633
Email: ron@williamsbradbury.com

Attorneys for Intermountain Gas Company

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)
INTERMOUNTAIN GAS COMPANY FOR)
THE AUTHORITY TO CHANGE ITS RATES) Case No. INT-G-16-02
AND CHARGES FOR NATURAL GAS)
SERVICE TO NATURAL GAS CUSTOMERS)
IN THE STATE OF IDAHO)
_____)

DIRECT TESTIMONY OF MARK A. CHILES
FOR INTERMOUNTAIN GAS COMPANY

August 12, 2016

1 **Q. Please state your name, title and business address.**

2 A. My name is Mark A. Chiles. I am the Vice President of Regulatory Affairs for
3 Intermountain Gas Company (IGC, Intermountain, or Company) and Cascade
4 Natural Gas Corporation and the Vice President of Customer Service for the
5 MDU Utilities Group (MDUG). My business address is 555 South Cole Road,
6 Boise, ID 83707.

7 **Q. Mr. Chiles, would you please summarize your educational and professional**
8 **experience.**

9 A. I am a graduate of Boise State University with a Bachelor of Business
10 Administration degree in Accounting. I am a certified public accountant and a
11 member of the American Institute of Certified Public Accountants and the Idaho
12 Society of Certified Public Accountants. I have over 20 years of experience in the
13 energy industry including time spent in the utility, gas marketing, and exploration
14 and production industries. During my utility career, I have held the positions of
15 Accounting Manager, Director of Accounting and Finance, and Vice President
16 and Controller. I was appointed to my current position in March 2016. I am
17 responsible for providing executive leadership and management for regulatory
18 affairs and customer service including the scheduling and credit and collections
19 functions.

20 **Q. What is the purpose of your testimony in this proceeding?**

21 A. The purpose of my testimony is to explain and support the capital structure and
22 return on rate base requested in this proceeding and provide some insight into the
23 customer service center structure, methodology of sharing customer service costs,

1 results of operations, and efficiencies gained in this area since the purchase of
2 IGC by MDU Resources, Inc. (MDUR).

3 **Q. Please summarize your testimony.**

4 A. In brief, I will provide information that shows:

- 5 • Intermountain’s proposed return on rate base (ROR) provides a reasonable
6 return for our investors at a fair cost to our customers. The ROR is based on a
7 50/50% common equity ratio with a Return on Equity (ROE) of 9.9% and a
8 debt cost of 4.94%.
- 9 • The structure of the customer service function, how the customer service
10 function is charged out to the MDUG brands, efficiencies gained through the
11 organizational structure and implementation of customer focused technology,
12 and how these changes have provided significant savings to Intermountain’s
13 customers.

14 **Q. What is the return on rate base and capital structure that Intermountain is**
15 **requesting in this case?**

16 A. The Company is requesting a return on rate base of 7.42% with a capital structure
17 of 50% equity and 50% debt. The components and calculation of the proposed
18 rate of return are shown in Table C.1.

Table C.1 - Proposed Return on Rate Base

	<u>Capital Structure</u>	<u>Cost</u>	<u>Component</u>
Total Debt	50%	4.94%	2.47%
Common Equity	50%	9.90%	4.95%
	100%		7.42%

1 **Q. The Company is proposing a capital structure of 50% equity and 50% debt.**

2 **Why does the Company feel this is the appropriate capital structure?**

3 A. Intermountain is proposing a capital structure consisting of 50% common equity
4 and 50% long-term debt, consistent with the Company's target capital structure
5 and in line with the Company's average actual capital structure for the last three
6 years and projected structure for 2016. Intermountain's parent company, MDU
7 Resources, makes equity infusions in order to maintain the target capital structure.
8 Intermountain is committed to maintaining a healthy balance of equity and debt,
9 as discussed in the direct testimony of Company witness, Dr. J. Stephen Gaske.
10 Table C.2 below provides a summary of the four-year history of Intermountain's
11 capital structure.

Table C.2 - Capital Structure

	<u>12/31/2013</u>	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>6/30/2016</u>
Total Debt	45.73%	47.60%	52.05%	48.15%
Common Equity	54.27%	52.40%	47.95%	51.85%

12 **Q. How does Intermountain's proposed capital structure compare to that of**
13 **other gas distribution companies?**

14 A. As discussed in Dr. Gaske's testimony, the median equity ratio for the companies
15 in his proxy group of gas distribution companies was approximately 53.80% as of
16 March 31, 2016. As such, Intermountain's proposed capital structure is in line
17 with other gas distribution companies.

18 **Q. Why is the Company proposing a 9.90% return on equity?**

1 A. The Company's request for a 9.90 % ROE is based on the testimony and exhibits
2 presented by Dr. Gaske. It is Intermountain's opinion and belief that a 9.90%
3 ROE represents a fair return on investment for Intermountain's shareholders, and
4 is also fair to Intermountain's customers.

5 **Q. How did you calculate the cost of debt proposed in this filing?**

6 A. The 4.94% cost of debt is calculated based on the weighted average debt of the
7 Company that is outstanding at June 30, 2016, as shown on page 1 of Exhibit 3,
8 and the projected weighted average cost of debt for expected new long-term debt,
9 as shown on page 1 of Exhibit 3.

10 **Q. Will any of the debt included in this filing come due within the next five**
11 **years?**

12 A. Yes, page 1 of Exhibit 3 also shows a schedule of current outstanding debt with
13 maturity dates.

14 **Q. Does Intermountain plan to issue any equity or debt offerings in the near**
15 **future?**

16 A. Yes, Intermountain plans to issue both equity and long-term debt in 2016. The
17 equity and debt issuances planned for the next five years are shown on page 2 of
18 Exhibit 3. The goal in issuing the new long-term debt is to match a funding
19 mechanism with the lives of the assets that Intermountain is investing in to serve
20 its customers. In this case the Company intends on issuing long-term debt with a
21 term of 30 years to coincide with the life of natural gas distribution system assets.

22 **Q. Please describe the current structure of the customer service function of**
23 **Intermountain Gas Company.**

1 A. In 2010 the MDUG went through the process of combining the customer service
2 centers of each of the brands into a single customer service entity providing
3 support to each of the utility group brands. The MDUG chose Meridian, Idaho as
4 the primary location of the service center. The Meridian location is home to the
5 customer service center, customer development and programs group, and the
6 scheduling group. A satellite customer service center is located in Bismarck, ND
7 along with the credit and collections department.

8 **Q. Now that the customer service function has been consolidated into one entity,
9 who do those employees work for?**

10 A. All of the customer service employees working in the areas of customer service,
11 credit and collections, customer development and programs, and scheduling are
12 Montana-Dakota Utilities employees.

13 **Q. How is Intermountain charged for its portion of the customer service
14 expense?**

15 A. The cost allocations of the customer service function are detailed in the
16 Intermountain Gas Company Cost Allocation Manual, which is Exhibit 10,
17 sponsored by Mr. Dedden.

18 **Q. What efficiencies have been gained through the structure and
19 implementation of technology?**

20 A. From an employee head count standpoint, the MDUG has been able to reduce the
21 overall head count in the customer service area. Instead of each brand having its
22 own management team, there is a single management team. Also, prior to
23 combining the service center, each utility brand had its own customer information

1 system. The MDUG has now successfully implemented a new customer
2 information system (CIS) across all of the brands, finishing with IGC in August
3 2015. The CIS implemented is an Oracle project called Customer Care and
4 Billing (CC&B). Having all of our brands on CC&B allows us to cross train our
5 customer service agents so they can handle calls from multiple brands instead of a
6 single brand.

7 **Q. What benefits to Intermountain's customers have resulted from these**
8 **structure changes and technology improvements you just described?**

9 A. Due to the organizational restructuring, process improvements, and new
10 technology implementations, Intermountain has been able to reduce the cost of the
11 customer service function to its customers by nearly \$1.0 million since 2010 to
12 2015. At the same time Intermountain has continued to provide the same, if not
13 better, level of service to its customers.

14 There has also been an economic impact to the Treasure Valley due to the
15 organizational restructuring. Intermountain employed 43 people in its customer
16 service department prior to the consolidation of the customer service operations in
17 Meridian. The Meridian location now employs 165 people, adding significant
18 payroll to the local economy.

19 **Q. How does Intermountain measure the quality of its customer service?**

20 A. Intermountain uses several metrics in analyzing its service to customers, including
21 customer calls, response time, length of call, and number of dropped calls. During
22 2015, the Customer Service office answered 600,298 calls with an overall average
23 answer speed of 49 seconds. The average length of calls was 4 minutes 28

1 seconds, and the abandoned or dropped call rate was 5.4 % of all calls. The
2 Company also tracks customer complaints. Of the 600,298 calls received in 2015,
3 complaints reported to the ID PUC or escalated to a supervisory level relating to
4 high bills and disconnection were only 69 and 175, respectively.

5 **Q. Are there other things the Company is doing in the customer service area?**

6 A. Yes, Intermountain has been a leader in moving customers from paper billing and
7 payments to electronic billing and payment processing. Currently Intermountain
8 issues approximately 19% of the monthly customer bills in electronic form. From
9 June 2015 to June 2016 Intermountain has increased the number of electronic bills
10 issued by approximately 20%. Intermountain currently collects approximately
11 66.5% of its monthly customer payments through the electronic process.

12 Intermountain has also worked hard to reduce the amount of bad debt
13 expense by working with customers on payment plans. Intermountain is
14 projecting a bad debt expense of 0.43% of gross revenue for 2016 which is in line
15 with other gas only utilities in the Mountain region.

16 Intermountain also uses social media as a means to reach and inform our
17 customers. Our Intermountain website, Facebook and Twitter are the primary
18 sources of social media used by the Company.

19 **Q. Do you have any other comments on the customer service provided by**
20 **Intermountain?**

21 A. Yes, only to reiterate what Nicole Kivisto pointed out in her testimony.
22 Intermountain has ranked at the very top in customer satisfaction according to the
23 JD Power's customer service ranking for midsized gas utilities in the West.

