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BEFORE THE IDAHO PUBLIC UTILITES 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 TED DEDDEN

FOR INTERMOUNTAIN GAS COMPANY

August 12, 2016

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

A. My name is Ted Dedden. I am the Accounting & Finance Director of Intermountain Gas Company. My business address is 555 S. Cole Road, Boise Idaho 83707.

Q. Mr. Dedden, would you please summarize your educational and professional experience.

A. I have been with Intermountain Gas Co. for over 3 years, with prior experience with one of Intermountain’s affiliate companies – Cascade Natural Gas Corp. as their Manager, Accounting Systems for three years. Prior to this role, I served in various accounting and finance groups with Puget Sound Energy from 1978 until 2000 in staff and management roles with progressive responsibilities in Plant Accounting, General Accounting, and Division Operations. I am a graduate of the University of Puget Sound with a bachelor’s degree in Business Administration, with an accounting emphasis.

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

A. My testimony describes Intermountain Gas Company’s, (“Intermountain” or the “Company”) unadjusted 2016 test year Rate Base and Income Statement In addition, I will discuss the nature of transactions with affiliated companies during the test year, the costs of which are reflected in test year expenses sponsored by Mr. Jacob Darrington.

Q. Are you sponsoring any exhibits?

A. Yes. In addition to my testimony, I am sponsoring the following exhibits, which are described in herein:

Exhibit No. 06	Unadjusted Rate Base
Exhibit No. 07	Monthly Rate Base Balances
Exhibit No. 08	Unadjusted Income Statement
Exhibit No. 09	Other Revenues
Exhibit No. 10	IGC Cost Allocation Manual
Exhibit No. 11	Affiliate Charges Included in Test Year

I. UNADJUSTED TEST YEAR RATE BASE AND INCOME STATEMENT

Q. What is the Company's proposed test year for this case?

A. Intermountain is proposing a test period ending December 31, 2016, reflecting six months actual, January to June, and six months projected data, July to December.

Q. Please describe the basis for the 2016 projected data.

A. The 2016 projected data was prepared as part of the Company's ongoing budgeting process. It incorporates the Company's best outlook for capital and expense items for calendar year 2016 and the forecasted revenues for that period.

Q. Have any adjustments been made to the forecast to determine the test period rate base and revenue requirement?

A. Yes. Several adjustments to the forecast were necessary to determine the appropriate rate base and expense levels for rate making purposes. These adjustments are discussed by Company witness Jacob Darrington in his testimony.

Q. What is the unadjusted rate base for the test year?

A. As shown on Exhibit 06, page 1, column (b), line 9, the unadjusted rate base for the test period is $235,968,612. It consists of five items; net gas plant in service, materials and supplies inventory, gas storage inventory, accumulated deferred income taxes and customer advances.

Net plant is the thirteen-month average of gross plant less the thirteen-month average of accumulated provisions for depreciation. Added to the net plant amount is materials and supplies inventory and gas storage inventory, both of which are thirteen-month averages. Accumulated deferred income taxes and customer advances are deductions from rate base as they are recognized as an interest-free funding mechanism from ratepayers. Exhibit 07, pages 1-6 show the development of the thirteen-month averages for the items described above.

Q. Please discuss how the forecasted, July to December, amounts were determined.

A. The July to December forecasted amounts are shown on Exhibit 07, pages 1-6, lines 15-25. These amounts were determined as follows:

Gas Plant in Service: is based on forecasted capital expenditures and retirements. On a quarterly basis, department managers review current spending and update future months to determine forecasted capital expenditures and retirements. Then the plant accounting group runs the close out and depreciation process.

Accumulated Provision for Depreciation and Amortization: is based on forecasted capital expenditures and retirements. On a quarterly basis, department managers review current spending and update future months to determine forecasted capital expenditures and retirements. Then the plant accounting group runs the close out and depreciation process.

Plant Materials and Operating Supplies and Undistributed Stores: are based on a three-year historical average.

Gas Storage Inventory: is based on projected boil-off, injections, and withdrawals for the period ending December 31, 2016.

Accumulated Deferred Income Taxes: is based on the Company's approved capital budget and the resultant book-tax timing differences as well as book-tax timing differences on assets previously placed in service.

Advances in Aid of Construction: is based on a historical three-year average.

Q. What are the unadjusted revenues and expenses for the test year?

A. As shown on Exhibit 08, page 1, column (d), line 3, the unadjusted test year total operating revenues are $236,530,903. The unadjusted test year expenses are $235,335,918 as shown on Exhibit 08, page 1, column (d), line 24. This produces a net operating income of $1,194,985 as shown on Exhibit 08, page 1, column (b), line 25.

Q. What are the components of the test year operating revenues?

A. Test year operating revenue consists of gas operating revenue and other revenues. Gas operating revenues are the revenues generated by the sale and transportation of gas under the Company's sale and transportation rate schedules. As shown on Exhibit 08, page 1, column (d), line 1, the unadjusted test year gas operating revenues are $233,637,331. Forecasted, July to December, gas operating revenues from residential and commercial customers are based on forecasted customers, weather-normalized usage per customer amounts, and currently approved rates. Forecasted gas operating revenues from industrial customers are based on currently approved rates and forecasted usage obtained from the Industrial Services Manager, which is primarily based on historical usage. Forecasted Gas Operating Revenues also includes non-regulated sales of liquefied natural gas (LNG) from the Company's Nampa storage facility, which are forecasted based on historical figures.

Q. Will you please explain how you included revenues and cost of gas expenses related to the Cost of Gas Delivered but Unbilled (CGDU) in the presentation of your test year data?

A. Yes. Test year operating revenue and cost of gas expense through June 2016 includes a reduction to revenue of $27.6 million and a reduction to cost of gas expense of $21.2 million due to the effect of CGDU resulting in a gross margin reduction of $6.4 million. This same deficit is removed from the determination of revenue requirement as seen in the testimony of Company witness Darrington. For simplicity, the forecast period July – December 2016 does not include revenue or cost of gas expense related to CGDU.

Q. What Other Revenues did the Company record during the test year?

A. The Company recorded other revenues associated with miscellaneous services, field collection charges, return check charges, account initiation charges, reconnection charges, interest on past due accounts, other miscellaneous non-operating revenues, cash discounts, rents, interest income, Allowance for Funds

Used During Construction ("AFUDC") equity, and non-utility revenues. Forecasted other revenues for the period July to December are based on calendar year 2015. In total, the Company recorded Other Revenues of $2,893,572 during the test year, as shown on Exhibit 08, page 1, line 2, column (d). An itemized listing of other revenues is shown on Exhibit 09, page 1, column (d).

Q. What expenses are included in the Company's unadjusted income statement?

A. The following classification of expenses are included in the Company's income statement:

- Cost of gas;
- Operating and maintenance expenses;
- Depreciation and amortization expenses;
- Taxes Other Than Income Taxes;
- Federal and State Income Taxes; and
- Interest Expenses.

The unadjusted test year levels for these expense items are shown on Exhibit 08, page 1, column (d), lines 5 through 23.

Q. Please discuss the how the forecasted, July to December, amounts were determined.

A. The July to December forecasted amounts are shown on Exhibit 08, page 1, column (c). These amounts were determined as follows:

- <u>Cost of Gas</u>: is based on forecasted customers, weather-normalized usage per customer amounts, and currently approved rates. Cost of gas related to non-regulated sales of LNG is forecasted based on historical data.
- <u>Operation and Maintenance Expense</u>: is forecasted by each department of the Company. Forecasting is done at the object level (i.e. Labor, Contract Service, Materials) and not at a FERC account level (i.e. Transmission

Facilities Operations/Maintenance Expense, Distribution Operations/ Maintenance Expense). In order to obtain the Functional categories (determined by FERC account), the Company used 2015 historical data to allocate the forecasted amounts to the various FERC accounts.

- Depreciation: is based on Idaho PUC approved depreciation rates, assets currently in service, and forecasted capital additions and retirements. Forecasted capital additions and retirements are determined by each department's expectation of future projects to be completed or retired by December 31, 2016.
- Payroll Taxes: are primarily based on total taxable compensation multiplied by a payroll tax rate, 7.5 percent, based on last year’s tax to salary percentage. Payroll taxes related to incentive compensation were calculated on an individual basis. Payroll taxes related to supplemental executive retirement plan payments were forecasted based on history;
- Property Taxes: are based on an annual tax assessment received from Idaho counties in May for the July to June tax period;
- Franchise Taxes: are based on the portion of Company customers that live within city limits of a city that has a 3% franchise tax. Not all Company customers live within city limits, therefore, the forecast is based on a historical realized rate of 2.58% of all revenue;
- Interest Expense: is based on the Company's line of credit, outstanding bonds, and forecasted new long-term debt. The line of credit interest expense is based on a combination of Prime and LIBOR rate estimates provided to the

Company by the MDUR Treasury Department. Interest expense on the Company's outstanding bonds is based on the stated interest rates identified in the terms of each bond issuance; and

- Income Taxes: are based on the statutory federal rate of 35.0% and Idaho rate of 7.4% for an effective tax of 39.81%. The estimate also includes permanent and timing differences.

II. AFFILIATE TRANSACTIONS

Q. Does Intermountain's revenue requirement include costs which are directly or indirectly charged to the Company by affiliated companies?

A. Yes, it does.

Q. Does Intermountain receive charges from MDU Resources Group, Inc. ("MDUR")?

A. Yes. MDUR has several departments that provide services to the operating companies. These departments include:

- Payroll Shared Services;
- Procurement Shared Services;
- Enterprise Technology Service;
- General and Administrative Services.

Q. What services does Payroll Shared Services provide to Intermountain?

A. Payroll Shared Services processes payroll and is also responsible for the preparation, filing and payment of all payroll-related federal, state and local tax returns. Since Intermountain does not have any departments that provide payroll related services, Payroll Shared Services is also responsible for the accumulation of time entry records, and maintenance of employee records for the Company.

Q. Please describe the services provided by Procurement Shared Services.

A. Procurement Shared Services creates and maintains the Corporation's national accounts for the purchase of products, goods and services. The group is also responsible for monitoring the level of services, quantities, discounts and rebates associated with established national accounts. Intermountain places specific purchase requests for required materials and services with approved vendors.

Q. What function does the Enterprise Technology Services provide?

A. Enterprise Technology Services provides policy guidance, infrastructure-related information technology ("IT") functions and security-focused governance.

Q. Is there also a Utility Group IT department?

A. Yes. The Utility Group IT Department is responsible for supporting applications specific to the utility group such as customer care and billing system; financial software; Supervisory Control and Data Acquisition ("SCADA") and mobile applications; Enterprise Geographic Information System ("GIS"), and the project and fixed asset accounting software ("PowerPlan").

Q. What services does the General and Administrative Services function provide?

A. The General and Administrative Services function provides the following services to all MDUR companies:

- Corporate governance, accounting and planning;
- Communications and public affairs;

- Human resources;
- Internal Audit;
- Investor Relations;
- Legal;
- Risk Management;
- Tax and compliance;
- Travel; and
- Treasury Services.

Q. How are the costs of the General and Administrative Services function billed to the MDUR companies?

A. Costs that directly relate to a business unit are directly assigned to that business. The remaining unassigned expenses are allocated to the operating companies using the corporate allocation methodology.

Q. Please describe the corporate allocation methodology.

A. The allocation factor is developed to apportion unassigned administrative costs via a capitalization factor based on the 12-month average capitalization at March 31. Capitalization includes total equity and current and non-current long-term debt (including capital lease obligations).

Q. Are there other affiliated costs that are allocated to or from Intermountain?

A. Yes. There are certain affiliate-owned assets, such as the General Office/Annex facility, that are used for the benefit of all MDUR operating companies. To cover the cost of ownership and operating costs associated with these owned assets, a revenue requirement (i.e., asset return plus annual operating expenses) is computed for the shared assets. The resulting revenue requirement is billed to the other MDUR operating companies as a monthly fee. The costs are allocated based on the number of customers served by each utility.

Q. Does Intermountain own facilities that are billed to other MDUR companies?

A. Yes. Intermountain owns the Customer Care Center located in Meridian, ID. The revenue requirement associated with that facility is billed to Montana-Dakota/Great Plains and Cascade as a monthly fee.

Q. How are the amounts billed to affiliated companies associated with the customer care center reflected in Intermountain's determination of its revenue requirement in this proceeding?

A. Revenues from affiliate billings for the Customer Care Center are included in Other Operating Revenues (Account 488).

Q. Are there departments at Montana-Dakota/Great Plains that provide services to each of operating companies?

A. Yes. These departments include:

- Leadership Group – composed of the Executive Group and Directors that oversee shared utility specific functions;
- Customer Services – include such functions as the call center, scheduling and online services;
- Information Technology and Communications – provides services associated with Management Information Systems, Technology and Compliance;
- Administrative Services – provides such functions as procurement, office services, and fleet operations;

- Gas Supply and Control.

Q. How are the costs associated with these services billed to the individual operating utilities?

A. The groups have calculated methodologies to allocate the costs to the utility companies based on services performed for each utility company.

Q. Have you prepared an exhibit, which summarizes the nature and level of such charges?

A. Yes. Exhibit No. 10 is the Company's cost allocation manual which provides details of the services and the allocation methodology. Exhibit No. 11 provides a summary of affiliated charges included in the Company's revenue requirement.

Q. Does that complete your direct testimony?

A. Yes, it does.