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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 SCOTT MADISON

FOR INTERMOUNTAIN GAS COMPANY

August 12, 2016

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

2 A. My name is Scott Madison.

3 **Q. By whom are you employed and in what capacity?**

4 A. I am Executive Vice President, Western Region, Operations and Business
5 Development, for Intermountain Gas Company (“Intermountain” or the
6 “Company”) and Cascade Natural Gas Corporation (Cascade). Intermountain and
7 Cascade are wholly owned subsidiaries of MDU Resources Group, Inc. (MDU
8 Resources) headquartered in Bismarck, North Dakota. Intermountain is
9 headquartered in Boise, Idaho and Cascade is headquartered in Kennewick,
10 Washington.

11 **Q. Please describe your educational background and professional experiences.**

12 A. I am a graduate of the University of Idaho with a Bachelor of Science degree in
13 Accounting. I have participated in several executive education programs,
14 including attending executive education at the Harvard Business School. I am a
15 Director of the Northwest Gas Association and the Western Energy Institute. I
16 am Chairman Elect and a member of the Executive Committee of the Idaho
17 Association of Commerce and Industry, and the Boise Metro Chamber of
18 Commerce, and am the former President of the Idaho Petroleum Council. I have
19 served as Chairman of the Board for the Better Business Bureau of Idaho.

20 **Q. Please describe your work experience.**

21 A. I served as Vice President, Controller and Chief Accounting Officer for
22 Intermountain Industries and each of its subsidiaries from 1997 to 2008. From
23 1987 to 1997 I was a Senior Manager with Arthur Andersen LLP. I am a

1 Certified Public Accountant and a member of the American Institute of Certified
2 Public Accountants and the Idaho Society of Certified Public Accountants.

3 **Q. Please describe your duties for Intermountain and Cascade.**

4 A. I oversee the day-to-day operations of both utilities. My office is located here in
5 Boise.

6 **Q. Please provide a brief overview of the Company.**

7 A. Intermountain provides natural gas distribution services to 75 communities in
8 Idaho, with 243 dedicated employees. During 2015, Intermountain had an average
9 of 334,650 customers in Idaho and the Company's headquarters are located in
10 Boise, Idaho. Intermountain was incorporated in Idaho in 1950, and in 2008
11 became a wholly owned subsidiary company of MDU Resources.

12 **Q. What is the purpose of your testimony?**

13 A. First, I will introduce the other witnesses providing testimony on the Company's
14 behalf. My testimony will then summarize the Company's rate increase request,
15 identifying the primary drivers behind the need for rate relief. Specifically, I will
16 explain how customer growth has helped push Intermountain into needing a
17 general rate increase. I will compare the Company's existing retail rates with
18 other similarly situated utilities. I am also available to answer questions of a
19 general nature.

20 **Q. Would you please introduce and provide a brief description of each of the
21 witnesses filing testimony on behalf of Intermountain in this proceeding?**

22 A. Yes. In addition to me, the following witnesses have, or will, present direct
23 testimony on behalf of Intermountain:

1 Ms. Nicole A. Kivisto, President and Chief Executive Officer (CEO) of
2 Intermountain, has provided an overview of the Company and its relationship
3 with other MDU Resources' companies and MDU Utilities, and the economies of
4 scale savings this interrelationship brings to Intermountain. Ms. Kivisto
5 summarized the need for rate relief and highlighted the importance of attracting
6 the necessary capital investment needed to build and maintain the Company's
7 infrastructure.

8 Mr. Hart Gilchrist, Vice President of Operations, will explain how a gas
9 company operates, will present evidence regarding the Company's operations and
10 maintenance expenses and share the results of the A&G cost study and point out
11 how Intermountain's A&G costs compare to other companies as well as compared
12 to pre and post-acquisition by MDU Resources. Mr. Gilchrist will also discuss
13 Intermountain's investment in natural gas infrastructure.

14 Mr. Steve Gaske, Senior Vice President of Concentric Energy Advisors,
15 will testify as to the Company's cost of capital and present studies that support his
16 recommended fair rate of return on Intermountain's common equity.

17 Mr. Mark Chiles, Vice President, Regulatory Affairs and Customer
18 Service, will address the company's capital structure, the proposed cost of
19 embedded debt, and the overall rate of return. He will also discuss
20 Intermountain's commitment to outstanding customer service.

21 Mr. Ted Dedden, Director, Accounting and Finance for the Company, will
22 address Intermountain's unadjusted rate base and earnings as well as the cross
23 charges between affiliate companies.

1 Mr. Jacob Darrington, Regulatory Analyst, will present Intermountain’s
2 regulated rate base and will calculate the Company’s regulated current revenue
3 deficiency.

4 Mr. Branko Terzic, Managing Director, Berkley Research Group, will
5 present testimony in support of the Company’s proposal to increase customer
6 charges to the residential and commercial markets, implement a demand charge
7 for the Company’s industrial customers and the reasons supporting the
8 implementation of the Company’s proposed fixed cost collection mechanism
9 (FCCM).

10 Ms. Lori Blattner, Senior Regulatory Analyst, will present the Company’s
11 Cost of Service study (COS) and will discuss other proposed changes to both
12 residential and general service rates and tariffs.

13 Mr. Dave Swenson, Manager of Industrial Services for Intermountain, will
14 explain proposed changes for the Company’s industrial tariffs that will provide an
15 incentive for economic development and industrial expansion within the
16 Company’s service territory.

17 Mr. Dan Kirchner, Executive Director of the Northwest Gas Association,
18 will discuss the current electric industry shift from coal to natural gas fired power
19 plants, and the comparative benefits of direct use of natural gas versus electricity,
20 for space and water heating.

21 Ms. Allison Spector, Manager of Conservation Policy for the Company
22 and Company affiliates, will discuss the development of Intermountain’s
23 proposed energy efficiency and demand side management programs.

1 Ms. Cheryl Imlach, Manager of Energy Utilization for the Company, will
2 discuss the implementation of Intermountain's proposed demand side
3 management programs to include the proposed program tariffs.

4 Mr. Michael McGrath, Director, Regulatory Affairs, will discuss the
5 history of the Company's general rate cases before the Commission and will
6 introduce the Company's proposal to implement a fixed cost collection
7 mechanism (FCCM). Mr. McGrath will also present the proposed tariff changes.

8 **Q. Do you have an initial observation regarding this rate case filing and general**
9 **rate increase request?**

10 A. Yes. Intermountain faces many challenges in running a natural gas distribution
11 business, which challenges include maintaining a safe and reliable distribution
12 system for a growing customer base, installing new and expensive customer care
13 and billing system, and significant capital spending and associated depreciation
14 expense related to replacing core infrastructure. Despite these expense related
15 challenges, the Company has been able to provide to its customers the lowest
16 natural gas prices in the region, if not the country, and to avoid for several
17 decades having to file a general rate increase.

18 **Q. Would you please summarize Intermountain's requested increase in this**
19 **filing?**

20 A. Increasing rate base and operating expenses require Intermountain to request a
21 rate increase of \$10,165,700, or 4.04%. This increase is based on an overall rate
22 of return of 7.42 % with a capital structure common equity component of 50 %
23 and a return on equity of 9.90 %. The Company is using a 2016 test period that is

1 six months actual and six months forecast. Based on an average annual usage
2 level of 747 therms per year, the average RS-2 residential customer will see a bill
3 increase of \$2.31 per month, from \$46.83 to \$49.14.

4 **Q. When was the Company's last general rate filing?**

5 A. 1985.

6 **Q. What are the Company's current residential and commercial rates, the
7 proposed rates in this case, and the percentage rate increases by class?**

8 A. Table M.1 below shows the Company's percentage rate increase request for
9 Intermountain's different rate schedules.

10

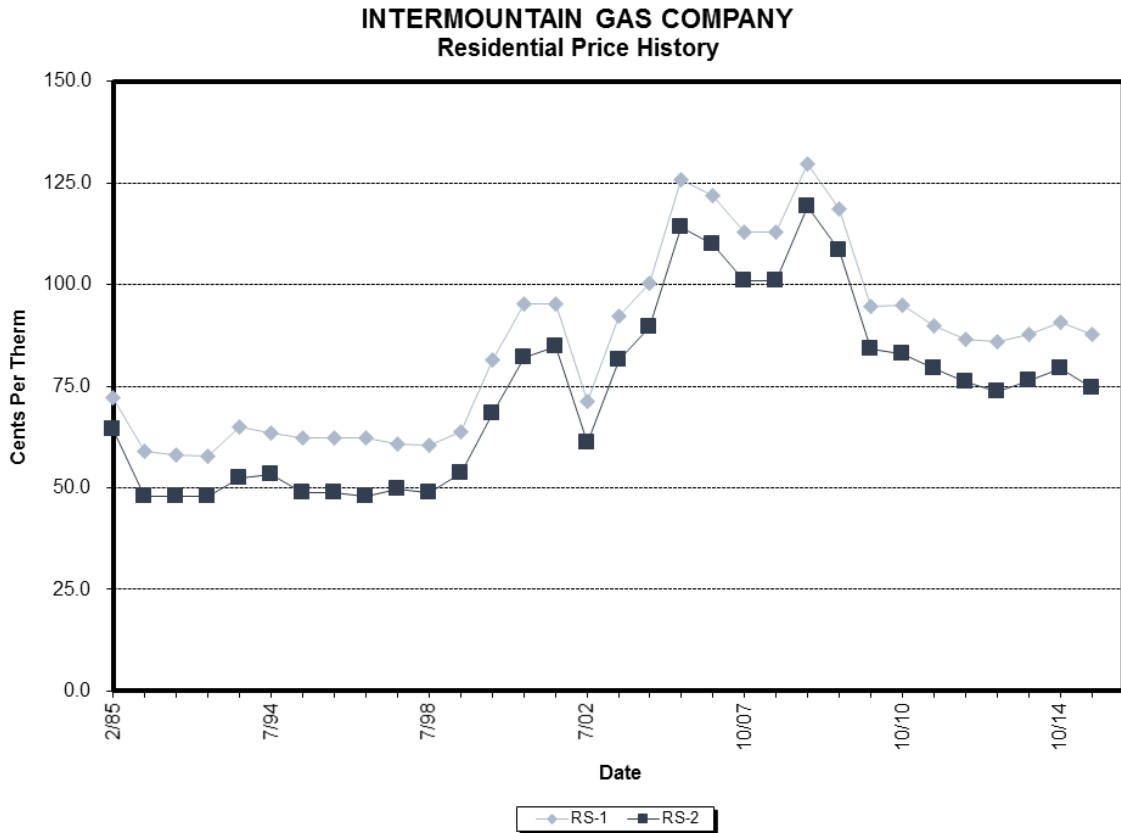
Table M.1

Rate Schedule	Current Rate	Proposed Rate	% Increase	\$ Monthly Increase
RS-1 Residential	\$0.89/Therm	\$0.92/Therm	3.26%	\$1.16
RS-2 Residential	\$0.75/Therm	\$0.79/Therm	4.93%	\$2.31
GS-1 General Service	\$0.69/Therm	\$0.73/Therm	6.29%	\$12.16

11 **Q. What has been the Company's history of rate changes over the last ten years,
12 and what has been the primary driver of those rate changes?**

13 A. Shown below on Table M.2 are rate histories for Intermountain's residential
14 customers from 1985 through 2016. As the Company has not filed a general rate
15 increase request since 1985, the retail residential rate decreases occurring from
16 2007 through 2016 are entirely a result of the drop in the wholesale price of gas.

Table M.2

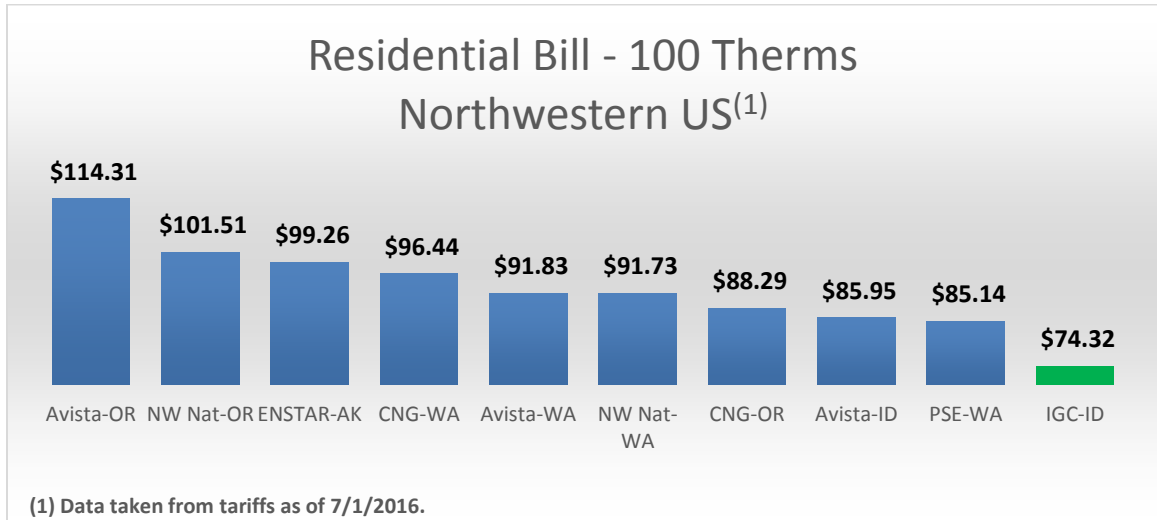


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3 **Q. How do Intermountain’s retail rates compare to other natural gas utilities?**

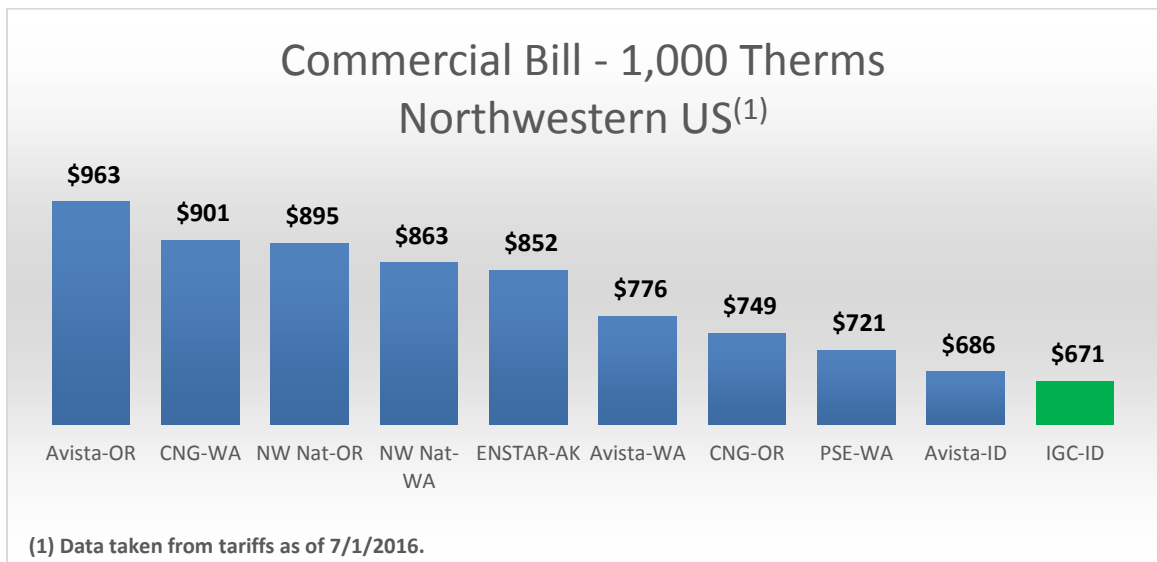
4 A. The company has worked hard to manage its business for the benefit of its
 5 customers since its last general rate case, which was over thirty years ago. This
 6 hard work has resulted in some of the most affordable residential prices in the
 7 Western U.S. Tables M.3.1 and M.3.2 below, which were prepared at my
 8 direction and are based on tariff reviews as of July 2016, compare
 9 Intermountain’s residential and commercial rates to residential and commercial
 10 rates of other gas utilities in the Northwest.

1 **Table M.3.1– Comparison of IGC Residential Rates to other Northwest LDC Rates**



2

3 **Table M.3.2– Comparison of IGC Commercial Rates to other Northwest LDC Rates**



4

5 As shown on Table M.3.1, comparing residential bills for 100 therms consumed,
6 Intermountain had the lowest bill out of ten different gas utility bills surveyed for
7 utilities in the Northwestern U.S. (Alaska, Idaho, Oregon, and Washington).

8 Table M.3.2 shows the same results regarding commercial gas utility rates, where
9 the Company had the lowest bill out of ten for 1,000 therms consumed. The

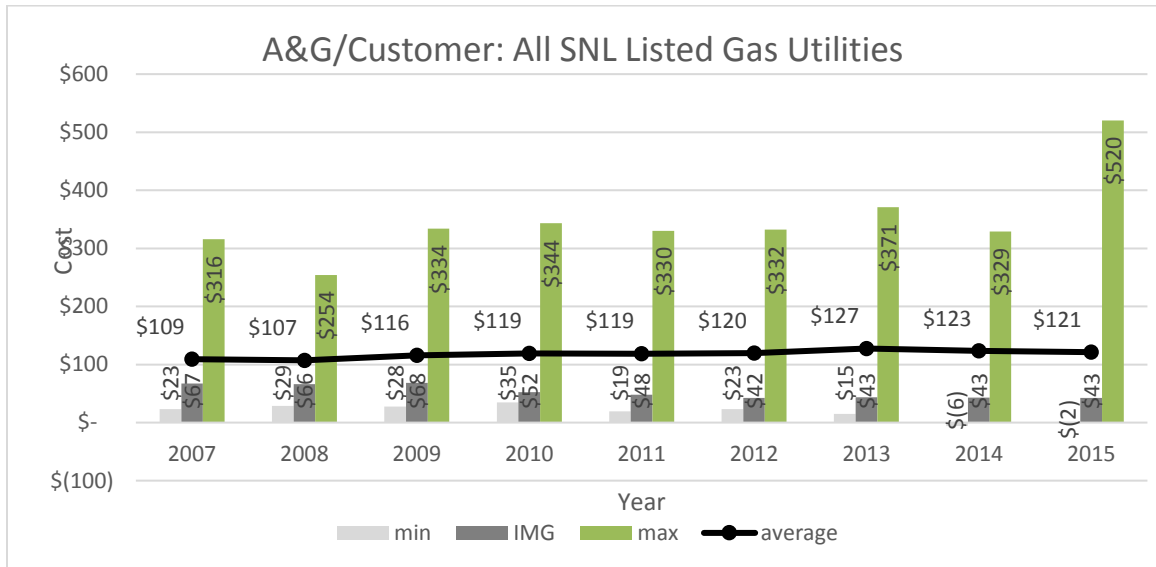
1 metrics shown on Tables M.3.1 and M.3.2 validate the Company's commitment
 2 to managing its business for the benefit of its customers.

3 **Q. How do Intermountain's A&G expenses compare to other natural gas**
 4 **utilities?**

5 As shown on Tables M.4.1, M.4.2 and M.4.3 Intermountain's A&G expenses, on
 6 a per customer basis, are consistently well below the average expense level of all
 7 gas utilities, regional gas utilities, and like sized gas utilities included in the SNL
 8 data base.

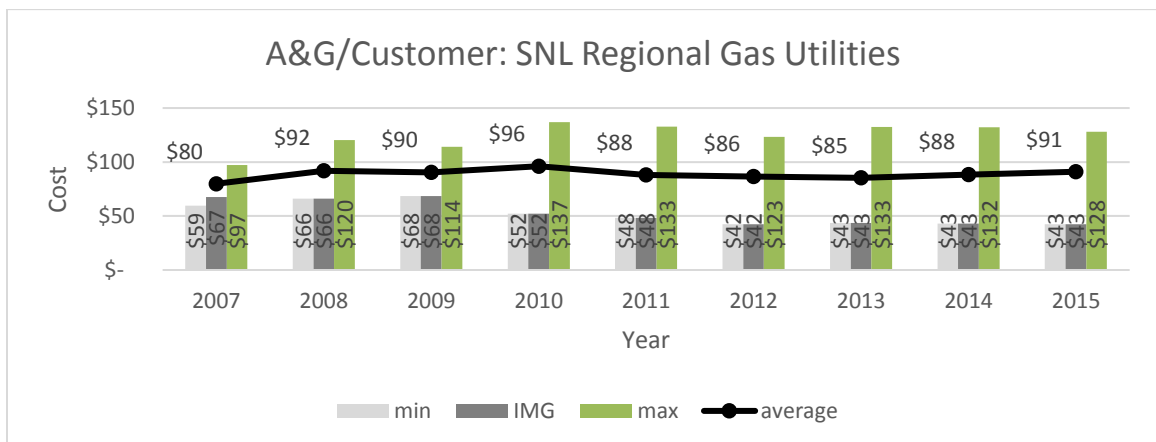
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Table M.4.1



10
11

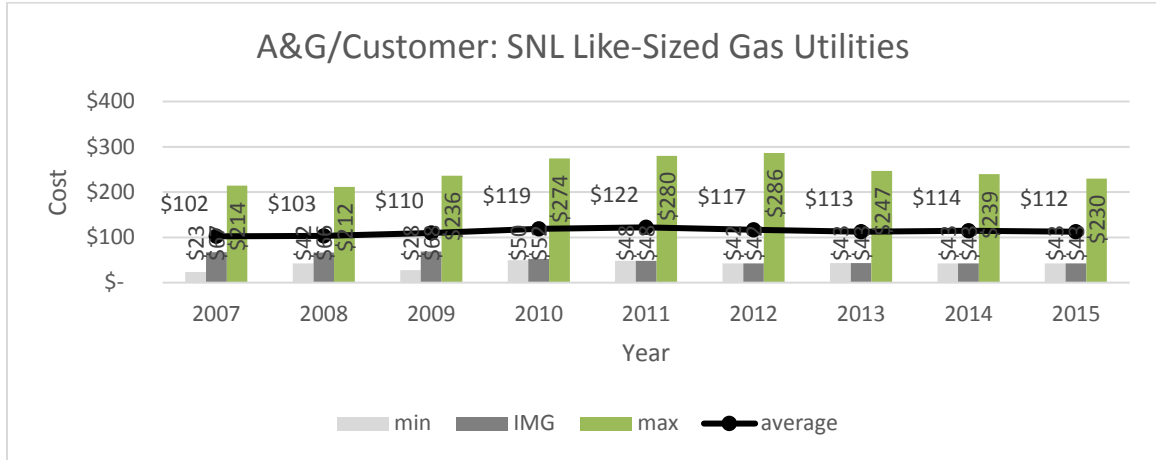
Table M.4.2



12

1

Table M.4.3



2

3 **Q. Is the Company proposing any rate changes in this case related to the**
 4 **wholesale cost of natural gas?**

5 A. No, Intermountain is not proposing changes in this filing related to the commodity
 6 cost of natural gas or upstream pipeline transportation costs. Changes in the
 7 commodity/wholesale cost of natural gas and transportation costs included in
 8 customers' rates are addressed in the Company's annual Purchased Gas Cost
 9 Adjustment (PGA) filing, which is occurring simultaneously with the filing of this
 10 case. The concurrent PGA filing, if approved, will result in about a 6 % rate
 11 reduction for Idaho customers. In other words, the PGA downward rate
 12 adjustment is greater than the base rate increase proposed in this case, and the net
 13 rate effect of the two filings, on their face, is an approximate 2 % rate reduction
 14 for our customers.

15 **Q. What are the factors causing Intermountain's request for a base rate**
 16 **increase in this filing?**

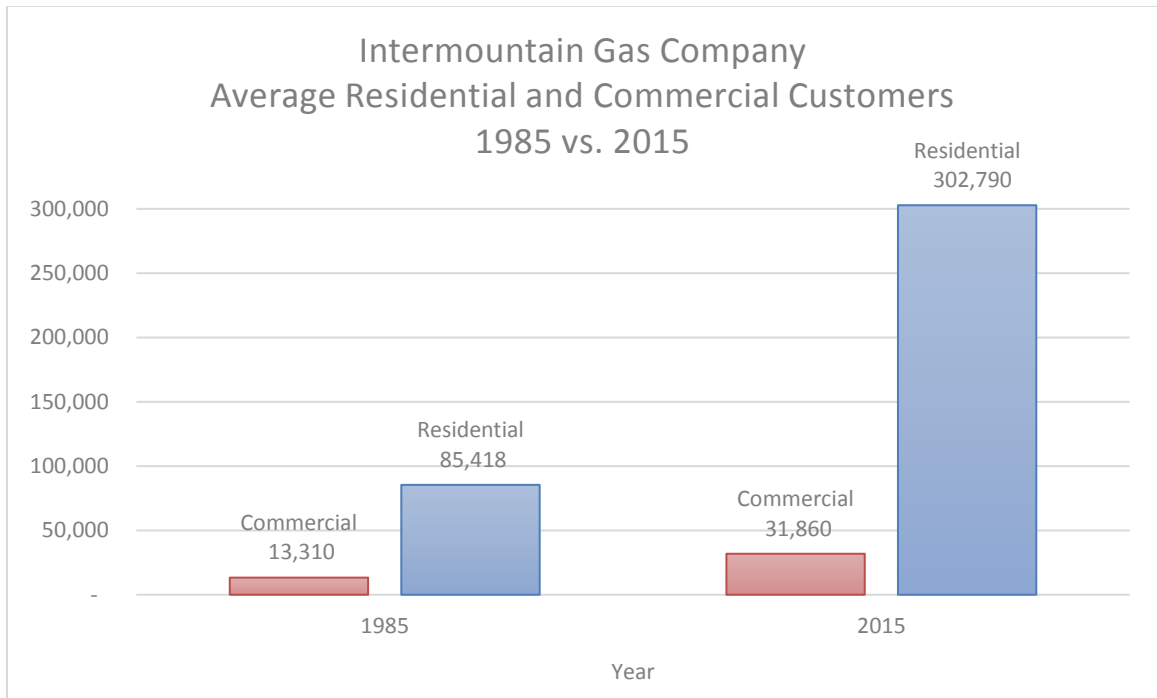
17 A. Primarily, customer growth. Because of this growth, the Company's rate base and
 18 depreciation expenses are growing, along with concurrent increases in operating

1 costs necessary to serve this growing customer base. In addition to growth
2 stimulated investment and expenses, Intermountain is also needing to replace
3 information and technology systems that are primarily customer service related.
4 Another reason for the Company's increasing operating expenses relates to the
5 regulatory demands associated with pipeline safety regulations and compliance.

6 **Q. You mentioned that growth is a significant cost driver for this rate increase**
7 **filing. Could you explain that reason in greater detail?**

8 A. Absolutely. Below is a table that charts customer growth in the Company's
9 service territory that has occurred between 1985 and 2015.

10 **Table M.5– 1985 – 2015 Customer Growth**



11

12 **Q. Is Customer growth important for the Company and the state of Idaho?**

13 A. Yes. From a Company perspective, customer growth is important in allowing
14 Intermountain to spread its fixed costs more broadly and lower the per-customer
15 fixed cost component of rates. I also consider customer growth for the Company

1 to be a key indicator of a growing, healthy and diversified state economy.

2 Company witness Dave Swenson has additional testimony on this topic, on how
3 Intermountain could play a role in helping expand the Company's customer base
4 and contribute to growing the state's economy.

5 **Q. You mentioned that growth allows the Company to spread fixed costs more**
6 **broadly among customers. If that is true, why is growth also a driver of this**
7 **rate increase request?**

8 A. Primarily because of Intermountain's investment in non-revenue generating
9 infrastructure, such as pipeline expansion and replacement. There are little or no
10 additional revenues associated with the Company having to replace pipe that is at
11 or nearing the end of its useful life, or where we have to replace a four-inch pipe
12 with an eight-inch pipe, because the smaller diameter can no longer meet the
13 transportation demand at that point in the system. Similarly, there is no additional
14 revenue generated as a result of Intermountain's heavy investment in customer
15 care systems and information technology.

16 **Q. Please summarize the Company's proposal in this filing for a fixed cost**
17 **collection mechanism?**

18 A. As discussed in much greater detail by Company witness Mike McGrath and
19 Intermountain's consultant on this topic, Mr. Branko Terzic, the Company is
20 proposing a fixed cost collection mechanism (FCCM) that would break the link
21 between therm sales and revenues. The FCCM removes both the financial
22 disincentive to promote energy efficiency, as well as the incentive for the
23 Company to increase earnings by promoting gas usage. The FCCM would allow

1 Intermountain to partner more effectively with customers and other stakeholders
2 to support conservation efforts, without the conservation efforts having a negative
3 impact on the Company's recovery of utility fixed costs. The Company is
4 proposing that these mechanisms become effective March 1, 2017.

5 **Q. Does this conclude your direct testimony?**

6 A. Yes. Thank you.