BEFORE THE

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IN THE MATTER OF INTERMOUNTAIN GAS COMPANY'S APPLICATION FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR NATURAL GAS SERVICE IN THE STATE OF IDAHO	))))))	CASE NO. INT-G-22-07

DIRECT TESTIMONY OF MICHAEL LOUIS IN SUPPORT OF THE SETTLEMENT STIPULATION

IDAHO PUBLIC UTILITIES COMMISSION

MAY 17, 2023

Q. Please state your name and business address for the record.

A. My name is Michael Louis. My business address is 11331 W. Chinden Blvd., Ste. 201-A, Boise, ID 83714.

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

A. I am employed by the Idaho Public Utilities Commission ("Commission") as the Engineering Section Program Manager.

Q. What is your educational and professional background?

A. Please see a summary of my educational and professional background in Exhibit No. 101.

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

A. The purpose of my testimony is to describe the proposed comprehensive Stipulation and Settlement ("Settlement") and explain Staff's support.

Q. Please summarize your testimony.

A. The proposed Settlement would provide a base rate revenue increase of 2.75% or $3.05 million on June 01, 2023.[1] Based on Staff's comprehensive review of

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[1] On page 9 of the Settlement, it states that the increase in revenue requirement reflects a 2.75% "overall" increase as illustrated in Exhibit 1 of the Settlement. This percentage and what is reflected in Exhibit 1 is the base rate revenue increase not an overall increase since an overall increase would include the cost of gas which is in the Company's Purchased Gas Adjustment Rate.

Intermountain Gas Company's (" Company" or "Intermountain") Application, a thorough audit of the Company's books and records resulting in a detailed identification of adjustments to the revenue requirement, an extensive negotiation with the intervening parties in the case, and thoughtful consideration of the alternative to settlement, Staff believes that the proposed Settlement is in the public interest, is fair, just, and reasonable; and should be approved by the Commission.

Q. How is your testimony organized?

A. My testimony is structured under the following sections:

I. Background

II. Staff Investigation

III. The Settlement Process

IV. Staff Support for the Settlement

A. Revenue Requirement

B. Allocation of the Revenue Requirement

C. Rate Design

D. Other Terms and Conditions

Background

Q. Please provide an overview of the Company's Application?

A. The Company filed its Application on December 1, 2022, requesting a $11.3 million increase in base rate recovery or an increase of 10.3%. On March 9, 2023, the Company filed an amended Application adjusting the increase to $6.8 million or a base rate revenue increase of 6.9%. The Company proposed an overall rate of return ("ROR") of 7.37% and a Return on Equity ("ROE") of 10.3%.

The Company's proposed changes were based on a 2022 test year, with actuals from January through September 2022 and estimates from October through December 2022, which the Company updated with actuals in early March 2023.

The Company proposed movement towards cost of service based on their cost-of-service study ("COSS"). As proposed, under-allocated Residential Customers were limited to 125% of the total relative system increase, while the highest over-allocated customers, interruptible Transport Customers, were limited to 25% of the overall system increase. All other customers were proposed to receive the remainder of the increase at 53%.

Finally, the Company proposed changes in customer charges, increasing Residential Customer charges from $5.50 to $9.00 and $8.00 for Residential and interruptible Residential Customers, respectively; increasing General Service Customer charges from $9.50 to $15.00 for both General Service and interruptible General Service Customers; and establishing customer charges where none currently exist of $150.00 for Large Volume and firm Transport Service Customers and $300.00 for interruptible Transport Customers. The Company also proposed changes in the rate block thresholds for Large Volume Customers reducing them so that they are relevant to historic usage patterns.

Q. How was the case processed after the case was filed?

A. The Commission issued Notices of Application and Intervention and granted intervenor status to the Alliance of Western Energy Consumers ("AWEC"), the City of Boise, and the Idaho Conservation League ("ICL"). The Commission approved a procedural schedule and a settlement conference was held on March 30th and 31st. A comprehensive Settlement was reached by all parties and a motion to approve it was filed with the Commission on April 5, 2023.

Staff's Investigation

Q. Could you please describe Staff's investigation leading up to the settlement conference?

A. Yes. Staff's approach prior to the settlement conference was to comprehensively review the Company's filing to identify adjustments to the revenue requirement request and make recommendations for allocation of the revenue requirement and rate design in preparation to file testimony for a fully-litigated proceeding. Four auditors, five utility analysts, and one engineer were assigned to the case and submitted over 120 discovery requests to investigate all aspects of the case. Staff performed an on-site audit on January 26 and 27 and on March 1 through the 3rd, and held several electronic meetings with the Company to conduct its investigation.

For the revenue requirement, the four auditors reviewed the test year results of operations, O&M expenses, capital budgets and spending, and verified thousands of calculations and assumptions related to labor expenses, incentive plans, employee benefits and pension expenses to ensure an appropriate level of expenditure. In addition, an auditor performed an extensive analysis of the cost of capital and capital structure.

In addition to the auditors, four of the utility analysts and the engineer assigned to the case performed an extensive review of capital projects to determine if the projects included for recovery were prudently incurred. They also reviewed several of the miscellaneous proposals included in the filing such as updating the credits for non-utility LNG sales and resolution of in-person pay station transaction fees.

One utility analyst was assigned to review the normalization of consumption, cost of service, and rate design. Because of the number of issues related to normalization of consumption and cost of service, the Company and Staff met on several occasions prior to the case being filed to improve what was filed in this case. Staff also worked with the Company to completely redesign the Company's line extension policy that was at issue in the last general rate case so it was no longer an issue in this case.

<u>The Settlement Process</u>

Q. Can you describe the process used during these settlement negotiations?

A. Yes, I can. The Settlement conference was conducted on March 30th and 31st of 2023 with all intervening parties in attendance. Each party described and provided justification for its proposed revenue requirement adjustments, and positions for consumption normalization, cost of service, rate design, or other issues. Questions and discussions occurred prior to adjourning for the day.

At the start of the second day meeting, the Company presented their counter proposal for the revenue requirement. Time was given for intervening parties and Staff to evaluate and discuss the proposal. Negotiations continued until the parties reached a compromise on a tentative revenue increase of $3.05 million.

After an agreement on the revenue requirement was reached, the only two open issues identified from the previous day was the allocation of the revenue requirement and Company proposed changes to customer charges. With consideration of the COSS results, it was agreed that the Company's proposals on movement towards cost of service was reasonable.

Regarding changes to customer charges, each party was able to restate their preferences and reasons for their position. After negotiation, small changes were made to the Company's proposal and agreed upon by all parties.

Q. Were there other issues discussed during the settlement?

A. Yes. Several issues were identified during the discussions that would improve future rate cases. Action items were identified for inclusion in the agreement.

Staff's Support for the Settlement

Q. How did Staff determine that the overall Settlement was reasonable?

A. In every settlement evaluation, Staff and other parties must determine if the agreement provides a better overall outcome than could be expected at hearing. Staff looked at each revenue requirement adjustment and other issues under consideration and determined that the overall agreement was as good or better than what could be expected by fully litigating the case. All intervening parties to the case, including other customer groups and those representing customers with environmental interests, agreed to support or not oppose the Settlement.

In addition, Staff evaluated the issues from the last general rate case (INT-G-16-02) including: inadequately justified rate case expenses from the 2016 general rate case, the lack of a load study for determining cost of service, issues related to normalization of consumption, updating the Company's line extension policy, and treatment of in-person payment transaction fees. These issues were addressed through the Company's Application, efforts prior to filing the Application, or as part of the Settlement.

Revenue Requirement

Q. Please describe the terms of the Settlement agreement regarding the revenue requirement.

A. Under the terms of the Settlement, the Company would receive a $3.05 million or 2.75% base rate revenue increase effective on June 01, 2023. This represents $8.25 million in total adjustments to the revenue requirement compared to the Company's $11.3 million initially proposed increase. The parties agreed to a 9.50% return on equity ("ROE"), which is a reduction of 80 basis points from the Company's proposed 10.3% ROE.

Q. Can you explain why Staff believes the 9.5% ROE is reasonable?

A. Yes. Staff believes a ROE of 9.5% is reasonable because it is within the range of reasonableness established by Staff as part of its ROE evaluation. It is consistent with authorized ROEs for other electric and gas utilities operating nationally and in the Northwest. It is also consistent with the Commission's most recent authorization of a 9.5% ROE in Order No. 35692, issued March 1, 2023, for Gem State Water Company. A 9.5% ROE should allow the Company to maintain its ability to attract new capital from equity markets to finance capital investments to grow and maintain its operations.

Q. Other than ROE, can you describe Staff's adjustments to the Company's proposed Revenue Requirement Staff identified through its investigation prior to Settlement?

A. Yes. Besides the adjustment for ROE, Staff identified 16 additional Revenue Requirement adjustments. Three of the items were adjustments to rate base while the remaining 13 adjustments were expense related.

The rate base items included assets Staff believed were not used and useful by the end of the test year and infrastructure that should be offset by contributions-in-aid-of-construction payments from customers.

The largest expense items included: removal of pay increases beyond the test year; removal of incentive payments for non-executive employees Staff believed were being paid to increase shareholder value rather than for the benefit of customers; removal of several credit card transactions and other miscellaneous expenses; an adjustment for costs of the multi-year corporate Maximo information technology project due to realization of benefits not likely to occur until more of the project is implemented; adjustments for parent company (MDU Resources) expenses and affiliate transactions Staff could not tie to benefits realized by Intermountain's customers; and adjustments to rate case expenses inadequately justified or improperly amortizing over a reasonable period.

Q. Why does Staff believe the revenue requirement is reasonable?

A. Staff has a good understanding of the adjustments that the Commission typically supports based on experience in past cases and a good understanding of regulatory cost-of-service principles. Staff assessed the likelihood that each adjustment would be accepted by the Commission and determined a target range it believed would be acceptable for settlement. Only if the proposed revenue requirement in settlement was within that range, Staff would proceed with the settlement and filing with the Commission. Otherwise, Staff would be inclined to walk away from the negotiations and allow the case to go to hearing.

Consumption Normalization

Q. Does Staff support the Company's normalization of the test year consumption used for billing determinants in rates and normalization of the test year revenue in the revenue requirement included in the Settlement?

A. Yes. Staff believes the Company's proposed normalized consumption used in the Settlement is reasonable based on the methods used to weather normalize test year consumption.

Q. Was consumption normalization an issue in the last general rate case?

A. Yes, it was. There were significant issues Staff identified including issues with the data used in the linear regression model to weather normalize the test year consumption and several issues with the model itself.

Q. Were these issues resolved?

A. Yes. Staff and the Company met several times between the last rate case and when this case was filed. Almost all of the issues Staff identified were resolved and those improvements were included in the Company's Application. There were a couple of issues in this case that Staff identified in the proposed model to improve its accuracy, but the Company's resulting weather normalized consumption was well within an acceptable level of error.

Q. Please characterize these issues in the model.

A. Staff identified modifications to the model that would improve its accuracy. Without these modifications, it could push the results to an unacceptable level of error in a future rate case under different circumstances. Staff proposed these items be addressed in a workshop after this case has concluded in preparation for the next general rate case.

<u>Allocation of the Revenue Requirement</u>

Q. Does Staff support the class allocation of the revenue requirement that is used in the Settlement?

A. Yes. Staff believes the Company's proposed movements towards cost of service for the various classes and adopted in the Settlement is reasonable for three reasons.

First the COSS submitted with the Application was based on a recent load study. Lack of a recent load study was the most important reason why the Company's COSS was not used in the previous general rate case.

Second, the COSS utilized accepted methods for separating the costs each class of customers cause in the Company's system so that the parties could determine how far each class is from paying their equitable share of the Company's costs based on present rates.

Finally, Staff believes that the method, as described earlier in my testimony, struck a good balance of making movements towards each class's cost of service while maintaining the Commission's past values of gradualism when changing rates.

<u>Rate Design</u>

Q. Does Staff support changes in the rate design included in the Settlement?

A. Yes. Staff believes that the increases in the monthly customer charge in customer's bills negotiated and accepted by the parties to the Settlement and the reductions in Large Volume Customer rate block thresholds proposed in the Company's Application also included in the Settlement are reasonable.

Q. What changes to the customer charge were included in the Settlement?

A. The parties agreed to the increases in the customer charge and establishment of new customer charges included in Company's Application, with the exception of the customer charge for firm Residential Customers. The parties agreed to increase the charge to $8.00 per bill rather than $9.00 as proposed by the Company.

Q. Why does Staff support the increase in the customer charges in the Settlement?

A. Staff believes the increases in customer charges to be reasonable for several reasons. Customer charges should be based on fixed costs. Concerns regarding reducing the incentive of energy efficiency by decreasing the amount of cost recovered through the volumetric rate are not as relevant in the Company's rate structure as they are in other utility rate structures. The Company's rate structure is bifurcated with all of the short-term variable costs associated with the cost and transportation of gas being recovered through the Purchased Gas Adjustment ("PGA") filing, which are 100% recovered through a volumetric rate. Most of the cost included in the Company's base rates and subject to examination in this case are fixed costs over the short term and do not vary based on the amount of the gas commodity sold. However, customers may not differentiate the price signals of different rates within their utility bills, so there could be some reduction in the incentive to conserve.

On the other hand, increasing the customer charge provides the Company with more stable recovery of its fixed costs, which vary little throughout the year. This is especially important for gas utilities which see significant swings in their seasonal revenue streams from winter space heating. Staff believes the modest increases in the customer charge for all customer classes strike a balance.

Q. Does Staff support the changes in the Large Volume Customer rate block thresholds?

A. Yes. The usage patterns of existing Large Volume Customers make the current rate block thresholds irrelevant since none of the Large Volume Customers approach the threshold amounts in the current rate blocks with the peak amount of gas they consume. Staff believes the new rate block thresholds are reasonable given the class's current usage patterns.

Other Terms and Conditions

Q. Are there other terms and conditions not already discussed that Staff supports?

A. Yes. Additional terms include: 1. Company action items to provide access to information on costs and the allocation of those costs from its parent Company and affiliates prior to the next rate case; 2. resolution of issues related to in-person pay station transaction fees; and 3. changes to non-utility LNG Sales credits.

Q. Does Staff support the action items related to access to and allocation of corporate affiliate costs included in the Settlement?

A. Yes. Through Staff's initial investigation, Staff questioned the allocation of costs from MDU resources and affiliates because of a lack of access to the information. Staff believes these action items should resolve these issues in the next general rate case.

Q. Does Staff support the resolution of issues related to in-person pay station transaction fees accepted in the Settlement?

A. Yes. The Company proposed to embed in-person payment transaction fees in base rates in this filing and collect deferred fees from October 1, 2022, through February 1, 2023, through the PGA filing. Staff believes this to be reasonable.

Q. Does Staff support the Company's proposal to update the amount of the credit for Liquid Natural Gas ("LNG") off-system sales as reflected in the Settlement?

A. Yes. The Company proposed in its Application, and the parties accepted, updating non-utility LNG sales credits. Staff reviewed the workpapers included in the Application and believes the update to the capital credit of $0.03 and O&M credit of $0.04 for every gallon of LNG sold will adequately recover those costs caused by non-utility LNG customers, thus protecting the Company's core customers.

Q. Does this conclude your testimony in this proceeding?

A. Yes, it does.

Professional Qualifications
Of
Michael Louis
Program Manager - Engineering
Idaho Public Utilities Commission

EDUCATION

Mr. Louis received his B.S. and M.S. degrees in Industrial Engineering with concentrations in manufacturing systems and engineering economics from Purdue University in 1985 and 1992, respectively. He also received his Masters in Public Policy and Administration at Boise State University in 2005. In addition to his formal education, Mr. Louis has attended Michigan State University Institute of Public Utilities Annual Regulatory Studies Program, NARUC Utility Rate School, and Electricity Grid School.

BUSINESS EXPERIENCE

Mr. Louis is currently the Staff Engineering Program Manager over the Engineering Section at the Idaho Public Utilities Commission where he has supervised Staff and worked on a variety of cases to regulate electric, natural gas, and water utilities. His assignments and responsibilities include cases involving prudence determination of major utility investments and power supply cost, integrated resource plans, cost adjustment mechanisms, reviews of power purchase agreements and customer special contracts, demand-side management, sales of utilities and their assets, avoided cost ratemaking for PURPA, class and jurisdictional cost allocation using cost of service principles, rate design, and a variety of engineering studies involving the design and operation of public utility systems.

Mr. Louis' work experience also includes 18 years of industrial/commercial practice at General Motors, Hewlett-Packard, Jabil Circuit, and Albertsons Companies developing, managing, and improving manufacturing systems and operations, planning processes, and supply chains. He has also spent six years at Boise State University where he administrated and conducted energy policy research as the Assistant Director of the Energy Policy Institute and taught classes in program and project management and Energy Policy in the Department of Public Policy and Administration.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 17th DAY OF MAY 2023, SERVED THE FOREGOING **DIRECT TESTIMONY OF MICHAEL LOUIS IN SUPPORT OF THE SETTLEMENT STIPULATION,** IN CASE NO. INT-G-22-07, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

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