ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION
STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION)
OF THE SOUTH DAKOTA INTRASTATE) DOCKET NO. NG92-005
PIPELINE COMPANY FOR APPROVAL)
OF INITIAL RATES AND TARIFFS.)

* * *

PUBLIC HEARING

December 17, 1992 9:00 A.M.
Room 412, Capitol Building
500 East Capitol
Pierre, South Dakota 57501

* * *

Public Utilties Commissioners:

James Burg, Chairman
Kenneth Stofferahn, Commissioner
Laska Schoenfelder, Commissioner

HEARING EXAMINER: MR. DOUGLAS EIDAHL
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REFERENCE INDEX

PAGE	WITNESS
	WALTER J. WOODS, JR.
7	Direct Examination by Mr. Robbennolt
16	Cross Examination by Mr. Dietrich
17	Cross examination by Mr. Jacob
	TERRY C. SZKLARSKI
26	Direct Examination by Mr. Robbennolt
33	Cross Examination by Mr. May
35	Cross examination by Mr. Jacob
69	Redirect Examination by Mr. Robbennolt

Reference index cont.

PAGE	WITNESS
	WALTER J. WOODS, JR.
78	Direct Examination by Mr. Robbennolt
85	Cross examination by Mr. Jacob
	MAX MILLER
86	Direct examination by Mr. Schulz
87	Cross examination by Mr. Robbennolt
88	Cross examination by Mr. Jacob
96	Redirect examination by Mr. Schulz
	STEVEN WEGMAN
99	Direct examination by Mr. Jacob
104	Cross examination by Mr. Robbennolt
	GREGORY RISLOV
107	Direct examination by Mr. Jacob
112	Cross examination by Mr. Robbennolt
	DONALD BALL
115	Direct examination by mr. May
119	Cross examination by Mr. Robbennolt
120	Cross examination by Mr. Jacob
123	Redirect examination by Mr. May
124	Recross examination by Mr. Robbennolt

EXHIBITS:	Offered	Received
SDIPC		
1, Rate filing application.	8	8
2, W.J. Woods prefiled testimony.	8	9
3, Szklarski prefiled testimony	28	28
4, Revised Szklarski prefiled testimony .	28	28
5, Not used		
MDU		
6, Miller prefiled testimony.	87	87
STAFF		
7, Rislov prefiled testimony.	112	112
8, Rislov exhibits.	112	112
9, Wegman prefiled testimony.	103	103
10, Wegman exhibits.	103	103
11, Exhibit GAR-7.	112	112
12, Statement J (F-3445)	112	112
13, Revised SMW-1.	103	103
14, Revised SMW-3.	103	103
15, 20-year growth statement	128	128

MR. EIDAHL: We'll go on the record at this time. This is In The Matter of the Application of the South Dakota Intrastate Pipeline Company for Approval of Initial Rates and Tariffs. This is NG92-005.

My name is Doug Eidahl, I will be hearing officer today and am also the Commission's counsel. Record should note that all three commissioners are present.

By Order for and Notice of Procedural Schedule and Hearing this matter was set for hearing on December 17, 1992 at 9:00 a.m. in Room 412 of the State Capitol Building, Pierre, South Dakota. That Order was dated December 4, 1992. We are at that place, the time is shortly after 9:00 o'clock.

At this time, who appears for the Applicants, SDIPC?

MR. ROBBENNOLT: James Robbennolt of Pierre. And Walter Woods of the company.

MR. EIDAHL: Will Mr. Graves be appearing later in the morning?

MR. ROBBENNOLT: No, he has another hearing to be at.

MR. EIDAHL: Who appears for MDU?

MR. MAY: Doug Schulz of Bismarck and Warren May of Pierre.

MR. EIDAHL: Who appears for the City of Pierre?

MS. GOEHRING: Marylou Goehring and we have no testimony to offer.

MR. EIDAHL: You will have comments regarding the City of Pierre's position?

MS. GOEHRING: No comments.

MR. DIETRICH: And I am Alan Dietrich of Northwestern Public Service Company. Similarly, we do not plan to offer any testimony.

MR. EIDAHL: And who appears for the Commission staff?

MR. JACOB: Gus Jacob, attorney. And Mr. Steve Wegman and Mr. Greg Rislov will be testifying.

MR. EIDAHL: Is there any matters we need to discuss before opening statements or motions? Hearing none, does SDIPC have an opening statement?

MR. ROBBENNOLT: Very briefly. It's the position of SDIPC in this case that there is a market available for natural gas in the city of Pierre and towns along the route proposed by SDIPC, which will afford the facilities serving these communities a profit -- profit at the rates proposed by SDIPC for the transmission of the gas from the Northern Border Pipeline west of Aberdeen to the city of Pierre. That

this project is in the best interests of the consumers who reside in the city of Pierre and other towns along the line. And pursuant to the rate filing application and the amendments thereto, or supplements to that, South Dakota Intrastate Pipeline Company is capable of supplying this gas at a rate that will be competitive with the competing sources of energy to include fuel oil and the other related sources of heating for space heating and water heating. And that the proposal as set forth in the filing application and the supplements thereto as contained in Exhibit 1 through 4 is the most -- is a reasonable and a competitive document.

MR. EIDAHL: MDU?

MR. MAY: We have no opening statement.

MR. EIDAHL: Northwestern Public Service?

MR. DIETRICH: No.

MR. EIDAHL: Staff?

MR. JACOB: Staff believes the largest area of disagreement in this case will prove to be the issue of depreciation.

And secondly, Staff received the rebuttal on Tuesday, revisions of the rebuttal later that day. And further revisions as recently as yesterday afternoon.

It will become clear as the hearing progresses that Staff has not had sufficient time to do a complete

review and analyses of all of these significant deviations and changes.

Thank you, Mr. Hearing Examiner.

MR. MAY: If I may, as Mr. Jacob said, the revised rebuttal was not received by Montana-Dakota Utilities until yesterday. And this has created some concerns. I won't verbalize those concerns now, but we would ask later in the hearing to have Mr. Don Ball to respond to the rebuttal testimony that was filed by Mr. Woods. This is not prefiled testimony, but again the rebuttal filed by Mr. Woods which we received yesterday has somewhat changed the original testimony of the Applicant. So when the appropriate time comes we do wish to advise the Commission of this testimony that we will be offering.

MR. EIDAHL: Okay. Anything further? If not, call your first witness.

MR. ROBBENNOLT: Call Walter J. Woods, Jr.

MR. EIDAHL: Take the stand, please, Walter.

WALTER J. WOODS,

called as a witness, being first duly sworn, testified as follows:

DIRECT EXAMINATION BY MR. ROBBENNOLT:

Q Walter, could you state your name and address for the record, please.

A Walter James Woods, Jr., my address is 105 South Euclid, Pierre, South Dakota.
Q And are you an officer of South Dakota Intrastate Pipeline?
A Yes, I am vice-president.
Q Have you previously appeared before the Commission and offered testimony with regard to the siting application?
A Yes, sir, I have.
Q If you will bear with me for a second. I will show you what's been previously marked as Exhibit 1 in this hearing and ask if you can identify that.
A Exhibit 1 is our original application in NG92-005, which I believe is the purpose of this hearing.
Q This is the rate filing application?
A The rate filing application, yes.

MR. ROBBENNOLT: I'd offer Exhibit 1.

MR. EIDAHL: Any objections? Hearing none it shall be received.

BY MR. ROBBENNOLT:

Q Also show you what's been marked as Exhibit 2 and ask if you can identify that?
A Exhibit 2 is my rebuttal testimony in this rate filing NG92-005.

MR. ROBBENNOLT: I'd offer Exhibit 2 as well.

MR. EIDAHL: Any objections?

MR. JACOB: Just a question for clarification. What is referred to as Exhibit 1, is that the actual application or is that the witness' original testimony prepared direct?

MR. ROBBENNOLT: Application which does contain the prepared direct testimony of Walter J. Woods as well as prepared testimony of Terry C. Szklarski.

MR. JACOB: Thank you.

MR. EIDAHL: No objection on Exhibit 2, then it shall be received.

BY MR. ROBBENNOLT:

Q Walter, based upon the verification of Exhibit 1 and 2, do those generally reflect what you consider to be a proper rate for bringing natural gas to Pierre?

A Yes, they do.

Q And as part of those exhibits there is some discussion of the amount of natural gas that will be consumed by the city of Pierre or utilized by the city of Pierre as well as some of the towns along the route proposed by South Dakota Intrastate Pipeline. How did you arrive at your estimation of consumption of natural gas for this pipeline?

A Well, as I've said many times we did a survey, actual

card survey of the city of Pierre. From the information we gained from that we developed a volume, part of that volume, of course, we recognized we were going by many towns along the way and added in what we thought without doing a survey or doing anything more than a cursory look at what we thought the volume would be in those towns.

Q Have you been made aware of any other estimations of the consumption of natural gas that would occur should this pipeline be built in the towns along the way not considering Pierre?

A Of course, two estimates before the Commission or three including my own. There is the one by the Staff, one by Montana-Dakota Utilities.

Q And in your opinion as to the cities along the route other than Pierre, which of the estimates would be more accurate?

A Well, as I stated in rebuttal testimony I believe that of the cities other than Pierre along the route I believe that MDU's would be more accurate, currently doing business in most of those towns, they have access to information that I did not have access to. I am perfectly willing to defer to their estimates in those areas.

My estimate in Pierre is slightly higher than

theirs, I retained my estimate for my totals in the rebuttal.

Q Your reason for disregarding or for not using MDU's estimate as to the consumption of gas in Pierre is you have done the actual survey yourself?

A Because we did a survey and MDU is not in business in Pierre, they can take experience and apply it to Pierre, the fact that their estimate was higher than mine, I stayed with my estimate.

Q Now, in response to your initial filing the Staff of the Commission proposed to eliminate as a rate basis a $24,000 contingency fund which was initally proposed. Do you agree with that elimination?

A Yes.

Q They also indicated, the Staff also indicated that a property tax inflation factor of 4 percent applied to the property tax which would be assessed against this project should also be eliminated based upon a statement that property taxes would either remain level or would go down. Do you agree with that?

A Not been my personal observation that my taxes go down in any given year. Tax rate remains, the assessment increases. Based on that there will always be a tax increase.

Q You disagree with that?

A I disagree, yes.
Q Also, has it been brought to your attention since the filing has been made that the installation of the pipeline will effect a contractor's excise tax of 2 percent upon the cost of the improvement?
A Unfortunately, it was brought to my attention yesterday, that would amount to $240,000. Which comes out of my omissions and contingencies.
Q Let's get into that. Is that commonly referred to as O & C funds?
3
A All projects until the final costs are in, all decisions are based upon the best estimate you can make. Since nobody really can determine the final number until the project is done, you always put -- let me rephrase, I don't know what other people do. In all of the jobs I ever worked on in my life, always included an operations -- or omission and contingency fund.
Q What did you initally propose as an O & C fund?
A Five percent of the initial cost.
Q Which amounted to?
A $500,000.
Q That's been objected to by Staff?
A Yes.
Q Been any other proposal that you have made such as

A & G funds objected to by Staff?

A Staff -- O & C and A & G referred to together, I have $500,000 for each.

MR. EIDAHL: Mr. Woods, could you explain those?

A O & C, omission and contingency, normally put in any project from the time you start developing costs till the time it is built, there are things that tend to change, you may find out something like the 2 percent project tax, which I had no knowledge of at first. And there is sometimes little changes that you make in equipment or things you buy. Or prices, price goes up before you build it, things of that nature. All estimates include -- at least all estimates that I have ever done have included O & C.

A & G, administration and general. Simply because you have office Staff and other people doing things that you will create expenses and you need to cover them somewhere. I believe if you look at any estimates that are prepared in projects you will find O & C and A & G. If you don't see it explicitly set out they will be buried in the cost.

Q Now, Exhibits 1 and 2, you propose that this pipeline be built based upon a 25 percent equity position on behalf of South Dakota Intrastate Pipeline and 75

percent of the cost will be borrowed. Suggestion has been made by the Commission Staff that once you have secured the financing to build the pipeline that that be disclosed to the Staff and other intervenors. Do you have a problem with that?

A No. As a matter of fact, they asked, data request, I believe the answer to my question as soon as we have financing arranged we will be happy to show it to them.

Q Now, it's from your testimony at the last hearing on the siting of the pipeline you indicated that the company expects at least for the first few years there will be a loss of financial loss to the company as it builds its market in Pierre and other towns along the pipeline. But that you feel that in the long run this line will be profitable. Has that led to any unusual problems in regard to financing the project?

A Well, with the bank that we currently dealing with would like a guarantee that all out-of-pocket expenses will be paid. We still have to negotiate with them to perhaps get them to relax that position at least in the initial years.

Initally this project will not make money and it will not make money for us or anyone else. It takes time for the market to grow, which we recognize going in. The long term is that it will pay.

If we can't get a rate that will accommodate us so that we don't lose too much money, we will lose up front for the long term gains. I believe that will happen with anyone that tries to build this line.

Q The bank you are using is Harris Bank out of Chicago?

A Yes.

Q Their letter concerning Exhibit P to Mr. Szklarski exhibits?

A I believe, yes.

Q Rebuttal testimony.

Does the fact that this proposal is going to supply a new product, an energy product to Pierre and towns along the route, pose you any problem in terms of the riskiness of the venture?

A Well, I think I've explained the risk. The risk is the volumes. We believe very firmly the volumes, we demonstrated they do not show a profit, indeed show a loss. The only risk we have is that the lines don't show up in the long term.

Q Based upon your experience do you have any reason to doubt that the volumes won't show up in the long term?

A No, sir. I believe that the survey we did in Pierre indicated that there was a market here. In fact, I believe it's probably going to appear within the first five years, I believe that the information provided by

MDU indicates there is a very large market along the route the pipeline is going.

Q When you refer to the information supplied by MDU, are you referring to the prefiled testimony?

A Yes, referring to Mr. Miller's prefiled testimony.

Q That showed what type of volume for the first year?

A 400 -- I believe, 419 million the first year, 838 the second, I think 950 or 960 the third, something like that.

MR. ROBBENNOLT: I have no further questions.

MR. EIDAHL: Any questions by MDU?

MR. MAY: No.

MR. EIDAHL: Any questions by the City of Pierre?

MS. GOEHRING: None.

MR. EIDAHL: Northwestern Public Service?

CROSS EXAMINATION BY MR. DIETRICH:

Q Mr. Woods, you talked about this 2 percent contractor's excise tax. Is that, I understand that there are two different types of excise taxes in South Dakota. There is the normal contractor's excise and there is an alternative excise tax of one and a half percent, which applies to work done for utility -- regulated utility companies. Are you aware that that provision might be applicable instead?

A I will tell you what I know. I know that there is a 2 percent tax. To get the one and a half percent rate, and I don't know this, this is my understanding, my understanding is that you have to petition the senate and house, you have to get -- actually get a bill from the senate and house to reduce it to one and a half. Not a blanket order.

We certainly will go in and pursue that. We will wherever we can save money. Amounts to $60,000, if I can get it just by filing something with the regulatory -- or the people that make the laws and they will act on it and do it. I wouldn't spend more than $60,000 to save 60,000. I don't know what it costs, just learned about this yesterday, haven't had an opportunity to investigate what the options are.

MR. DIETRICH: I don't have anything further.

MR. EIDAHL: Mr. Jacob.

MR. JACOB: Few questions, Mr. Hearing Examiner.

CROSS EXAMINATION BY MR. JACOB:

Q First with regard to A & G, administrative and general expense. Mr. Woods, did you include any of those items in your initial filing? Perhaps might help, specifically in Statement H?

A No, Statement H had -- may I look and see what

Statement H had. I think it was the operation and maintenance expenses, was it not?

Q One of the headings is payroll and the other is expense?

A That's for the operation of the pipeline after it is built. Nothing to do with what it takes to get it built. Administration in general at this point in time would be -- would be the expenses and salary -- says details to be completed by. As I remember it, it's the O & M account which is for after operation begins. The A & G I refer in the building of the project is for the expenses incurred for me appearing at the hearing, Mr. Szklarski, for Mr. Robbennolt, for the survey expenses, and things of that nature will not be included in the O & M expenses.

Q But I believe you specifically mentioned office type expenses and being part of A & G; is that correct?

A Yes.

Q Could I draw your attention to Statement H which is included in your response to the Staff's data request?

A Uh-huh.

Q Okay. Let me ask you if some of these are the type of things we are talking about.

A Type of things in?

Q In A & G?

A Yeah, you may. Certainly you may ask me.
Q Public relations and administration manager, clerk typist, office rent, office supplies, consultants; are those the type of things?
A Again, make it very clear. The schedule you are looking at is a schedule for rate making purposes for O & M after the company is in business and operating. The A & G in the exhibit that shows the total cost of the project are costs that are necessarily incurred to get that project built and to build that project. To the extent that we have office rent while you are building the project, that office rent is in the project extensions.
Q In your rebuttal testimony, which I believe has been marked as Exhibit 2, on page 5, on lines 110 through 114 you discuss the intention of serving Fort Pierre?
A Yes, sir.
Q Is the cost of serving Fort Pierre included in your filing?
A The only cost included in my filing are to get gas from Northern Border's compression station near Aberdeen to a meter site just to the north and east of the city of Pierre.
Q Okay. Does SDIPC plan to run pipe either over or under the river?

A SDIPC has made no filing nor any presentation on how Fort Pierre will be served other than to say it will be served. Let me clarify that, whoever files for distribution in Pierre will probably, further, if South Dakota energy which what is franchised to serve the city of Pierre files for distribution system they will file at that time to serve the city of Fort Pierre also.

Q What did you mean on line 113 with regard to Fort Pierre when you say there is a potential market that will be served if the gas is available in the Pierre area?

A Exactly that. If there is a distribution system in Pierre, extended to serve Fort Pierre.

Q You anticipate it will be extended to serve Fort Pierre?

A Certainly.

Q From a cost of service standpoint, is it reasonable for the Staff to include Fort Pierre until someone files indicating how they propose to serve that area in view of the river between the two cities?

A I've always had a problem with some of the testimony because it includes things that are not part of my filed project which is only to build an intrastate pipeline from one point to another.

To answer your question more directly, whatever is done toward any of the distribution systems at that time, they have been filed and approved by the PUC.

Q Beginning at line 234 in your rebuttal on page ten, this is discussing the O & C and A & G and which we have just been discussing, considering that there is virtually no supporting documentation for O & C, A & G costs that you referred to, since as you indicate Statement H relates to those costs after the pipeline is in, would you explain to us in a little more detail exactly what these expenses are that you are referring to here in 234 and thereafter?

A Well, certainly one dramatic expense in omission and contingency is the 2 percent project fee which I had no knowledge of until yesterday. That's a cost of $240,000. Since I only included 500,000 for omission and contingency to begin with, that's wiped out half of it.

A & G, I have explained before, all of the costs that go into the cost of getting this project into the PUC, the cost of preparing filings, the filing fees. We paid filing fees of some 50,000 or more dollars already. Which I did not have a line item in my cost of project, those are costs of the project. As

I have said further down in my testimony as you will read, we are perfectly willing to stipulate that at the end of the project, we will give you the actual cost. For me to tell you it will be 12 million 13 thousand dollars, and if it came out exactly that I would be a very surprised individual. Comes out too far off, I will have a very surprised partner. I think all I can tell you if a prudent person makes decisions on a project has to include some unknowns. That's all I have done and we are certainly, absolutely willing to give you the exact costs when we are done.

Q Now, you understand from Mr. Dietrich's questions that the matter of this tax that you refer to is statutory requirement; do you understand that?

A I just know it cost between -- if one and a half, it's $180,000; if 2, it's $240,000. Whether statutory or not, I have to pay it.

Q You have to understand it's not something that happened yesterday?

A I understand that, I am not saying that yesterday somebody passed a law that affects me. I am saying yesterday was the first I heard of it.

Q Okay. Will you be furnishing us some documentation to support the $240,000 figure?

A Of what?

Q I believe you said that the tax was going to cost you in the neighborhood of 240,000?
A Since it is 2 percent of the total cost of the project, if the project is 12 million, 2 percent of 12 million is $240,000.
Q Will you be sending us documentation showing that?
A After the project's done I will send the documentation of what it cost to build the project.
Q You are agreeing that your statements could be in some instances at least high as well as low?
A Absolutely, estimates can be high or can be low.
Q On line 243, wasn't the hundred thousand referred to on that line originally for a possible environmental impact statement?
A I don't know, have to look at the original project exhibit. I don't know whether it said environmental impact statement or not. I do know I had a million dollars in there and changed to a hundred thousand when it became obvious we were not going to have to have an environmental impact statement. That is exactly what I said it for.

When we start digging a trench, I don't know if we will find an Indian grave, come across anything else. If we do, I have a Memorandum of Understanding with the state historical office that I will stop at

that time and see what has to be done. If I don't spend it it doesn't have to show up in the final cost.

Q The archeologic justification arose in the response to Staff data request dated the 22nd of July, we previously discussed, do you recall the archeological possibility coming up in that?

6

A I'd have to look at the response, but that hundred thousand has been in the site file, been in since the beginning. I don't think it's in response to the rate case, rather it was always there.

MR. JACOB: Thank you very much, Mr. Woods.

MR. EIDAHL: Redirect?

MR. ROBBENNOLT: Nothing further.

MR. EIDAHL: Bring up a particular matter. In the notice, corrected pages for Mr. Woods testimony. Can you clarify the record on that.

MR. ROBBENNOLT: I think typographical error on page eight that was corrected.

MR. EIDAHL: Also an exhibit.

MR. ROBBENNOLT: I think we moved the delineation or the nomenclature on the exhibit from the bottom to the top. I believe that was all.

MR. EIDAHL: Clarify for the record whether or not those corrected pages are in the exhibit that you had marked and admitted.

MR. ROBBENNOLT: I am sure they are.

MR. EIDAHL: Page eight and with WJW slash R4.

MR. ROBBENNOLT: Right. They are in the exhibit.

MR. EIDAHL: Thank you.

No further redirect?

MR. ROBBENNOLT: No.

MR. EIDAHL: Commissioner Schoenfelder.

EXAMINATION BY COMM. SCHOENFELDER:

Q Mr. Woods, you refer to a $50,000 filing fee, what does that refer to?

A Periodically I get a request from the Public Utilities Commission Staff for payments for the work they are doing. I'm sorry, probably should have added up the exact amount. I know somewhere around $50,000 that I have expensed. I understood those fees were coming, didn't know how much they were.

COMM. SCHOENFELDER: Thank you.

MR. EIDAHL: Would those include both NG92-002 and 005 dockets?

MR. WOODS: Yes.

COMM. SCHOENFELDER: Okay.

MR. EIDAHL: Any further questions by commissioners? Any further cross?

If not, thank you, Mr. Woods. Next witness.

(Witness was excused.)

MR. ROBBENNOLT: Call Terry Szklarski.

TERRY SZKLARSKI,

called as a witness, being first duly sworn, testified as follows:

DIRECT EXAMINATION BY MR. ROBBENNOLT:

Q Would you state your name and address for the record, please.

A My name is Terry C. Szklarski. My business address is 38797 Horton, and I reside in the City of Farmington Hills, Michigan.

Q With whom are you employed?

A I am employed with H. Zinder & Associates. A consulting firm out of Washington, D.C.

Q In what capacity are you employed?

A Employed as Senior Vice President with them.

Q What else is your job description?

A Well, generally I advise people on regulatory matters on various aspects; cost of service, rate base, design rates, so forth.

Q Could you briefly, although I realize it's contained in your prefiled testimony, could you give the Commission an indication of your background in terms of your schooling and your experience?

A Well, I graduated from college in '68 with my bachelor's degree. I subsequently received my Masters degree in '75. Right out of school I went to work for American Natural Service Company, which is basically a company which did work in accounting, accounting and financial matters. I stayed with those people for approximately 9 years and moved into the rates area in 1977. I worked for and I transfered to one of the affiliated ANR Pipeline, which is a natural gas transmission company regulated by the Federal Energy Commission -- Federal Energy Regulatory Commission.

I basically worked on rate matters over let's see, I was with them from 1977 to 1988. And moved up in the ranks and ran basically -- did all of the rate filings and so forth.

Subsequent to that I ended up leaving ANR pipeline and joining a firm called Brown, Williams, Quinn and Chinn, which is a consulting firm out of Washington, D.C. I stayed with those people for two years and then I left and joined H. Zinder & Associates, my present employers.

Q Have you testified in front of the Federal Energy Regulatory Commission with regard to rate making cases previously?

A Yes, I have submitted written testimony in a number of

instances and I have also testified in various proceedings.

Q I will show you what's previously been marked as Exhibit 3 and ask if you can identify that?

A This is my prepared rebuttal testimony.

Q Did you also prepare written testimony contained in Exhibit 1 which has previously been identified?

A Yes, I did. I provided substantial testimony along with a number of exhibits.

Q And your rebuttal testimony was prepared in reply to the Staff filing; is that correct?

A That's correct.

MR. ROBBENNOLT: Offer Exhibit 3.

MR. EIDAHL: Any objection? Hearing none it shall be received.

BY MR. ROBBENNOLT:

Q Show you what's previously been marked as Exhibit 4 and ask if you can identify that?

A Yes, this is some amended and revised rebuttal testimony that we submitted after we filed the original rebuttal testimony just yesterday, I believe.

Q That was filed yesterday.

MR. ROBBENNOLT: I'd offer Exhibit 4.

MR. EIDAHL: Any objection? Hearing none it shall be received.

BY MR. ROBBENNOLT:

Q Terry, the most obvious question is why did you feel it necessary to have Exhibit 4 filed?

A Well, what happened here, of course, is we didn't receive the Staff's testimony until actually Tuesday of last week. And so we were under a very short time frame to respond to the Staff's testimony.

We were also discussing issues with the bankers, trying to work in the direction of putting together testimony that would adequately protect South Dakota Intrastate Pipeline and we moved in that direction and prepared testimony with the understanding being from the bankers that without some sort of guarantee that the out-of-pocket cost that we were going to incur without that guarantee there would be a great deal of difficulty in order to finance the project. We moved forward on the basis of actually developing rates, which established a fixed monthly charge that would cover the out-of-pocket costs as opposed to a commodity charge, which was included in the original filing. Let me say that that did make the original filing, although quantity basis still anticipated having some sort of a demand or fixed monthly charge, just wasn't stated.

But upon review of the testimony and on late

Tuesday night we discovered that when we actually included these fixed monthly charges in the first two or three years of service that it resulted in a much higher rate, if you converted to commodity basis.

On that basis, in the first years as I recall it was $5.88, just realized that was totally unmarketable. We had to do something in order to modify the testimony. As a result, the first thing we -- first opportunity we had to get something typed up first thing Wednesday morning, submitted to the parties to revise that to actual instead of having fixed monthly charges establish what I call minimum take provision in my testimony. Which would commit the -- whoever is served by South Dakota Intrastate to take a minimum or take a minimum volume each year with a gradual escalation. And that we felt at least would give us some mechanism that we could take to the bankers. Not as good as, not giving as much protection as a fixed monthly charge, but certainly better than just pure commodity rate.

Q And was this revised and amended proposal done in response to any specific exhibit to your original testimony?

A Well, it modified my rebuttal testimony, if that's your question.

Q Right. I am specifically referring to Exhibit P to your rebuttal testimony, the letter from the bank that we earlier referred to.

A Certainly related to that Exhibit P, of course, trying to deal with the issue that we had with the bankers.

Q Bottom line with regard to how this would affect the price of natural gas delivered to the Pierre pipeline --

A Absolutely, that was our concern that we had to get a rate developed, a rate that would be marketable to the customers.

Q According to your prepared testimony what would be -- what will be the effects of this new disclosure?

A Well, originally I had proposed when I -- before I revised my rebuttal testimony I proposed the rate would be equivalent to $2.38. Subsequent revision what happened is that we by not collecting the dollars as quick as we would have in covering our out-of-pocket cost, resulted in a situation where we actually had to borrow additional capital on a short term basis, subsequently repay.

What we did, included that interest over this about five-year period and added it to the cost of service, which had the effect of actually increasing that rate. But I consider a small amount, less than 2

percent, but increase the rate from $2.38 to $2.42, still substantially below the rate that we had originally proposed in this proceeding.

Q And let me ask you this, does the fact that natural gas is not available in Pierre right now, does that have any effect upon how you are proposing to finance and the rate you are proposing to charge? In other words, does the fact that this is a new market for this type of energy have an effect upon your proposal in terms of financing and rate making process?

A Absolutely. We are trying to come up with a mechanism that can bring the gas to the city of Pierre as well as the surrounding communities. What we have done here is actually proposed a levelized rate. Which if we did not propose levelizing the rate we would be faced with a situation rate much higher in the earlier years.

Tried to take all of the factors into consideration and come up with a rate that although it will put us in a posture where we are looking at losing money in the early years, we will hopefully make up that in the later years. So that we can in fact go forward and build this project for the city and surrounding communities.

Q How did you arrive at a ten-year levelized rate as opposed to another period?

A We were trying to come up with a period that would give us a rate that was marketable. We looked at shorter periods of time as alternatives and the short periods of time just produced a rate that was not marketable.

As of a matter of fact the Staff suggested that five years might be appropriate. And we found looking at five years that the rate was too low and we were faced with the situation where we were looking at losses in those early years. In order for us to make up the losses and recover those losses over the reasonable period of time, we really had to look at a period of time of ten years. Only viable alternative.

Q In order for natural gas to compete successfully with the other energy sources in the early years building up your volumes, you have to stretch it over a ten-year levelized rate; do I understand that?

A That's correct.

MR. ROBBENNOLT: I have no further questions.

MR. EIDAHL: Any cross from MDU?

MR. MAY: Yes.

CROSS EXAMINATION BY MR. MAY:

Q Mr. Szklarski --

A Szklarski, that's correct.

Q As I understand it, your testimony, you stated that in your original prepared rebuttal testimony, the proposal

was that the rate that would be charged to the local distributor would be a pure commodity rate?

A When we originally filed the testimony the -- my direct testimony referenced a pure commodity rate. But as I indicated earlier in my testimony states that was really done more to give an illustration of what the average rate would be to the shipper, we never really contemplated using that as a basis for billing, that the service we could bill on pure commodity basis.

Q As I understand it, yesterday for the first time you modified the rebuttal testimony that you originally prepared and then yesterday you are now proposing that the distributor be required to pay what is referred to as a minimum take based upon an enumerated volume for a given year?

A We are proposing that for each year the customers -- of customers of South Dakota Intrastate would be obligated to come up with a minimum take obligation. That's the latest revision.

Q That was done yesterday?

A Yes.

Q Have to be paid by the distributor who purchases the natural gas from Intrastate?

A That's correct.

Q Thank you.

MR. MAY: Very well.

MR. EIDAHL: Anything from the City of Pierre?

MS. GOEHRING: No comments.

MR. EIDAHL: Northwestern Public Service?

MR. DIETRICH: No questions.

MR. EIDAHL: Staff?

MR. JACOB: Thank you, Mr. Hearing Examiner.

CROSS EXAMINATION BY MR. JACOB:

Q Mr. Szklarski --

A Ska-lar-ski, it's a lot easier.

Q Szklarski.

MR. MAY: You will have to forgive us out here, just different for us.

BY MR. JACOB:

Q Turning to your rebuttal testimony which is what has been marked as Exhibit 3, beginning on page 1, line 11, you expressed concern about Mr. Rislov's degree of scepticism over levelization. In that regard does SDIPC intend to maintain the levelized rate for ten years regardless of any material change in circumstances?

A I think that Mr. Rislov in his testimony has stated that he did not anticipate that South Dakota Intrastate would keep that rate the same. And I think, I am

trying to find the reference, I guess on page 3 of my testimony I indicate that our intention to the extent possible we would propose to keep that rate the same. But if there are some very unforeseen changes such as implementation of a state income tax rate or significant increase in the federal tax rate or dramatic increase in inflation that we might be forced to come in and file to modify those rates. Right now we are not contemplating that. But we just can't predict what will happen in the future. I think on the other side that probably the Staff would feel that they would not be.

And I think Mr. Rislov made this clear in his testimony, he can't bind the Commission, that theoretically the Commission can actually force South Dakota Intrastate to come in and provide information as well. I think it's a two edge sword here.

Q Do you agree by submitting figures for both a five-year and ten-year levelized rate that Mr. Rislov is giving the commissioners additional options?

A I think that what Mr. Rislov did was reasonable to take a look at two options to see what the rates would be for those two time periods. But I think at least in my opinion I think his numbers show based on anticipated losses of South Dakota Intrastate over the first

several years, first four or five years, that five years is not a viable option.

Q With regard to the initial statement in regard to the banking situation, do you agree that SDIPC based upon their filing could have began talking to their banker six months ago?

A I think they could have, but I think it might have been premature.

Q You agree they could have included the demand rate in their filing six months ago?

A I think that we could have put that in the filing, I agree that could have been done.

Q Okay. Now, do you agree that the increased volumes indicated by MDU is the factor resulting in the lower rate that you refer to?

A I think the increased volumes is the primary reason for rates dropping down, yes, that was the primary factor.

Q In your rebuttal on page 2, line 42, would you point out somewhere in his testimony where Mr. Rislov takes exception to the fact that MDU might not maintain the levelized transmission rate? I think, in fact, you quoted the conclusion of Mr. Rislov's testimony in that he was recommending at the end of his testimony on page 29 that, in fact, changes may be necessary. Would you agree with that?

A (No response.)

Q I guess I am confused by your statement on page 2, line 42, that Mr. Rislov takes exception to the fact that MDU might not maintain it. How do you mean that, I think you agreed they might not.

(Mr. Robbennolt provided witness with document.)

A (Witness reviewing document.) Well, maybe the question was not clearly worded, but I think it was really my intention here was to get to the point that Mr. Rislov was concerned that we might not maintain the rate for the ten-year period. And as I indicated earlier, it is our intention to try to maintain that rate unless there are significant changes in circumstances that would require revision.

I think -- at least the impression that I was getting is that -- and maybe this was an incorrect impression -- that Mr. Rislov was suggesting we might be coming in frequently to change the rates. That certainly is not our intention. At this time I can't specifically point to where Mr. Rislov's testimony comes to that point.

Q Do I understand you would agree that his concern may have been generated by the feeling that maybe everybody didn't understand that SDIPC might come in for a rate change in less than ten years with a levelized rate?

A I don't know what Mr. Rislov was thinking, but I think that's a possibility.

Q Turning, if you would, to page 3, line 46.

With regard to that matter, do you believe there is a market ceiling on the price that could be charged for natural gas?

A There probably is but I don't know what that is. Mr. Woods would have to speak to that.

Q Assuming then hypothetically all of these costs on line 51 to 55 of your rebuttal testimony, plus any additional costs beyond what you've stated or if you further assume sales didn't develop as forecast, if all of these factors serve to drive SDIPC's rate upward, would you be looking to recover all of these costs under the ten-year levelized rate?

A Well, I think that if we were to come in and file a change in rate that we would not be trying to recover something that would have happened in the past. We would be trying to recover in the future. Right now I am not sure what form that rate would take. How we would actually propose to adjust those rates over that period for sake of discussion, if we came in in the fifth year to change the rates, I don't know what -- how we would handle that change in the rates. Haven't contemplated that at this time.

Q I guess my point is do you agree there is a possibility that these changes could drive the rate up to the point where it would not be marketable?

A Well, all right. Let's take that in two pieces. Number one is that the items that I have identified here, the inflation factors, federal income tax, state income tax, I think that those -- all of those factors will affect the competition as well. So I think that unfortunately the way things are right now is that the competitors are not regulated, they can change their rates whenever they want. I think that if you identify the federal income tax, state income tax, inflation, that our rate, if we go and adjust our rate we will probably still be competitive. I think that they are going to be faced with the same increases we will be faced with. All we are doing, trying to advise the people that it's possible we might come in and file.

The other point I wanted to make though is, I don't know what's going to happen here, but there is a possibility, and I don't suggest that this is necessarily going to be done, there is a potential that if for sake of discussion that the federal income tax rate dropped to 20 percent or something like that, we may actually reduce the rates. I mean, I think once again your focus has been on increases in the rates, I

think the rates could go down. I think that's more unlikely, but I think it's possible.

Q If higher cost and lower sales than predicted, in fact, occurred, would it be prudent to expect that any risk of loss should be borne by both SDIPC and the distributing company?

A Well, I think that's going to have to be determined at the time. I think that we'll have to -- if we were to adjust the volumes, if the volumes don't materialize, I think based on the fact that if the Commission and commissioners are willing to set rates based on the level we have here and we come in later on and propose to change the rates because of the change in volumes, I think the burden of proof is going to be on us.

But I think if we can make a sufficient showing, satisfactory showing to the parties that we should not be precluded from adjusting our rates for a change in volumes. I don't think that we should be committed to the rates that we have here forever or unconditionally committed especially when the Commission has the ability to force us in at any time. I agree that there should be a burden on the company for their position. I don't think that the company should be placed totally at risk.

Q Regarding the case cited on page 4, line 74 to 77,

where do these companies operate?

A Kern River, Mojave, Altamont, all those companies happen to be out in the west coast, California. I think I believe Altamont is the state of Washington. They move, these are recently approved projects where they have proposed to build pipelines to bring additional gas to the west coast. But these are projects that, in fact, have levelized rates approved.

Q Do you know the type of customers they serve?

A I am not really sure what customers they serve.

Q Do you know if they are carrying natural gas to areas that previously had not had access to natural gas service?

A I would say the areas that they are serving have had access to natural gas, but I think that the areas may have, but I think that if my recollection serves me, a lot of this gas was going out there for large industrial users and such. And those shippers or those customers I believe did not have an adequate supply of natural gas. But I think they did have some access.

Q If you know, what were the levelized rates approved in these cases in dollars per Mcf?

A I don't know.

Q Can you provide the Commission with copies of these cases?

A I am sure that I can, I'd -- I don't know, probably next week, I don't think I can do it today. I don't have them with me.

Q What we are talking about here in other words is the written decisions, is what I am referring to.

A I understand.

MR. ROBBENNOLT: We will do that, Gus. As soon as we can get it done.

MR. JACOB: Thank you.

BY MR. JACOB:

Q Could SDIPC file some work papers to support the addition of the one million additional cost for the -- I'll call it lateral or spur to Mobridge, Glenham and Selby?

A I believe that Mr. Woods' testimony includes that additional one million dollars in his.

Q I am referring to some work papers support for that?

A I think that's a question you will have to ask Mr. Woods.

Q Thank you.

When did the company decide to include the investment to extend services to these additional towns of Mobridge and Glenham?

A I think it was a relatively recent decision. And based on some conversations with Montana-Dakota Utilities

that they were looking at a larger market. And I'd say within the last month that that took place.

Q And then in your calculations does the one million include any extension of service to Fort Pierre?

A No, that does not, I think as Mr. Woods was trying to make clear, if I understand, I don't claim to be an expert on this particular point, I think that Mr. Woods' comment was that the connection to Fort Pierre would be done through the distribution system rather than through the pipeline itself.

Q If you happen to know, is it true that the company has yet to request siting authority for this lateral extension to Mobridge, Glenham and Selby?

A My understanding is that the company has not yet filed to do that.

Q What we are trying to do here is trying to get the rate approved and in order for us -- in order for us to reflect the additional volumes associated with those towns, Mobridge, and I can't recall the other towns, but in order to do that we wanted to put everything here and try to resolve this in one proceeding. We didn't want a situation where later we are going to come to the commission and say okay, we agreed on this rate, by the way, we've added an additional million dollars of facilities, add additional sites, want to

change the rate again. Didn't want to go through that. Trying to do this as part of one proceeding. Obviously trying to get this done as soon as we can.

Q I understand. Given that it's not certain a distributor can reach and SDIPC has no desire to attempt that, and has at this point no siting authority for Mobridge, Glenham, Selby, which sales figures should the Commission consider in determining this rate?

A I think that's a question that Mr. Woods' should have been asked. I am not prepared to answer that question.

Q On the sales figures?

A That's the -- he is the expert on the volumes.

Q Thank you.

On page 6 with regard to your statement on the offset associated with deferred income tax.

A Yes.

Q If the Commission decides to adopt Staff's recommended depreciation rates would SDIPC still plan on using the same rate for book and taxes?

A That would be our intention. But as I tried to indicate, that obviously is not acceptable, Staff's proposal.

Q Would it be appropriate to reflect a rate base offset for accumulated deferrals of federal income tax or

ADFIT's, I guess they are called.

A If there are accumulated deferred income taxes, I would agree that would be appropriate. We don't contemplate any deferred income taxes, we are proposing in any event the depreciation that we use on the books and what we file with the IRS would be the same, no difference in depreciation.

Q Isn't it customary to reduce the rate base for accumulated deferred federal income tax?

A It is customary if there were any, we are not anticipating that there will be any.

Q Page 7, would you read the question-answer-question, beginning line 156 to 163 of your rebuttal?

A (Witness reading document to himself.) Okay, I have read it.

Q I would like to show you a copy of what was previously marked as Exhibit 12. Do you recognize that as pages from a document provided to you by Staff per your request for the work papers Mr. Rislov used in developing his depreciation?

A Yes, I do.

Q Okay.

MR. JACOB: SDIPC has a copy of that.

(Mr. Jacob provided copies to Commission and parties.)

Q You will note the documents indicated as a

Montana-Dakota Utilities Company filing in the upper right hand corner, referred to as document number F-3445?

A Yes.

Q Okay. On page 4 of 12 which should be the top page if I put it together, right.

A Yes.

Q Please look at the first heading under account. That is the transmission plant, do you see that?

A I see the reference to transmission plant.

Q Okay. And under transmission plant what is the title for account 367?

A Identified as mains.

Q And turning to page 7 of 12, which is the second page, towards the bottom you notice also the heading transmission plant?

A Yes, I see that.

Q What does account 367 pertain to under transmission plant there?

A Identified as mains.

Q Okay. Now again on line 160 isn't it true that you've stated SDIPC's facilities are transmission plant?

A That's what I have stated.

Q Okay. If SDIPC were an interstate pipeline subject to FERC jurisdiction, what would be the classification of

6 inch and 8 inch pipe?

A They would be transmission lines.

Q Okay. Do you dispute that account 367 mains is classified as transmission plant under FERC system of accounts?

12

A I don't know what 367 is, I have to say, I did not check that, I am not familiar with what is in 367.

Q Are you aware that MDU prior to corporate reorganization was a transmission pipeline company?

A My -- I am vaguely aware that I think MDU split their facilities between distribution and transmission system. I don't have any knowledge beyond that.

Q Well, you are aware that this commission had regulatory jurisdiction over MDU's transmission system at the time this document was prepared, do you agree with that?

A That's probably correct.

Q Okay. Then would you agree then that your statement on lines 165 to 167 was based upon your misperception that MDU was a distribution system at the time this study was completed?

MR. ROBBENNOLT: I will object to that question, I don't think it's established that the witness was under any type of a misperception concerning the status of MDU.

MR. JACOB: Let me withdraw. I will rephrase

the question.

BY MR. JACOB:

Q Would you agree that your statement on lines 165 to 167 was based upon your perception that MDU was a distribution system at the time of the F-3445 study, I believe that's indicated on the document as 1982 at the top?

A No, I wouldn't agree with that. I think that distribution systems can have transmission facilities. I'm certainly aware of situations where distribution systems can have transmission facilities, but they are still considered distribution systems and they are handled -- they are treated by the Regulatory Board of Directors on a much different basis than a pipeline is. Let me finish.

And with respect to the depreciation rates, generally distribution systems have lower depreciation rates. Larger distribution systems even though have a what they call transmission line it would generally carry a lower rate just because they are part of a distribution system.

I still belief that the issue of depreciation goes much beyond what we are referring to here by the way.

Q But, what I am trying to establish here, are you

willing to agree that Mr. Rislov used figures from a transmission system in calculating his figures as to depreciation or are you still under the impression that he used figures from a distribution system?

A The document that I received and this is part of that document, was hardly legible, I did not do a thorough study of that particular document. My understanding -- I haven't stated this in my testimony, my understanding is that that document was part of a total settlement. When you talked about a settlement there is no -- that's not a litigated case, it's something that was agreed to by the parties. There are a lot of differences here with respect to what Mr. Rislov has put in. I don't have any idea as to what the total document is that this came from to try and extract concepts and information out of a document which in my mind was very incomplete, would not be appropriate and under the circumstances.

Now, if you were looking at a document that was a commission order that laid out all of the issues or decision that laid everything out, then I think it may be appropriate. But what we are looking at here was a document done in 1982, the document is basically ten years old, I think it's totally imprudent and improper to bring this document into this proceeding.

Q Would you agree that Mr. Rislov was being conservative in using a company's requested depreciation rates?

A I think that Mr. Rislov's numbers are very conservative. We are not looking at it -- well, I don't think -- well, for a lot of reasons I stated in my testimony I don't think it's appropriate to use this 40 year life. As a matter of fact, I don't think there is any way that this pipeline can be built because of the financing and cash flow that we need to pay out-of-pocket cost that we could build this pipeline with a 40 year life. Not be able to generate cash flow, not going to work.

I have cited a number of cases, even a recent case that I have picked up where a new pipeline was built, the longest period of time that was used for the pipeline has been 25 years. Looking at this on a federal level. I was not able to get hold of any state -- interstate proceedings where that happened, but it was either 20 or 25 years, not 40 years. 40 years is typical for a distribution system.

What we are looking at with a distribution system and the reason for the difference in the two is that a distribution system has the capability to get its gas from multiple sources of supply. If, in fact, the supply dries out of one pipeline system, they can

get the pipeline -- gas from another pipeline system, the distribution system is going to stay. The pipeline's need a shorter life, that's the nature of the business.

Q You referred earlier to the study being dated. In the ten years since that study was completed do pipelines wear out more quickly than they did ten years ago?

A I don't know the answer to that question. I kind of doubt it. I think what we are losing sight of here is that this is not an issue of physical life, it's an issue of economic life. I think the economics dictate that we need at least for the first ten years we need a depreciation rate along the lines of what I have proposed, that's 5 percent depreciation.

Q One other point with regard to this study. Considering that these rates were developed sometime after the transmission system had been placed in service, wouldn't the rates incorporate actual experience along with some remaining life estimate and thus be more reliable than a pure estimate of technical life?

A I am not sure. Are you referring to MDU?

Q Yes.

A Give me that question again. I am sorry.

Q Since the rates in that document were developed sometime after the transmission system had been placed

in service, wouldn't the proposal there incorporate actual life experience along with some remaining life estimate? For example, I think you will find on that document some estimates of remaining life in the vicinity of 23 years at the time that was --

A I see some of that reference. I think that's true. We are not looking at that situation here. We are looking at brand new pipeline, we don't know what is going to happen. We are not looking at a situation where a pipeline is in the ground and we can say it's there, we know the markets are there, we know gas is going to be flowing for another 20, 30 years. I doubt we know that today. We are prepared to agree to reconsider a revision of the rate after the first ten years, but a lot of that's going to depend on financing and markets and so forth.

Today I think that we need the shorter life. 40 years is just too long. Just not going to provide the cash flow that we need in order to finance the project. I think that was made fairly clear from the letter from Harris Bank. We need the cash flow. If we go with Mr. Rislov's proposal we basically lose $300,000 a year in cash flow. We won't be able to meet our obligations.

Q Would you turn to page 7 of your testimony, please.

And page 7, beginning at the end of line 170 you say, "In this proceeding, we have a brand new pipeline which requires different criteria as a basis for establishing its depreciation rates." Now, what criteria are normally required for establishing depreciation rates?

A I think that I tried to cover those criteria, I think my criteria is substantial economic criteria, the term of the contracts, another is the financing, another criteria is gas reserves. Those are issues that are generally considered when you are looking at a new pipeline. If you are looking at an established system, then you can look at the actual experience. We don't have any actual experience here at least for this pipeline.

Q About the turning to page 8, about the items that you say justify your 20 year depreciation recovery. What do you mean there on line 178, 179 by unproven size and durability?

A What I mean is that we don't know how large this market is and whether it is going to last forever. We are hoping that it's there for the duration, it's going to be there for 20, 30, 40 years. We don't know that today. Just don't know how large the market is. Right now market surveys that have been done, extrapolations have been done. We hope those numbers are very good.

Reasonably confident they are. Till we get some actual experience we've got to try and set rates so that the company is protected and so that the company can reasonably finance the debt obligations.

Q Are you saying then that there may be problems in developing reliable sales estimates?

A No, I was not saying that. I am just saying today we have got estimates. Once the pipeline is built, lot easier to say that we know in the last five years our market has grown ten percent. Much easier to say it's going to grow ten percent thereafter. If you haven't built the line, haven't connected anybody, much more difficult to know what's going to happen over the next three or four, five years.

Q Do I understand now, you are not saying that there is at least a 50/50 chance that there will be no market after 20 years?

A No, I am not saying that.

Q How do you define durability?

A Well, I define durability as to how long it will last.

Q Do you know, do you have a feel to what the physical life of this pipeline will be?

A I would think the physical life of the pipeline itself, going back to physical life, at least 50 years. But maybe even more, I am not an engineer. But I think

that what's important here is the economic life rather than the physical.

Q With regards to reference to FERC decisions and lines 180 to 183 on page 8, again can you provide the Commission with copies of the FERC orders which support your statement?

A Yes, I can.

Q Thank you.

Now, if you would turn to your direct testimony which is a part of Exhibit 1, turn to your direct on page 14.

A I got page 14.

Q Torwards the bottom, line 23, sentence begins "the order referenced" would you read that starting there with "the order referenced" and read through the government on the next page, so I understand.

A The Order referenced that this determination was made to reflect "the fact that the primary term of the Canadian export licenses that underlie the project is 15 years.

The FERC also noted that 1, the long term usefulness of the proposed facilities will depend, in part, upon the future actions of a foreign government, and 2, Iroquois will be a new pipeline serving an incremental gas market of unproven size and durability,

we find a conservative estimate more appropriate at this time."

Q Okay, now would you equate uncertainty of a limited term export license in the Iroquois case to any similar uncertainty in this case?

A Well, I think that -- well, I don't see direct relationship to the import license itself, but I think there certainly is uncertainties here. My purpose in specifically using this quote was to bring to the attention of the parties that I was focusing on the unproven size of the market and durability. But I didn't want to provide a quote that was incomplete, so I included the reference to the actions of a foreign government.

Q Would you agree that the uncertainty of that export license was a significant factor in the Commission's -- the FERC's decision in that case?

A I think it was a factor, I can't say how significant it was or wasn't. Certainly was identified. There is a possibility here, I don't know exactly where the gas is going to come from, it is possible that gas might come from Canada, if it does we may have that specific uncertainty here as in terms of export license to me is not outside the realm of possibility. The gas is coming from Northern Border. A lot of gas comes from

Canada. I think maybe it stretches, we don't know who will be providing the gas today one way or another how it will be provided.

Q With regard, if you turn back now to your rebuttal testimony, lines 185 through 197.

A Page 8?

Q Page 8, uh-huh. To kind of briefly capsulize that and also reference to your previous statements in your testimony today, aren't you really telling us that the reason you need 20 year depreciable life is due to the perception of the cash flow requirements?

A Well, that's certainly a very important factor. It's very important. I identify other factors as well, the contracts, the uncertainties of the project, I go through a number of issues that I believe are supportive of 20 year life. The fact at least on the federal level the Commission has at least in recent projects hasn't approved anything longer than 25 years. I don't think it's one factor, but I think that if I was to identify the most important factor, I would say probably the financing aspects was a very high on the list of importance.

Q Do you agree that that matter, that perception would be further evidenced in that the plant elements themselves, elements of plant themselves have widely

varying estimated lives under normal engineering estimates of useful life? Maybe that question confused you.

A Yes.

Q Would you look at page 7 of 12 on Exhibit 12, which would be the middle, the middle page, page 7 of 12, middle page. Now, you note kind of in the middle of the page heading mortality dispersion?

A Yes, I see that.

Q And then going down then to I guess you could take any place, going down to transmission plant you notice some of the elements under transmission plant range from 40 years to 19 years in terms of the mortality dispersion?

The point of my question, you agree with when we talk about plant that within that category there are varying years of useful lives for various elements of plant, it's not all 20 years or 40 years, you agree with that?

A I agree that that is true, I would also state that in the situation here that substantially all of the plant is one category of plant. I believe that Mr. Rislov identified two other categories, but they were relatively minor and associated a different life. In both instances the dollars involved were very minor compared to the transmission plant.

Q Of course, I'm certain you are aware of the matching principle, you agree that the approach that you are suggesting for depreciation would violate that principle?

A No, I don't agree.

Q On page 9, lines 122 to 124 you support a commodity basis?

A Excuse me, you said 122, did you mean 222?

Q Excuse me, 222 and 224 -- to 224?

A Yes.

Q I think there you indicate you support a commodity basis and then we have -- we are already aware on Tuesday afternoon you filed for demand basis. Are you telling us that the figures that Staff has been looking at until two days ago or were they just exercise? In other words, what I am concerned about is it's Staff's impression that you are going for a commodity basis up until as recently as two days ago; is that accurate?

A I would say that based on direct testimony that was filed there, there could be the impression that the company was proceeding on a commodity basis. When I filed the testimony on Monday I did propose a change to the monthly charge, but yesterday I said I filed testimony that said the monthly charge really wouldn't work. Effectively we are going to use a commodity

charge but with a minimum take obligation. So in terms of the change, I think that the parties still can relate to a commodity basis. The commodity basis is just going to be associated with a minimum obligation for the customers of South Dakota Intrastate.

Q So I am trying to understand the effect then of your revised filing. Does your revised rate filed yesterday move off the rebuttal rate design of demand and commodity to just a commodity rate with minimum takes?

A That's correct, it does.

Q Thank you.

Now, with regard to demand rates, isn't it true that the demand rate will shift the risk from SDIPC onto the distributor? Are we all agreed that's true, at least you and I?

A That's a pretty broad statement. Would you like to clarify your question?

Q The question is this, would you agree that a demand rate will shift the risk from SDIPC and onto the distributor in the sense that the distributor will have to commit for a certain amount of gas whether he sells it or not?

A We are not, I guess to go back to your earlier question and my response, we are not actually proposing a demand rate, propose a minimum take obligation. But I think

it's fairly apparent that there is a substantial amount of risk on the pipeline here in the early years, looking at losses. To the extent that the customers of South Dakota Intrastate is obligated to take a certain minimum quantity of gas, that does put some risk on them, I don't think it's inordinate risk, we believe the markets are there. The minimum take provisions we would hope are very much in line with the market that we anticipate.

Q I see what you mean. I missed one step apparently there. What your latest proposal is not a take -- a take and pay or take or pay then, you've changed from one time I had the perception you were suggesting a take or pay. Take a certain amount, pay for it whether you use it or not?

A That's still the proposal here. That they have an obligation to pay for the gas even if it isn't transported. We don't see that as a significant risk to them. Obviously, their perception would probably be something different. But we've got to share -- somehow share this risk in order to do this pipeline, to build it.

Q I think this question, if I understand the recent change, I think this question is still applicable, it may not be, are we talking about an up-front demand

charge based upon estimated annual volume?
A No.
Q Or will it be paid after the fact?
A This will be paid after the fact. If for some reason that the customer did not move the volumes within a particular year, I don't know whether calendar year or contract year at that time, there would be an additional assessment on that customer.
Q Isn't it true that for the first years cost of service then -- excuse me. Turn to the second revision of page 11. This is the one titled amended and revised page 11.
A I have that page.
Q Starting with line 271.
A Yes.
Q Okay. Now, if you would clarify for us what does that have to do with the levelized rate? And maybe it would help specifically regarding the $5.38 on line 277 what happened to the levelized rate concept in which you'd absorb losses in the first few years?
A From lines 271 on down toward the end of that page this is the dilema that we were faced with if we were to continue to propose a fixed monthly charge. That on that basis we would be faced with a situation where the average rate on assuming 400,000 Mcf moved would be

$5.88. We found that unmarketable. Under those circumstances we have actually moved away from that concept. I don't know that, I mean explain to you why we changed. We are not proposing this any longer. So, I am not sure that this is really relevant.

Q Excuse me.

Doesn't your most resent proposal shift this risk then of loss that you have been referring to to almost exclusively to the distributor as opposed to it being shared between transmission and distribution?

A Absolutely not. What we are looking at here in the first year, for example, and if you refer to my revised Statement I, is the situation where we are looking at annual revenues of $950,000. Our out-of-pocket costs are anticipated to be about in the first year of 2.1 or $2.2 million. I think they have got $2.1 million that we are faced with a situation of effectively absorbing that over roughly $1.2 million in the first year. I would say no, I would say we are considerably at-risk, we are going to have to absorb that loss in the first year. The $1.2 million is a lot greater than $950,000. That would assume that the distribution customers didn't take one Mcf of gas. Or transport. That's unreasonable. We know that the 400 level is reasonable, it's a reasonable expectation. MDU, I

believe, predicted 419.

Q You are saying now reasonable expectation that whoever the distributorship company would also lose money the first few years?

A I am not sure exactly how they will do the system, they may end up having levelized rates as well. So they may end up with potential loss as well in the early years. But I think, I think that anybody that builds the system here has to look at the long term, that's what we are trying to do in this project.

Q I understand. To go back to perhaps the original filing, the original proposal, at that time wasn't it anticipated that the request for levelized rate was designed to compensate for the out-of-pocket cost, wasn't that the purpose of the levelized rate originally?

A No. No, the purpose of levelized rate was to give the customers of the -- that would ultimately be served by the South Dakota Intrastate rate certainty. And to eliminate the high rate that we would be looking at in the early years. So no, I would say that would be the case.

Q Over the idea over the time the levelized rate would compensate for the out-of-pocket costs?

A Over time, we did not raise the issue of out-of-pocket

cost in the original filing. That's really an issue that has become much more apparent in the last couple months that that was probably going to be the only way we could finance this project. I don't believe that we were really -- well, at least in my perception we were not trying to cover out-of-pocket costs when we originally filed. Trying to cover costs to service, no mention of out-of-pocket costs in that earlier testimony.

Q Isn't it customary to include borrowing in the capital rate structure?

A Yes.

Q And would you say it's widely accepted regulatory practice to have a bank dictate the regulatory policy?

A I don't think the bank is dictating regulatory policy here. I think they are -- it's a practical problem and I think that I have been involved with other projects, finance companies and they have entered into arrangements such as this, what they call project finance rate design where it was necessary to structure the rates and come up with depreciation rates to do the project. That was the only way the project could be done. We are looking at the same thing here. That we are just going to have deal with all of the factors, trying to put them together and come up with a package

that works for everybody.

Q If you would, could you just generally explain to us the short term borrowing that's referred to that you refer to in your testimony?

A Well, I guess generally we were anticipating a shortfall, I was earlier talking about the fact out-of-pocket costs in the first year were going to be short by roughly $1.2 million. And what's going to be necessary is that we are going to have to borrow that money, that's shortfall. And I have, in fact, included the interest in the cost of service here for the first few years associated with that borrowing.

Q And that has been just included within the past two days?

A That's correct.

Q In this aren't you suggesting for the ratepayers to cover the operating costs during the first years of operation by these short term loans?

A I am not sure I understand your question.

Q Well, you are talking about about interest on the short term loans, the payment?

A That's right.

Q Are you asking for the ratepayers to cover that payment of interest during the first years of operation?

A Yes, I am.

Q Shouldn't that be the responsibility of the shareholders?

A No, I don't believe it should. I think we are looking at a situation here where we are going to have to borrow the money. And we got to do what we got to do to do this project and that is a cost. Not getting it up front, get it at the tail end. It's a cost and definitely proper to have included it here.

Q Do you think the ratepayers will share in the profits if and when this project turns profitable?

A I don't think the ratepayers are entitled to share in the profits unless they are owners. If they put in part of the ownership money yes, they would be entitled to share in the profits.

Q With regard to the ratepayers payment for the short term loans, do you disagree that my last question is a valid comparison.

A I am not sure, you lost me.

Q The last question was are they going to share in the profits. You said no. Do you want them to pay interest on short term loans but not share in the profits; is that a good comparison?

A No. As I just stated that if they were putting up part of the capital on this project then they would be entitled to share in the profits. I don't see how what

you are asking me is relevant.

Q Thank you very much.

MR. JACOB: Thank you, Mr. Hearing Examiner.

MR. EIDAHL: Let's take a short break. I am sure people have additional cross and redirect.

(Break taken in proceedings.)

(Staff's Exhibit Number 15 marked for identification.)

MR. EIDAHL: Does SDIPC have redirect of Mr. Szklarski?

REDIRECT EXAMINATION BY MR. ROBBENNOLT:

Q Only one question. Mr. Szklarski, do I understand your testimony correctly that without the 20 year depreciation rate that this project is not economically viable?

A That's highly unlikely.

Q And that's not a -- you are not attempting to direct the regulatory end, that's just an economic fact of life?

A That's correct.

MR. ROBBENNOLT: No further redirect.

MR. EIDAHL: Any further cross, MDU?

MR. MAY: No.

MR. EIDAHL: Northwestern Public Service?

MR. DIETRICH: No.

MR. EIDAHL: Staff?

MR. JACOB: No.

MR. EIDAHL: Commission have questions?

BY COMMISSIONER BURG:

Q You talked about the minimum volume per year. Little question on how you would perceive collecting this, wait till the end of the year, have to be a true up with that company that took your gas?

A That's correct.

Q Quite a rate impact at that time, I can't imagine how it can -- very big deviation do it all at once?

A Could potentially be significant dollars. We don't believe it will. We really -- there wouldn't be any impact and any additional cost anyway. We expect that the distribution company will be able to move minimum volumes so there would not be any impact whatsoever.

Q As far as if you don't see having take or pay -- I think you indicated because you feel the market is out there, are you requesting this take or pay approach mostly to satisfy the lender, but a little more security?

A Absolutely, that's correct. Got to have something.

Q If the lenders didn't require it though would you personally feel that the market is there, that you wouldn't need to require a take or pay?

A That's probably correct, but I just don't see any way

that we will be able to get this through the lenders without doing this.

Q The lenders are driving this whole part, you are convinced the market is there, if the market is there no reason for the take or pay, correct?

A Outside the lender's requirements, that's -- I think that's correct.

MR. STOFFERAHN: That's all.

MR. EIDAHL: Commissioner Schoenfelder.

BY COMM. SCHOENFELDER:

Q I am a little confused about the filing of your testimony. Very confused actually. I have been confused since when I saw the second filing. Then this morning I noticed that in the back of the filing that you filed on December 14th it's prepared rebuttal testimony, there is a letter from Harris Bank dated December 14th, the same day as the filing was filed?

A Yes.

Q That's the letter you say caused you to change your whole application or your whole rate design to take or pay rate design, this was driven by take or pay?

A No. I think the nexxus you are making is that the letter is what caused me to make the latest change is what I understand your question.

Q Right. You said it was because of financing.

A No, the steps are such that the testimony, the rebuttal testimony I put in was really geared toward the lenders. In other words, I had in my rebuttal testimony I had recommended a fixed monthly charge of $187,000 per month. That was really in response to the lenders. Okay. That was really that went along with commodity charge.

Now, when I started reviewing the testimony after it had been filed, again under this short time frame we were operating under, I realized with that kind of provision, despite the concerns that the lenders have and what requirements that the lenders have, that we really wouldn't have a viable rate or marketable rate in say for example the first year that the rate actually -- if we required the customers to pay $187,000 a month, it was going to translate to a rate that was roughly $5.88. That was totally unmarketable. That was really in direct response that the lenders wanted us to cover out-of-pocket cost.

The reason I revised my testimony was to try and come up with a market rate, marketable rate and so I went to the minimum take obligation, both of them are really in response. I think that the minimum take obligation is going to be more difficult for the lenders that we are going to have to convince them that

still gives them protection that we are going to have to borrow some money in the interim. If I was a lender I would say the minimum take provision is not as good as the fixed monthly charge.

So going back to your original question, the revision, the last revision was really because of the marketability of the rate, that was really changed because of the marketability rate. Still responsive to the lenders, but not as -- it's not as good a deal as if they had a fixed monthly charge.

Does that answer your question?

Q To a point. But either the fixed monthly charge or the take or pay rate design, either one of those does in essence shift more risk to the distribution company and to the consumer and away from the pipeline company? Yes or no?

A I think that the fixed monthly charge effectively would place more risk on the -- potentially on the distribution company if they were come up with the dollars.

Q Either one shifts the risks away from the pipeline?

A There is some shifting, I personally don't see it as a risk, I think they will be able to cover those minimum obligations. I think that we are still substantially at risk because the revenues in the early years are not

going to show up. We are still going to be unable to recover our out-of-pocket costs and have to borrow in order to do that. We still have substantial risk here. We are using much higher volumes than we filed for, there is considerable risk.

Granted there is -- I have to say there is some diminishment of the risk on the pipeline and some shifting to the distribution company in response to your question, yes. I don't see it as significant. They may have as I indicated earlier, they may have a different perception.

COMM. SCHOENFELDER: That's all I have.

BY COMMISSIONER BURG:

Q Would you also perceive that a take or pay as compared to demand charge, would this encourage stronger marketing, more agressive marketing?

A Absolutely, I think that if the distribution company has a minimum obligation that there is going to be a strong incentive for them to market this gas. That's one, that's despite the fact that we need it from a financing point of view, I think it will be a very strong influence on the distribution company to go out and market and develop this market. I think that it is very important.

Q I guess given the discussion you just had, do you

believe you will be able, because that isn't the letter from the bank actually indicated the demand charge, do you believe you'll be able to convince them this will substitute for a demand charge?

A Talking to Mr. Woods we know we can sell it.

Q My problem with both the two last filings and this general statement is we really are not very sure of where you are going to go. Go back to the bank with no assurance they will accept that. No, absolutely wants a demand charge, almost another hearing to accomplish that.

A That is probably accurate. But it's the question that I have discussed with counsel here, which comes first, the chicken or the egg? We got to go to the bankers, I think, with a proposal to say this is what the Commission is willing to agree to. And I think the proposal that we put on the table I think we can arrange with the banks.

Now, granted if there is some concern or problem that they have we may have to come back, we hope we don't.

Q I am a little concerned some of these things were ironed out, had the value of that information when we come to this hearing. Especially the two filings this week, didn't give time for reaction either.

A We didn't set the schedule, we wished there were more time between the filing --

COMM. STOFFERAHN: The schedule you set was more aggressive.

A I mean between time of the filing and hearing. If we had filed it earlier, I think we wouldn't have had some of the confusion.

COMM. STOFFERAHN: Thank you.

MR. EIDAHL: Couple short questions.

BY MR. EIDAHL:

Q Regarding depreciation, appears that there is a gridlock between your position and Staff's position, roughly 20 years. You yourself have mentioned that in FERC cases, 25 year useful life has been used. Is there any middle grounds between your position and Staff's position on depreciation?

A Well, I guess, really two changes. One point that I made earlier, is that I think some middle ground would be we would agree to reconsider the depreciation rate for the second ten years, so I think that that's going part way to Staff. There is a possibility, I don't necessarily commit to this, this is something that the bankers would have to buy off on, is that we may be able to sell 25 years, I don't know whether they would, but there is no way, absolutely no way in my mind that

the bankers were going to agree to 40 year life.

Q How about 30 years?

A I don't see that that's viable. I think that's outside the realm of possiblity.

Q Lot of your questions you've prefaced because of limitations put on you by the lending institution, the Harris Bank that you are constrained to take certain action. Are there not other lending options available to you in the form of other banks, other sources of money perhaps that you can borrow from?

A Well, there are probably other options, I specifically spoke to the banker and he was concerned with us proposing 20 years, he thought 10 or 15 was more reasonable. He had spoken to other lenders as well. And so there may be other options, I don't know what they are, he was not very optimistic of doing anything beyond 20 years.

Q Is there any specific reason why you have chosen the Harris Bank versus other banks?

A I think that there is some business that has been done with the Harris Bank by the party that proposes to do business or put up the money for the project. I think there is a relationship there.

Q In your experience in working with these kind of projects, is it probable that you find more favorable

terms elsewhere?

A Than what is indicated in the letter?

Q Yes.

A I would say no.

Q Thank you.

MR. EIDAHL: Any other questions? If not, thank you.

(Witness excused.)

Any further witnesses?

MR. ROBBENNOLT: Briefly recall Mr. Woods for purposes of dealing solely with Mobridge and Glenham.

MR. EIDAHL: Okay.

WALTER J. WOODS,

recalled as a witness, being previously sworn, testified as follows:

EXAMINATION BY MR. ROBBENNOLT:

Q Mr. Woods, there has been some discussion here concerning the service to the cities of Mobridge and Glenham and Selby. Could you enlighten the Commission as to when you determined that that would be a viable option?

A I have not -- when I had originally proposed the pipeline and the route I had took, I had not been aware, simply overlooked that Mobridge was such a big community. When I found out that it was, I

consistently said in all of the site meetings, I went to I consistently said in all of the people I have talked to that we would serve those communities but I didn't know what it would take to serve them, I hadn't done a study. When I saw MDU's study, volume they can get in those communities I took the opportunity to include it in this filing. That's why, always said we will serve any market that we can reach at reasonable price. All I am doing that it can be reached at a reasonable price.

Q When did you first become aware of the market potential in Mobridge?

A Probably April or May.

MR. ROBBENNOLT: No further questions.

MR. EIDAHL: Any cross? Any questions by the commissioners?

BY COMM. BURG:

Q Confused me a little, how do we include -- is that included in the prices in the figures and everything that is in the testimony?

A In the latest testimony, you have, yes, sir, I have added a million dollars to connect Mobridge and pick up Glenham and Selby.

Q Included in all of the financing and all rate design?

A Yeah. We did go back to the bankers, ongoing thing

with the bankers, every time we change something they want to change something. We did go back, told them this would be an extension, now I have a volume I can apply to the overall project. Do it all, don't want to build one and come back a year later. Do it all at once.

Q Put in the cost of -- the cost of putting the line out there?

A Yes, sir.

Q Also included the customers that would be served as potential income?

A Oh, yes,

Q Okay.

BY COMM. SCHOENFELDER:

Q I have a question about volume, I think someone raised the question and said you should be asked about. I don't remember from reading your testimony, but does the whole project, the volumes that you have projected for sales in the whole project, does that include the Fort Pierre distribution system, the volumes, not included in your testimony?

A It includes a volume for Fort Pierre. Yes, again.

Q Have you explored or surveyed the Fort Pierre system?

A No, estimated volume. The only survey I have done is for Pierre.

Q Your contention would be a distributor have to cross the river virtually be transmission pipe rather than distribution pipe to cross the river to this other community?

A No.

Q Do you have a franchise in Fort Pierre?

A No, ma'am.

MR. EIDAHL: Walter, I know you are an engineer, would you -- how would you get a distribution line from Pierre to Fort Pierre, underneath the river or attached to the bridge that crosses the river?

A Well, I did look at it, because I was concerned, first place going under the river is the costliest way probably of going, since the bridge going to Fort Pierre is not a straight shot, kind of considering second most costly. Railroad, nice wide abutments, not talking about great big piece of pipe, two or three inch piece of pipe. I would go to the railroad, if I were doing it, go to the railroads and lay it across the railroads. I think that would be the most efficient and economic way to do it.

Q Any special environmental safety concerns or other concerns because a pipeline out of ground and suspended over a body of water the size of the Missouri?

A Absolutely not. All kinds of pipelines in the United

States suspended over the Mississippi river. The company I worked for has one over a bridge at Rulo, Mississippi, been there for 30 years.

Q If you know, is there a great difference between the expense of burying a pipeline versus suspending it from a railroad bridge as you have discussed?

A Yeah, if you have to put it under the river you got to bore it, got to dig, boring machines, put it under the river and maintain it under the river. Where if it is on that abutment, just a straight shot across and you can see it, maintain it fairly easily.

Q Brought up the question earlier, I would like your answer to it. You mentioned that you would build to Mobridge and Glenham at the same time the other pipeline was put in. Do you believe you could have a further siting authority or amend the existing site authority you have received in docket NG92-002?

A I talked to Mr. Bettsman about that when it became fairly obvious that Mobridge should go in the first instance when we build the rest of it. He said that he would recommend having another siting hearing. I said we will another siting hearing. The only reason I haven't asked for it yet, coming up to this hearing, I figured I better get it done with.

Q When you were asked depreciations question of Mr.

Szklarski, regarding any midgrounds between SDIPC and Commission Staff, what is your opinion on whether or not there is any middle ground regarding depreciation tables?

A I don't believe I'd say there is no room to move, I would be speaking for bankers, up to them really, have to borrow the money for this. I believe firmly that most lines that are built today, most projects built today do not have a long term depreciation, I could not believe that the bank will give us much more than 20, maybe 25, I don't believe much more than 20.

Q Would that change if your partners agree to up your equity stake in the project? Would that entice bankers into accepting?

A I don't know about longer depreciation, may require us to up equity just to lend us the remainder of the money.

Q Is that a probability that you and your partners would up the equity stake?

A With the proper rate treatment I am sure we would.

MR. EIDAHL: Any further questions?

BY COMM. BURG:

Q If there was a line that went across the Missouri would that be a low pressure?

A Because, coming off the distribution, it would be

whatever comes off the tail of the distribution, probably couple hundred pounds.

Q Probably significant the fact low pressure compared to transmission would be of high pressure?

A Yes.

MR. EIDAHL: Do you know the size of the pipe?

A I haven't done, I will say 4 max, and probably less than that, load is not great.

Q What would be the average sizes of the pipe in any distribution system in Pierre or Fort Pierre?

A I haven't done any studies, typically systems have -- the term mains are very well known in distribution, they have mains which are larger, usually quite higher pressure pipes, by that for a transmission system they may be 160 to a hundred pound distribution. When you come off them come into a lower pressure in the streets themselves, maybe down to 20 pounds. Get into the house, ounces of pressure above atmospheric.

MR. EIDAHL: Any further questions? Thank you. Any further questions?

MR. ROBBENNOLT: No further witnesses.

MR. EIDAHL: MDU may call their first witness.

MR. JACOB: I thought of just one question,

Mr. Woods.

THE WITNESS: That's what I get for lingering.

CROSS EXAMINATION BY MR. JACOB:

Q I just want to clarify with regard to the Chairman's question about your including the cost to have Mobridge and Glenham and so on. I want to clarify now those additional costs were not included in your filing on Tuesday, correct?

A Correct.

Q Thank you.

A Well with -- yes, correct.

Q Thank you. Thank you very much.

THE WITNESS: I am excused?

MR. EIDAHL: Any further questions? If not, thank you.

(Witness excused.)

MR. EIDAHL: MDU may call its first witness. We have to break sometime before ten to 12 for dinner. Some of us have obligations. When that time comes we will be stopping, regardless of where we are at.

MR. SCHULZ: MDU would call Max Miller.

MAX MILLER,

called as a witness, being first duly sworn, testified as follows:

DIRECT EXAMINATION BY MR. SCHULZ:

Q Mr. Miller, would you state your name and business address and position?

A Yes. My name is M.C. Miller. Business address is 400 North Fourth Street, Bismarck, North Dakota 58501. I am the marketing manager for Montana-Dakota Utilities Company, Montana-Dakota, a division of MDU Resources Group, Incorporated.

Q Please outline your educational and professional background for the Commission?

A I am a graduate of Southern Institute of Technology in Atlanta, Georgia with a degree in gas fuel technology. I was promoted to my present position of marketing manager in June of 1992. Prior to this I held the positions of Black Hills Division Manager in Rapid City from August 1990 to June 1992; public affairs representative for South Dakota and Wyoming from 1978 to August of 1990; and division Heating and Air Conditioning Engineer in Jamestown, North Dakota from 1970 to 1978.

Q I show you what is marked as Exhibit 6. Would you please identify what it is for the record?

A Yes, this is our estimate on volumes for this project.
Q Is this your direct testimony that was filed -- prefiled with the Commission?
A Yes, it is.
Q I have one further question for you, Mr. Miller. Mr. Woods in his rebuttal testimony refers to the costs -- estimates costs for conversion of a propane furnace to natural gas. And he states in his testimony that a conversion generally would be fifty to one hundred dollars depending on the type of furnace. Do you agree with his estimate?
A I think one hundred dollars would probably be on the low end. I would have to believe it would be something higher than that.

MR. SCHULZ: With that I would offer Exhibit Number 6 into evidence and submit Mr. Miller for cross examination.

MR. EIDAHL: Any objection? Hearing none Exhibit 6 shall be received. Does SDIP have any cross?

MR. ROBBENNOLT: Yes, Mr. Hearing Examiner.

CROSS EXAMINATION BY MR. ROBBENNOLT:
Q My name is Jim Robbennolt, I represent the Applicant in this case. Does Exhibit 6 also contain designated 2 of 2, the Montana-Dakota Utilities Company, Pierre Natural Gas Project, summary of DK sales?

A Page 2 of 2.
Q And if I read that correctly you are -- one, you are anticipating that the volume for the markets listed on page 2 of 2, year 1 419,000 decatherms; is that correct?
A This is correct. Given competitive prices.
Q All right.

MR. ROBBENNOLT: I have no further questions.

MR. EIDAHL: Any questions from the City of Pierre?

MS. GOEHRING: No..

MR. EIDAHL: Northwestern Public Service?

MR. DIETRICH: No.

MR. EIDAHL: Staff?

CROSS EXAMINATION BY MR. JACOB:
Q Mr. Miller, how much higher would be your estimate of the conversion that you referred to previously?
A We have figures that show it would be somewhere between 200 and 500 dollars depending.
Q Thank you.

Mr. Miller, I show you now what has been previously marked as Exhibit 15. With regard to that document do you recognize that as a document submitted to the City of Pierre, South Dakota?
A I recognize the document, I don't know that it was

submitted to the City of Pierre. I don't doubt that. Yeah, I recognize it.

Q You recognize the document?

A Uh-huh.

Q If you would turn to your exhibit at the end of your testimony, specifically page 1 of 2, and you will notice in the middle, approximate middle of that middle document that is the statistics for Pierre?

A Yes.

Q Comparing those figures with the figures which were prepared at the end of February of '92, just to take one year as an example, in your testimony you show 4174 residential in year 9. Look at year 9?

A In the page 2 of 2?

Q Correct. Page 2 of 2 you show 9?

A Uh-huh.

Q Excuse me, page 1 of 2.

A Yeah, I am sorry. Uh-huh.

Q Okay. Page 1 of 2, year 9, you show for Pierre 4174?

A Yes, that's correct.

Q Now, if you look at the document Exhibit 15 for the year 9 the first column shows residential customers, that document shows 2186?

A That's correct.

Q Now, for the Commission's information, what accounts

for the difference in the figures?

A I believe as you start to build a project you go into the -- as time goes by you go into it deeper and deeper, to clean up figures and gets them closer to being correct. That's what I have done. The date on this one was in February '92, which this project was tentative at that time.

Q So then just, I don't want to go through all of the figures, just as a general comment on the two exhibits, the calculation that you did in February of '92 was about 50 percent low from what you have got now?

A Yes.

Q Now, and what happened in the meantime, did you conduct another survey in Pierre, did you do more -- in other words what figures, what work papers, what basis do you have for the later figures?

A Okay. We obtained the 1990 census figures and took the number of households that is given on those figures or in those papers, then we cross-referenced the household numbers with our known residential customers in the areas in which we already hold franchises.

Those tracked reasonably close, very close. We took those figures and extrapolated that into the figures for Pierre for volumes. We used what the census says is the correct households for the city of

Pierre. Okay.

Q Thank you, Mr. Miller.

MR. JACOB: I have no further questions.

MR. EIDAHL: Any redirect?

MR. SCHULZ: No redirect.

MR. EIDAHL: Any further questions from the commissioners or others?

COMM. BURG: I have one.

BY COMM. BURG:

Q In both of these we are using -- as you move 1 to 10 or 20, what kinds of growth were you giving for Pierre, population growth?

A We did not take that into consideration.

Q No consideration of Pierre growing at all?

A No.

Q I would think that that would really minimize the figures because, for one thing, I would presume most new growths if natural gas were available would probably take advantage as compared to going electric now?

A I think you are correct, Commissioner. The problem is while we did not consider the growth of the city, we did get very aggressive with our conversion figures. And I think that shows in our document.

So what we are saying is given competitive

prices that we can come in and meet these figures and we are hoping that growth helps us. And you follow me, you follow the rational?

Q Yeah. Maybe one other question I can ask is I don't have the figures in front of me right now for SDIPC, how does the, for example, the 20-year figure of the total sales compare to what their's was; do you know that?

A No, I don't.

Q I was wondering about that comparison.

A I don't recall. I think I knew it, but I don't recall what it is. Someone else would have to help.

MR. EIDAHL: Somebody point Mr. Miller to an exhibit of Mr. Woods or Mr. Szklarski to make a comparison?

MR. WOODS: I didn't put in a volume for Pierre specifically, but in response to one of the Staff requests I put in a total that I thought was appropriate for Pierre. Without specifying the number of years it took to get there, even assuming efficiency savings and other things, I had a volume of between 537,000 and 690,000.

COMM. BURG: Very close to the figure.

MR. WOODS: Close enough I wouldn't argue with them.

COMM. BURG: In your figures did you use any growth rate?

MR. WOODS: No, sir, I did not.

MR. EIDAHL: Any further questions for Mr. Miller?

MR. JACOB: Yes.

FURTHER EXAMINATION BY MR. JACOB:

Q First question, Mr. Miller, do you feel comfortable now with your more recent figures that MDU would agree with the take or pay proposal?

A I think the take or pay proposal is not something I can address. I am marketing, I simply come with projected volume.

Q And do I understand correctly now that generally without getting too specific that generally the difference in these two sets of figures is approximately 50 percent for the first year?

A For the first year?

Q Yes.

A Yes, that would be a fair assumption I would think.

Q Thank you.

A You mean between this exhibit and my figures here?

Q Correct.

A Yes.

Q For the first year?

A Uh-huh.
Q Thank you.
MR. JACOB: Nothing further.
MR. EIDAHL: I have just a couple.
BY MR. EIDAHL:
Q Mr. Miller, you've been in the room all morning while there's been quite a bit of testimony on depreciation. I note from your experience you have been in the MDU company quite a while and in a variety of capacities. Do you have any experience in the calculation of depreciation rates or knowledge on that issue?
A No, I do not.
Q Would you be able to testify regarding what a reasonable depreciation rate would be for an SDIP transmission line?
A No.
Q Would you be able to provide more specifics on MDU's proposed service as a local distribution company if SDIPC were to build the line? Can you provide more specifics on towns MDU proposes to serve and in what chronology you would serve those towns?
A I think to start with we've -- this is a building process for us. In other words, we are trying -- we are in a discovery process, don't know what the rates are going to be. If given competitive rates --

Q Do you want to qualify that. What would be a competitive rate?

A We figure a competitive rate would be a rate that would allow us to allow the customer to pay back the conversion in three years or less.

Q Do you have a marketed figure or targeted figure for this rate?

A No, I don't. No, I don't.

Q Go ahead, I interrupted you.

A We don't know what rates will come out of this proceeding, so I can't say that we are going to be the distribution company. If there are reasonable rates that come out of this proceeding, then it would be my recommendation to have management, who has the decision to make, that we go forward with the project from my standpoint, from marketing. Lot of factors to be involved. From marketing, yes.

Q What towns would that recommendation include that MDU serve and in what order?

A Well, it would include the towns that I have listed on this, on my testimony, would be Agar, Bowdle, Gettysburg, Ipswich, Onida, Pierre, Roscoe, Fort Pierre, Mobridge, Selby and Glenham. Now, not sure of the order in which we would do it. Naturally concentrate at the four largest cities first, which

would be Pierre, Fort Pierre, Mobridge and Gettysburg.
Q If you did go ahead with such plans what kind of time lines are we talking about for you to build a distribution system and actually provide service to the customers in those towns?
A I can't tell you that, that's not part of my responsibility.
MR. EIDAHL: Any further questions for Mr. Miller, Mr. Schulz?
REDIRECT EXAMINATION BY MR. SCHULZ:
Q Like to go back and clarify Mr. Jacob's question to you concerning the number of customers in the first year. On your MCM-1 exhibit would you look at that number of customers projecting for residential first year for Mobridge?
A For Mobridge, 342.
Q In the February estimate for your one residential customers were? Exhibit 15?
A I am lost.
COMM. BURG: That's just Pierre.
MR. SCHULZ: Excuse me. That's answers my question.
COMM. BURG: It does bring one up for me. You said 50 percent increase, if I read this right, year 1 February Exhibit of 379 customers and looking at

year 1 on the last one of 1114?

A That's correct.

COMM. BURG: About a three times increase instead of 350 percent?

A I guess that is.

COMM. BURG: Just clarifying. Not that I had a question. I think it was 350 percent in year 9, possibly, was that right?

A Yeah.

COMM. BURG: That's where we became confused I think it was.

A Okay.

MR. EIDAHL: Any further questions? If not --

MR. JACOB: Just one question.

BY MR. JACOB:

Q Mr. Miller, in regards to your function in the area of marketing, what would be the maximum SDIPC rate that MDU would be willing to continue as distributor. Let me say it a different way, what rate can SDIPC not exceed and MDU still be interested in the distribution?

A I think that would have to come from our regulatory affairs people.

A Okay. Thank you.

MR. JACOB: Thank you.

MR. EIDAHL: Any further questions? If not, thank you.

(Witness was excused.)

MR. EIDAHL: Now does MDU have one more witness? We will have to take that up this afternoon because it is shortly before noon. Be back at 1:15, we will reconvence.

(Lunch break taken in proceedings.)

MR. EIDAHL: I think everybody is back that needs to be back.

MDU at this time may call it's next witness.

MR. MAY: We have no other direct witnesses, Mr. Examiner. We would intend to call Mr. Ball for rebuttal, but I would assume you would prefer to have Staff put in its direct testimony. Whatever your wish is.

MR. EIDAHL: I really don't care, up to the parties. You would like to call him as a rebuttal witness only?

MR. MAY: Yes.

MR. EIDAHL: Since he didn't prefile?

MR. MAY: He did not prefile. His rebuttal relates to the testimony that was filed.

MR. EIDAHL: We can take him later when time for rebuttal.

Did the City of Pierre wish to present at this time any general statements that you would like to make or in support of the City of Pierre's position?

MS. GOEHRING: No, not at this time.

MR. EIDAHL: Northwestern Public Service, no witness?

MR. DIETRICH: No, we don't.

MR. EIDAHL: Staff?

MR. JACOB: Staff would call Mr. Wegman.

STEVEN WEGMAN,

called as a witness, being first duly sworn, testified as follows:

DIRECT EXAMINATION BY MR. JACOB:

Q For the record would you state your name, please.

A My name is Steven Wegman.

Q And --

A I work as a Staff analyst for the South Dakota Public Utilities Commission and my business address is 500 East Capitol, Pierre, South Dakota 57501.

Q Have you testified before the Commission previously?

A I have testified on other matters, this is the first rate.

Q You have some exhibits before you, would you identify

those please and let's take them up in order. First, Exhibit Number 9?

A Exhibit 19 is my direct testimony for on the South Dakota Intrastate Pipeline Company.

Q Number 10?

A Number 10 Exhibit is the exhibits supporting the testimony for the South Dakota Intrastate Pipeline, I have got two revisions sheets I would like to add.

Q I believe they are marked 13 and 14. What is 13?

A 13 is the new Total Towns Conversions and Useage for the South Dakota Intrastate Pipeline. And Exhibit 14 is the breakout of Other Potential Towns' Conversions and Useage. These reflect the changes that South Dakota Intrastate Pipeline has used for adding the towns of Mobridge and Glenham. When I did my original testimony I did Selby because of close proximity to the pipeline.

Q Which of your previous exhibits does that replace, the same number?

A Would replace the initial, SMW-1 and SMW-3.

Q And SMW-3 is the one marked Exhibit 14?

A That's correct.

Q Thank you. Now, with these revisions will there be any other corrections or additions that you would like to make to your previously filed testimony?

A When I was looking at the space, basically the customer loads for South Dakota Intrastate Pipeline, both the estimates that MDU uses, South Dakota Intrastate Pipeline and my estimates the bulk of the customer useage is residential space heating, over 50 percent of the market, with the remaining is commercial heating load.

Q Now, with those corrections, I wanted to ask with regard to Exhibit 13 and 14, are those corrections, which were necessitated by the late filing of other information?

A That's correct.

Q With those corrections then if you are asked the same questions today would your testimony be the same?

A It would remain the same.

Q Would you care to summarize your testimony.

A Basically when looking at South Dakota Intrastate Pipeline Company knowing the fact that most of the customers are going to be residential customers, what I did in my testimony is broke out the consumption basically into two useage areas; residential space heating and residential water heating. This is very important because weather related factors will dictate the conversion factors or useage for this pipeline on it. And I feel that the water heating load probably

will not take place for a long time except for new construction. Most of the water heating loads in the city is electric water heaters. For them homeowners to convert an electric water heater to natural gas couple things have to take place. A, if the homeowner uses oil heat or has existing masonry chimney, that chimney cannot be used. New chimney must be installed. If a homeowner heats with propane and uses high efficiency furnace, i.e. Pulse furnace and/or plastic venting unit, have to install a chimney for that also. If he is using electric, he also have to install a chimney. With that in mind conversion costs could be between $500 and $750 very easily, with the norm around $750. Another option for conversion to convert water heaters, direct vent water heaters, plastic type vents. Those water heaters start with a basic unit alone $400, $350 not installed. Keeping that in mind, with the City of Pierre with the aggressive electric program on uninterrupted -- they have interruptable load rates available for commercial customers, they could expand that very easily to residential. They have in excess of a thousand water heaters with a load control device on their system.

Current off peak electric rate is 2.7 cents a kilowatt hour. With the utility company being based on

primary residential loads and commercial customers with the ability to fuel switch, the load estimates that I used I feel are fairly confident about looking at the numbers because my numbers compare pretty well on first year conversion rate with that of MDU. If you look at their second year numbers they increase quite dramatically.

At this time that's the end of my testimony.

Q In view of the ratio of residential to commercial use in Pierre specifically, as example, would you describe the Pierre load as being weather sensitive?

A It would be very weather sensitive. If you were just to pick up space heating load and not picking up the water heating load, typically I broke out heating 75,000 BTU's per year, 20 million BTU, equate to 975 million BTU's total load.

MR. JACOB: Staff would offer what have been marked Exhibits 9, 10, 13 and 14.

MR. ROBBENNOLT: No objection.

MR. EIDAHL: Any objection? Hearing none they shall be received.

MR. JACOB: And Staff delivers up the witness.

MR. EIDAHL: Mr. Robbennolt.

CROSS EXAMINATION BY MR. ROBBENNOLT:

Q Where did you obtain the price of 2.7 cents per kilowatt for residential?

A That's existing established tariff with the City of Pierre for interruptable load customers.

Q Are residential other than the water heaters that you are talking about, are there any interruptable residences in Pierre?

A Only one interruptable customer in the City of Pierre, that's Ramkota.

Q What is the -- what's the rate for non-interruptable electrical users in --

A Firm rate for residential 3.8 cents a kilowatt hour.

Q Is that a melded rate? The reason I ask, there was some testimony at the siting hearing by Mr. Padgett what the electric rates were in Pierre. If I recall, there were two different levels that he derived rates from.

A City of Pierre purchases their power from two different entities, when Mr. Padgett gave his testimony why there is a melded rate of electricity, flat residential rate in the city of Pierre. Retail rate, 3.8 cents a kilowatt hour.

Q When you say that the conversion cost for a furnace would be $750, 500 to 750, obviously -- is that what

you testified?
A No, I testified that conversion costing between 150 to 500 for furnace.
Q Does that include the cost of the furnace?
A No, includes the cost of existing propane furnaces. Making the assumption that the question that I had proposed to the City of Pierre was would they allow the existing copper pipe that feeds the propane furnances, would that be allowed in the existing code, building code? And would they make any modifications to the chimney or venting since the mechanical code has changed.
Q Who did you talk to from the city?
A I talked to Norm Weaver, John Irvine and Dave Padgett.
Q What were the answers to your questions?
A They hadn't thought that far yet.
Q You don't know whether a given customer would have to replace either the chimney or the copper piping?
A That's correct. Because they have not addressed that in the building code.
Q How did you arrive at 150 to 500?
A Based on information from City of Sioux Falls and from Rapid City, building code officials.
Q Page 7, line 2 of your prepared testimony you indicate that if I read it correctly there wouldn't be any

electrical conversions; is that a correct statement?
A On the assumption for electricity there are numerous fuel oil customers, dual fuel customers. My residence at home uses both electricity and fuel oil. And there is numerous ones in the city of Pierre that do that. It's -- I made an assumption that the electric customers would not probably convert to natural gas from electricity or fuel oil in those type of situations.
Q I have got -- did you respond to Mr. Woods' heating survey back in late 1991?
A Yes, I did.
Q Did you indicate that you would be interested in converting to competively priced natural gas from your present electrical -- you indicate on the card that you have an electrical boiler that's zero to ten years old?
A When I indicated on the card, card did not allow substitutions for like dual fuel application. Yes, I would be interested in retaining the electric boiler.
Q Okay.

MR. ROBBENNOLT: I have no further questions.

MR. EIDAHL: Any questions from MDU?

MR. MAY: No.

MR. EIDAHL: City of Pierre?

MS. GOEHRING: I have a comment. Our rate

structure is dual rate structure. Offer winter and summer rates. There is one tenth of a cent difference between the rates; winter rate being the higher rate. I think currently 3.9.

MR. EIDAHL: Which is the winter rate?

MS. GOEHRING: Yes.

MR. EIDAHL: Any questions by Northwestern Public Service?

MR. DIETRICH: No.

MR. EIDAHL: Any redirect?

MR. JACOB: No.

MR. EIDAHL: Questions from the commission? Anything further? Thank you.

(Witness excused.)

MR. JACOB: Staff could call Mr. Gregory Rislov.

GREGORY RISLOV,

called as a witness, being first duly sworn, testified as follows:

DIRECT EXAMINATION BY MR. JACOB:

Q Would you please state your name.

A My name is Gregory A. Rislov.

Q And would you state your position with the Commission Staff?

A I am Director of the Fixed Utilities Division.

Q You have some exhibits before you. Specifically start with Exhibit Number 7, would you explain what that is?
A My prefiled testimony.
Q And Exhibit Number 8?
A That would be the exhibits.
Q And you also have an Exhibit Number 11. Would you explain what that is, what generated that?
A Subsequent to the filed revised volumes with their rebuttal testimony and Exhibit 11 was designed to reflect those revised volumes on Staff's cost of service basis. In addition, there were some plants numbers and related changes based on Staff's original recommendations that are picked up in that exhibit as well.
Q Are there any changes that you desire to make to your testimony or to any of the exhibits?
A I have one correction I wish to make on page nine, line 22, the word rate should be inserted after the word levelized. That's all of the changes.
Q Okay. With the above changes, if today you were asked the same questions would your answers be the same as in your prefiled testimony?
A Yes, they would.
Q Couple of specific questions. Is it critical that the investment necessary to reach these new towns be

reflected in the cost of service?

A It is if we wish to match costs with revenues. The reasons Staff's original filing did not reflect Mobridge, Glenham, and Fort Pierre sales is that South Dakota Intrastate Pipeline Company had not included the investment nor even obtained siting authority to reach those towns and therefore they were not reflected in our cost of service calculation.

We had included Selby in our prefiled case estimate, even though the investment to reach Selby was also not in the filing. We did this in order to develop, in my view, a conservative sales estimate.

However, if one includes sales without corresponding costs, as SDIPC did, undoubtedly the results will inaccurately protray too low a rate, which will normally be subject to correction later on. Correction in this sense would mean a higher rate than expected.

Q Have any other changes appeared in SDIPC's rebuttal case, are there any others you would care to comment on?

A Yes. SDIPC in this second revised rebuttal has asked for the distributors to pay for the interest costs on short term borrowings used to cover early operating losses. Distributors would either have to eat these

costs or pass them on to ratepayers. This interest would total $450,000 over the first five years of operation.

Q And is this sort of cost inclusion appropriate in your opinion?

A Although I haven't had time to review the proposal, at first blush it appears to be a unique request in that it places what it normally considered to be an ownership cost upon the customer. The general theory is that the owners must accept the risk of loss along with the probablity of reaping a gain. Owners don't generally pay dividends to nonowner customers, nor should they expect customers to pay more than the cost of service. I frankly don't understand what SDIPC is attempting to do with this adjustment, nor do I understand what impact or relationship it has with the levelized rate theory.

Q Do you have anything further you would care to add?

A It may be appropriate to note the changes reflected in South Dakota Intrastate Pipeline Company's filing which have been made in the past few days.

For clarity sake, the case began with SDIPC's original cost of service filing which included statement of sales volumes. These volumes appear in Exhibit GAR-10, line 2. That exhibit is now what you

have marked as Exhibit 8 for the purposes of this hearing.

Staff also offerred an independent calculation of estimated volumes, and computed a rate based upon those volumes. These volumes also appear on Exhibit 8, which is also know as GAR-10, on line 5.

SDIP then filed its rebuttal which reflected a revision to their originally filed volumes. SDIPC also changed their cost of service to reflect additional investment to serve additional communities. Staff's ten year levelized rate, after incorporating the revised volumes, is $2 -- maybe I should explain in terms of decimal. I have 2.1502, approximately $2.15 per Mcf. At this point SDIPC also offered a new rate design, a demand commodity rate. And in addition subsequently revised that rate design to go with what I understand to be a commodity rate with minimum take provision. And Staff has not done any sort of analysis on which was presented to us yesterday afternoon.

I think I would like to point out, although I would like to get this matter behind us, because the rate design has been changed twice now in the past three days, I believe it may be necessary to continue the rate design matter, to consider it at a further hearing.

MR. JACOB: Staff would offer what have been marked as Exhibits 7, 8, 11. I believe 12 was previously offered. 12 was work papers on depreciation. If it was not offered, I would offer it now. I believe it was previously offered.

MR. EIDAHL: Any objection to those exhibits? Hearing none, Exhibits 7, 8, 11 and 12 shall be received.

MR. JACOB: Staff would offer the witness for cross examination.

MR. EIDAHL: Mr. Robbennolt?

MR. ROBBENNOLT: Thank you.

CROSS EXAMINATION BY MR. ROBBENNOLT:

Q When you say that you feel that a delay or at least a postponement of a decision or portion of the decision that the Commission is being asked to make pursuant to filing, are you saying that the Commission should delay what portion of its decision?

A Only the rate design portion. I think the Commissioners will have enough to make a revenue requirements determination.

Q Not suggesting to redo the entire hearing here?

A Absolutely not.

Q I just have a couple of questions.

Do I understand you as accepting the concept

of a levelized rate?

A For the purposes of this proceeding, yes.

Q And do you particularly have any particular problem with a ten-year levelized rate as opposed to five-year?

A I think, Mr. Robbonnolt, my answer probably would be that given my lack of experience in dealing with levelized rate, I can't point out theoretical preference one way or another. I do understand after reviewing cost of service if we go to five-year levelized rate there will be no gas pipeline coming to Pierre.

Q Okay. All right. Let me ask you, there was some discussion this morning as to a 40-year depreciation rate as opposed to 20. Where did the Staff, or if you know, where where did the Staff derive the authority for the 40-year depreciation?

A The depreciation rates presented this morning were offered by MDU in F-3445. Any movement in depreciation rates mostly normally directed by Staff in that case would have been increase the period of depreciation. In this case adopting MDU's filing appeared to be a conservative estimate and would have been based on past commission dockets and past commission precedent.

Q Ask you this, I am asking because I don't know the answer, was not that docket, didn't they deal with a

plant already in place and had been operating for some time?

A Absolutely. I think I tried to make that point in that case the plant had been in service for some time. Had been some actual operating experience with regard to its service life. And to that extent I thought made those rates even more conservative from the point of view from what they otherwise would have been.

MR. ROBBENNOLT: I have no further questions.

MR. EIDAHL: MDU?

MR. MAY: No questions.

MR. EIDAHL: Any questions by the City of Pierre?

MS. GOEHRING: No.

MR. EIDAHL: Northwestern Public Service?

MR. DIETRICH: No.

MR. EIDAHL: Commissioners? Redirect?

MR. JACOB: No, Mr. Hearing examiner.

MR. EIDAHL: Further witnesses?

MR. JACOB: None.

MR. EIDAHL: At this time any rebuttal witnesses by SDIPC?

MR. ROBBENNOLT: We would have none.

MR. EIDAHL: MDU, I understand, has a witness.

MR. MAY: Call Donald Ball.

DONALD BALL,

called as a witness, being first duly sworn, testified as follows:

DIRECT EXAMINATION BY MR. MAY:

Q Would you state your name, business address and position.

A My name is Donald R. Ball. My business address is 400 North Fourth Street, Bismarck, North Dakota 58501. I am the Regulatory Affairs Manager of Montana-Utilities Company. Division of MDU Resources Group.

Q Would you please describe your duties as regulatory affairs manager?

A As regulatory affairs manager I am responsible for revenue requirements, rate administration, economic research, rate design and load research for the company.

Q Would you please outline your educational and professional background?

A I graduated from Black Hills State College, Spearfish, South Dakota in 1969 with a Bachelor of Science degree in business administration, with emphasis on accounting. I began my career with Montana-Dakota in September 1969 at the company's Rapid City, South Dakota office. My duties there were of a varied nature

so that I became familiar with all accounting aspects of the company on a division level. In October of 1970 I was transfered to the company's Cheyenne division office at Jamestown, North Dakota, where I was responsible for accounting for the stores inventories in the then newly formed Cheyenne division. In July of 1971 I was transfered to the general office in Bismarck. I was in charge of oil field accounting and classified as a statistician, a rate analyst, senior rate analyst and manager of revenue requirements before achieving my present position in April 1988.

Q Have you testified in other proceedings before regulatory bodies?

A Yes, I have. On a number of occasions I have presented testimony before the commissions in Montana, North Dakota, South Dakota, and Wyoming. I have also testified before the Federal Energy Regulatory Commission regarding Montana-Dakota's rates and purchased gas cost adjustments.

Q What's the purpose of this testimony?

A The purpose of this testimony is to respond to two areas of the prepared rebuttal testimony of witness Terry C. Szklarski submitted on behalf of the South Dakota Intrastate Pipeline Company.

Specifically, those areas are the proposal to

require customers to commit to a minimum take provision as discussed at page 12 of his rebuttal testimony; and the ten-year levelized rate as discussed on pages 2 and 3 of the rebuttal testimony.

Q Would you please comment on the minimum take provision?

A Yes, I will. At the outset I should note that Montana-Dakota supports the concept of a volumetric rate as initally proposed by SDIP. A volumetric rate would provide for a proper sharing of the losses anticipated in the initial years for both SDIP and whoever has the distribution systems.

At page 12 of his testimony Mr. Szklarski assumes that any minimum takes provision would be tied to the volume set forth by Montana-Dakota witness Miller of about 400,000 decatherms in the first year and about 800,000 decatherms in the second year. Montana-Dakota agrees that these volume levels, while aggressive in the early years of the project are appropriate for use in determining rates given the long term nature of the project. However, for purposes of establishing a minimum take provision and the resulting minimum annual bill, Montana-Dakota believes that an additional risk must be considered.

The risk is that there will likely be intense competition between natural gas and the current fuels

used in the area, particularly in the first few years. For example, propane dealers will likely cut their prices to retain customers initally. Montana-Dakota believes that natural gas will be the fuel of choice ultimately, but it may take longer than indicated in Mr. Miller's exhibit to obtain the volumes from conversions.

Q Do you have a recommendation here?

A Yes. Should the Commission believe that the adoption of a minimum take is in the public interest, I recommend the level of volumes for a minimum take obligation, expressed as a percent of the total anticipated ultimate volumes of one million six hundred seventy-three thousand three hundred sixty-nine decatherms, be set at the following levels for the first five years: year 1, 10 percent; year 2, 20 percent; year 3, 40 percent; year 4, 50 percent; and year 5, 65 percent. The use of these volume levels will provide for a sharing of the identified risk, and if actual volume levels are higher, SDIP would receive higher compensation based on the higher actual throughput.

Q Would you comment on the ten-year levelized rate as proposed by SDIP?

A Yes. Montana-Dakota supports the concept of a ten-year

levelized rate. Based on the now perceived economics of the project for Montana-Dakota and the critical need to maintain competitive and stable rates in the first ten years to enhance growth, Montana-Dakota believes it is essential that SDIP's rate, which would be a major part of a distributor's cost of service, must be as stable as possible. Ideally, it should be guaranteed for the full ten-year period which is anticipated to achieve the potential volumes. Montana-Dakota, before committing to construct and operate distribution systems would require some form of guarantee on the transportation rate.

Q Does this complete your testimony?

A Yes, it does.

MR. MAY: You may examine.

MR. EIDAHL: Mr. Robbennolt?

MR. ROBBENNOLT: Thank you.

CROSS EXAMINATION BY MR. ROBBENNOLT:

Q Mr. Ball, do I understand from your testimony that you recognize that the minimum take concept is a valid method of arriving at a rate?

A I will recognize the validity of the minimum take concept provided that it's done properly.

Q Okay. All right. And keeping in mind that I am not a rate analyst or anything like that, it's my

understanding what you are proposing to do is to establish a minimum take level that's based upon the entire projected volume that SDIPC is proposing to furnish to whoever its customers are over the ten-year period?

A Actually my proposal was for the first five years.

Q Over a five-year period, okay.

MR. ROBBENNOLT: I don't have any further questions.

MR. EIDAHL: Any questions by City of Pierre?

MS. GOEHRING: No.

MR. EIDAHL: Northwestern Public Service?

MR. DIETRICH: No.

MR. EIDAHL: Commission Staff?

MR. JACOB: A couple.

CROSS EXAMINATION BY MR. JACOB:

Q Generally, do higher volumes lower rates?

A Generally speaking, yes.

Q If I understand your testimony then you are proposing the use of a figure in terms of volume which would lower the rates but MDU would not accept it for minimum take?

A I guess I don't understand the last part of your question.

Q Okay. As I understood it you indicated in your

testimony that generally you were in favor of volume rates, but that you felt that the volume proposed for the rate would not be acceptable to MDU for a minimum take?

A My testimony did indicate that in this case we support a volumetric rate for the pipeline company. I've also indicated that at the levels of minimum take volumes that the pipeline company has proposed that we are not comfortable in making such a guarantee. We feel that that places too much risk on the distributor in this case. Therefore, my proposal is simply to lower the volumes included in the minimum take provision.

Q Thank you. Would the minimum take provisions you proposed be considered maybe a minimum level with regard to anticipated sales?

A That is precisely how I develop those levels.

MR. JACOB: Nothing further, Mr. Hearing Examiner.

MR. EIDAHL: Any questions by the Commission? Any other questions?

BY MR. EIDAHL:

Q Mr. Ball, I have one quick question. Same depreciation question that I have asked several times. From your background I gather that you have had some experience in depreciation schedules; is that true?

A I have had experience with them to the extent that I have used the depreciation rates developed by others in determining cost of service, for example.

Q Do you have an opinion about what the appropriate depreciation time table would be for the SDIPC transmission line in this case?

A No, I don't.

Q I also note from your background that you gave you were with MDU before Williston Basin, the transmission line, was split off the distribution company, Montana-Dakota Utilities. Are you familiar with what Williston Basin establishes with regard to depreciation time tables?

A Generally, yes.

Q What would that be?

A I don't believe that Williston Basin has changed their depreciation rates substantially from the depreciation rates you saw for the transmission investment as shown I believe in the work paper from the old docket.

Q Which was docket, that's Exhibit 12, F-3445?

A Yes, I believe that's it.

Q How did depreciation rates for Montana-Dakota Utilities, what are the common depreciation time tables for your company?

A I can't give you specific details by account number, but I believe that on an overall basis for annual

depreciation approximate 3 percent.

Q How about over what period of time do you depreciate your mains?

A That I don't know specifically.

MR. EIDAHL: Any other questions?

MR. MAY: I have just one or two questions.

REDIRECT EXAMINATION BY MR. MAY:

Q Mr. Ball, just to make your testimony clearer, you are not advocating a minimum take bill proviso be adopted by this Commission, are you?

A No. My testimony indicated that if the Commission decides that that is what should happen, then I had a recommendation as to how it should be structured.

Q Based on your overall experience in regulatory matters, insofar as how commissions customarily regulate distribution companies such as Montana-Dakota Utilities, customarily have commissions looked with favor upon a distribution company guaranteeing the risk of the gas supplier, here the South Dakota Intrastate Pipeline Company?

A Typically a commission would look at that very unfavorably.

Q Why is that, Mr. Ball?

A Basically, a distribution company obviously is in the business to sell natural gas to end users. As such,

the company has its own cost of service, has its own rate structure, it is a regulated entity, typically regulated by a state commission. To go beyond that in terms of guaranteeing the assets of another company, simply not the way to go.

MR. MAY: We have no further questions.

MR. EIDAHL: Any further questions for this witness?

MR. ROBBENNOLT: I just have one.

RECROSS EXAMINATION BY MR. ROBBENNOLT:

Q Mr. Ball, typically, a distribution company under tariff provisions as established by the commission in this case, isn't most of their cost and monthly cost, their cost for their fuel or for their transmission of the natural gas to them, isn't that normally in the form of a demand charge?

A I have seen it both ways.

Q Okay.

A Presently we are a distribution company, we do buy gas from an interstate pipeline company, we also buy gas from independent suppliers. We pay transportation charges to the pipeline company for gas that we buy from independent producers and transported on the pipeline to our various town borders. The current rate structure for the pipeline company does include demand

charges.

Q Okay.

MR. EIDAHL: Any further questions? If not, thank you, Mr. Ball. (Witness excused.)

Any further witnesses?

MR. MAY: No.

MR. EIDAHL: Any further rebuttal witnesses? I guess that concludes the parties' testimony.

I do note there is a number of parties in the audience and the Commission is receptive to take comments from the public. Is there anybody in the audience today that has anything to say regarding this matter that is not a party sitting at the table? (No response.) Record should note that there were no such comments.

At this time then we will take a short break and come back for closing arguments.

(Brief break taken in proceedings.)

MR. EIDAHL: There is a couple of issues that I want mentioned on the record before we get into closing arguments. Several parties have mentioned NG92-002. I would like to take judicial notice of the docket. Some of the inter-related issues.

Is there any objection to that? If not, the record then should note that the Commission will take

judicial notice of the SDIPC siting application docket, NG92-002.

At this time I guess we will go off the record to discuss briefing.

(Brief off the record discussion concerning briefing.)

MR. EIDAHL: Before we begin closing arguments the parties have agreed to the following briefing dates. All parties who wish to have agreed to file simultaneous initial and rebuttal briefs, the initial briefs shall be due on or before January 7, 1993. And the rebuttal brief due on or before January 14th, 1993.

COMM. BURG: Ask a question, when would we be looking at a decision, Doug?

MR. EIDAHL: January 26th.

COMM. BURG: Meetings on the 12th and 26.

MR. EIDAHL: Miss the 12th, have to be the 26th.

MR. ROBBENNOLT: That's fine with us.

MR. EIDAHL: Anything further on the briefing issue? If not, we will begin closing arguments.

SDIPC?

MR. ROBBENNOLT: Reserve closing for my brief.

MR. EIDAHL: Everybody else feel the same

way? Gus?

MR. MAY: That's the way Montana-Dakota feels. Mr. Ball stated our position. I did not intend to make a closing statement.

MR. DIETRICH: That's fine.

MR. JACOB: Staff would make a brief statement. Staff's position is if SDIPC and MDU can reach reasonable accord on rate design Staff has no strong objection and would forego any further rate design hearing because it's Staff's belief the market will ultimately control the top end rate. Particularly true since there is competition available to effectively cap that rate.

Staff believes if money is to be lost the loss has to be shared between the transportation and the distribution providers. Staff has attempted to establish a cost of cost based upon Commission precedent and rate making principles. Given the competition is an important variable in the ultimate success of both transportation and distribution entities, if they both wish to assume the risk of loss Staff is willing to let them do so even if general regulatory principles are not followed.

However, once the operation is up and going and customers have invested in conversion to natural

gas, Staff will attempt to assure that those customers will not end up paying for losses by the company which would shove natural gas rates above a competitive market level.

Thank you, Mr. Examiner.

MR. EIDAHL: One last item regarding exhibits. The only one that I have identified as not been offered and received is Exhibit 15. Did Staff wish to introduce that?

MR. JACOB: 15 was the statistics on Pierre. That was my oversite. I am sorry. Staff would offer that.

MR. EIDAHL: Any objection to this? Hearing none it shall be admitted.

For the record I note that there is no Exhibit 5. Otherwise, they should be all in order.

Anything further before we close this hearing? If not, thank you.

(Came to a conclusion at 2:20 p.m.)

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STATE OF SOUTH DAKOTA)
SS CERTIFICATE
COUNTY OF HUGHES)

I, Jonelle K. Livermont, Notary Public and Professional Shorthand Reporter in the State of South Dakota, do hereby certify that the Public Hearing in South Dakota PUC Docket NG92-005, contained on the foregoing pages 1 through 128, inclusive, was reduced to stenographic writing by me and thereafter transcribed; that said proceedings commenced on the 17th day of December, 1992, in Room 412 of the Capitol Building, Pierre, South Dakota, and that the following is a full, true, and complete transcript of my shorthand notes of the proceedings had at the time and place above set forth.

Dated this 22nd day of December, 1992.

JONELLE K. LIVERMONT, REPORTER