

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER OF Energy West) REGULATORY DIVISION
Montana's Application for Approval of)
the Reconciliation of West Yellowstone's) DOCKET NO. D2017.12.89
No Interest Loan Program)

Testimony

of

Paul R. Schulz, CPA

on behalf of

The Montana Consumer Counsel

March 15, 2018

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND ADDRESS.**

2 A. My name is Paul R. Schulz. I am employed as a Rate Analyst with the
3 Montana Consumer Counsel (MCC). Our offices are located at 111 N. Last
4 Chance Gulch, Suite 1B, Helena, MT 59620-1703.

5 **Q. PLEASE DESCRIBE YOUR QUALIFICATIONS AND**
6 **EXPERIENCE.**

7 A. I graduated magna cum laude with a B.A. degree in Economics from
8 Colorado State University and I hold an M.S. degree in Accounting from
9 the University of Virginia. I am the first recipient of the Graduate
10 Certificate in Public Utility Regulation and Economics from New Mexico
11 State University and one of the early recipients of the Certificate of
12 Continuing Regulatory Education, which is endorsed by the National
13 Association of Regulatory Utility Commissioners (NARUC) and awarded
14 by the Institute of Public Utilities at Michigan State University. Currently,
15 I am a member of the National Association of State Utility Consumer
16 Advocates' Gas Committee and I am the Meeting Registrar of the NARUC
17 Staff Subcommittee on Accounting and Finance where I have presented as
18 well. In addition, I am on faculty at the NARUC Utility Rate School,
19 which is held twice a year. For six years, I worked in different industries in
20 the private sector in internal auditing, accounting, and accounting analysis

1 positions. I was employed for over a year as a Budget Analyst with the
2 Montana Department of Labor and Industry prior to my employment at the
3 MCC commencing in March 2009. I hold a CPA license issued by the
4 State of Montana and am a member of the American Institute of Certified
5 Public Accountants.

6 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
7 **PROCEEDING?**

8 A. The purpose of my testimony is to present the results of my review of the
9 application of Energy West Montana (EWM) to the Montana Public
10 Service Commission (“Commission”) for approval of its reconciliation of
11 the collections and disbursements of its West Yellowstone division’s No
12 Interest Loan Program (NIP) and establishing a Universal System Benefits
13 (USB) plan for EWM-West Yellowstone.

14 **Q. WHAT IS THE STATUS OF THE NIP AND OF USB PROGRAMS**
15 **IN GENERAL FOR EWM CUSTOMERS IN WEST**
16 **YELLOWSTONE?**

17 A. Currently, the only USB program available to EWM customers in West
18 Yellowstone is the NIP. As indicated by the response to Data Request
19 PSC-011 there has been no promotion of or activity in the NIP since

1 November of 2006. However, there has been continuous funding provided
2 for the NIP by a \$.00644/CCF surcharge on West Yellowstone customers
3 since 1997. As collections have continued, but program disbursements
4 have not, the result is an over-collected balance of \$112,865.20 (see
5 response to Data Request PSC-005b).

6 **Q. WHAT LED TO THE ACCUMULATION OF THIS OVER-**
7 **COLLECTED BALANCE?**

8 A. Jed Henthorne, President and General Manager of EWM states at the
9 bottom of page 6 of his direct testimony that the decline of customer
10 interest in the NIP left no avenue for disbursing the funds that had been
11 collected. There is also further speculation from Mr. Henthorne in the
12 response to Data Request PSC-010b as to why interest in the NIP waned.

13 **Q. WHAT IS EWM PROPOSING TO DO TO ADDRESS THIS**
14 **SITUATION?**

15 A. EWM is proposing to use half of the over collection, roughly \$56,000, as a
16 contribution to Energy Share. There would be no change to West
17 Yellowstone's NIP rate of \$.00644/CCF, but it would be converted to a
18 USB rate, in which the collections could be used for other programs. EWM
19 would enter into an agreement with Energy Share to pay the required

1 1.12% of gross revenues (A.R.M. 38.5.7020(2)) for USB programs, with
2 the rate of \$.00644/CCF remaining the same and any shortfall to get to
3 1.12% of gross revenues would be covered by reductions in the other half
4 of the \$112,000 over-collection going forward. While it is not clear how
5 the \$56,000 contribution to Energy Share would be expended, the 1.12% of
6 gross revenues would be paid to Energy Share, "...under the terms and
7 conditions of the USB program."

8 **Q. WHAT IS EWM'S PROPOSED AGREEMENT WITH ENERGY**
9 **SHARE AND WHAT ARE THE ASSOCIATED USB PROGRAMS?**

10 A. EWM is seeking Commission approval of a USB plan; however, there is no
11 current agreement between EWM and Energy Share and a written plan has
12 yet to be drafted. More documentation would be provided *after* the
13 program received approval from the Commission as indicated in the
14 responses to data requests (see Data Requests MCC-008, PSC-020, and
15 PSC-021). Nonetheless, some guidelines for a plan are discussed in the
16 response to Data Request PSC-018a &b. In those responses, it is indicated
17 that the same programs offered in Great Falls, low-income bill assistance,
18 weatherization, furnace safety programs, low-income bill discounts, and the
19 NIP would be offered to West Yellowstone customers as well. Efforts
20 would be made to encourage more eligible customers to sign up for USB

1 programs. West Yellowstone USB funds that could not be spent in the
2 West Yellowstone service area would be used to benefit Great Falls and
3 Cascade EWM customers.

4 **Q. DO YOU HAVE ANY CONCERNS REGARDING EWM'S**
5 **SUGGESTED APPROACH TO HANDLING THE \$112,865 NIP**
6 **OVER-COLLECTION?**

7 A. Yes, I do. That is a substantial amount of money for a small ratepayer base,
8 which as of March 2017 totaled 614 customers of which 426 were
9 residential customers (see *Revenue Detail* tab of the Excel attachment to
10 PSC-002a). Those funds should be used in the utility system from which
11 they were collected. This is especially true given the lack of any USB fund
12 disbursements to that system for several years. In fact, EWM recommends
13 transferring \$31,405 that was inadvertently placed in the EWM-Great Falls
14 USB balance on December 1, 2006 (see Jed Henthorne testimony, page 4,
15 lines 8-10 and top of page 7) to EWM-West Yellowstone. This correction
16 is one factor that leads to the over-collected amount of \$112,865.

17 Ironically, while EWM is proposing to correct the accounting for USB
18 funds collected from West Yellowstone customers so they are labelled as
19 such, it is also suggesting that some of those funds may need to be spent in
20 utility systems other than West Yellowstone due to low customer program

1 participation in West Yellowstone. This cross-subsidization of USB
2 programs is possible for both the one-time contribution to Energy Share of
3 half the over collection and for the other half that would be matched with
4 the continued collections of \$.00644/CCF to target 1.12% of total revenues
5 (see responses to Data Requests PSC-017 and PSC-018).

6 **Q. PLEASE ELABORATE ON THE DERIVATION OF THE**
7 **REQUIRED 1.12% OF GROSS REVENUES TO BE COLLECTED**
8 **FOR USB PROGRAMS.**

9 A. ARM 38.5.7020(2) requires that a USBC (Universal Systems Benefit
10 Charge) be “established so as to generate, system-wide, an annual amount
11 no less than 1.12 percent of the utility’s...annual revenues derived from
12 natural gas services to end users. From the amount collected system wide
13 an amount at least equal to .42 percent of the annual revenues must be
14 applied to low-income weatherization and bill assistance.” This would
15 suggest that EWM should have been targeting 1.12% of gross revenues for
16 funding USB in West Yellowstone. Historically, as shown by tab
17 *EWMWYS – NIP – 1*, in the Excel attachment to PSC-002a, EWM has
18 collected on average, 0.57% of total revenues, with the high mark being
19 0.91% in 1998. However, ARM 38.2.305 does allow, “As good cause
20 appears and as justice may require, the commission or any hearing

1 examiner may waive the application of any rule, except where precluded by
2 statute.” The relevant statute in this case appears to be §69-3-1408(2),
3 MCA which requires that, “a natural gas utility’s minimum annual funding
4 requirement for low-income weatherization and low-income energy bill
5 assistance is established at 0.42% of a natural gas utility’s annual revenue
6 for the previous year.” The Commission does appear to have discretion
7 down to a level of 0.42% for the portion of gross revenues that should be
8 collected for USB programs in this case. Even the utility has some
9 discretion in what it proposes as ARM 38.5.7021(2)(c) states, “if the utility
10 objects to the minimum annual amount established in ARM 38.5.7020, the
11 utility may also file, in addition the requirements of (2) (a) and (b), above,
12 an alternative proposal, with supporting testimony;...”

13 **Q. WITHIN THIS CONTEXT, AND GIVEN THE PROBLEMS EWM**
14 **HAS SUGGESTED IN EXPENDING ALL OF THE USB FUNDS**
15 **COLLECTED FROM WEST YELLOWSTONE CUSTOMERS,**
16 **WHAT APPROACH DO YOU RECOMMEND FOR DISBURSING**
17 **THE OVER-COLLECTION?**

18 A. As shown above, statute requires 0.42% of gross revenues be collected for
19 USB, to be spent on low-income weatherization and low-income bill
20 assistance. However, any level above that is discretionary, both in

1 recommendations of the utility and ultimately for what the Commission
2 itself requires. As has been indicated by EWM and demonstrated by
3 experience in West Yellowstone, USB collections have far exceeded the
4 NIP expenditures leading to a large over-collected amount. This situation
5 has been exacerbated by only having the NIP available in West
6 Yellowstone and by the one program that is available not being actively
7 promoted. My recommendation is that the Commission waive ARM
8 38.5.7020(2) and 0.42% be applied to gross revenues from 1997 forward
9 establishing a new over-collected amount based on that collection
10 percentage. The difference between that amount and the \$112,865 actual
11 over-collected amount should be refunded to West Yellowstone customers
12 over a 12-month period, as an offset to the USBC set in this docket. This
13 approach would meet the statutory requirement for 0.42% to be collected
14 for USB (to be spent in the future on weatherization and bill assistance) and
15 return to West Yellowstone customers the excess, unspent funds they have
16 provided to-date. Most importantly, it would slightly reduce over-
17 collections and not create cross-subsidies from West Yellowstone
18 ratepayers to customers on separate utility systems. The statute requires
19 0.42% to be spent on low income and weatherization programs, and EWM
20 should come into compliance within the boundaries of the West
21 Yellowstone system. These concerns were not raised at the time this

1 overcollection was growing and in the response to Data Request PSC-017d,
2 EWM acknowledges that it cannot estimate with any certainty how long it
3 would take Energy Share to expend the overcollection. Since there is no
4 urgency to expend the funds, it is unnecessary to use the outlet of cross-
5 subsidies to do so when alternatives have not been established, promoted,
6 or tried.

7 My calculations, as shown on Exhibit PRS-1, indicate that collections at a
8 level of 0.42% for 1997 through March of 2017 would have been
9 \$109,764.87. Subtracting this amount from the total over-collection of
10 \$112,865.20 leads to a difference of \$3,100.33 to refund to customers. As
11 mentioned previously, I recommend this amount be refunded to West
12 Yellowstone customers over a 12-month period commencing at the
13 conclusion of this Docket. As the over-collection amount is large, has been
14 accumulating over several years, and may take significant time to draw
15 down, I recommend that the remaining \$109,764 and any future
16 overcollections be held in a separate interest-bearing account until
17 extinguished. These funds would be for use in USB bill assistance and
18 weatherization programs that Energy West would establish and actively
19 promote either on its own, via Energy Share, or some coordinated effort of
20 the two.

1 **Q. WHAT APPROACH DO YOU RECOMMEND FOR**
2 **ADMINISTERING USB FOR WEST YELLOWSTONE GOING**
3 **FORWARD?**

4 My recommendation is largely the same as for dispensing with the over-
5 collected amount. The two primary objectives being to minimize the
6 ongoing overcollection problem, and not to allow for any cross-subsidies
7 from West Yellowstone to Great Falls or Cascade. At this time, it appears
8 unreasonable to collect more than 0.42% of gross revenues when no efforts
9 have yet been made to expand programs within West Yellowstone or to
10 promote them. In the meantime, it would also seem wise to minimize the
11 collections when history suggests that even collections at an average of
12 0.57% of gross revenues are too high. Consequently, I recommend that
13 going forward the USBC be set at 0.42% of gross revenues for EWM-West
14 Yellowstone. EWM should immediately implement a low-income bill
15 discount program for West Yellowstone modeled on the program in place
16 for Great Falls. Responses to MCC-003 indicate the cost of this discount
17 program would currently be more than covered by ongoing USB collections
18 even at the lower rate. If over time, the level of participation in the
19 programs has increased to the point of completely drawing down the
20 overcollection, then the USB rate could be changed if necessary. The

1 Commission should further direct EWM to present a written plan for using
2 funds at those levels, along with the remaining \$109,764 over collection for
3 weatherization and bill assistance programs. All avenues should be
4 explored for expending the funds within West Yellowstone, such as
5 increasing the amount of bill or weatherization assistance offered per client
6 relative to what is offered in other communities, or perhaps easing the
7 eligibility requirements within West Yellowstone for weatherization and/or
8 bill assistance programs. Updates on the progress of USB plans in West
9 Yellowstone and the status of collections and disbursements should be
10 provided annually by EWM or in some other time interval the Commission
11 would prefer. Ultimately, the funds collected from the ratepayers of West
12 Yellowstone should benefit the community of West Yellowstone.

13 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

14 **A.** Yes, it does.

Exhibit No._(PRS-1)

D2017.12.89

Energy West Montana

