BIGSKYGAS
NATURAL GAS COMPANY

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December 15, 2017

Via Electronic Mail
Trevor Graff
Research Analyst
Montana Legislative Environmental Policy Office
P.O. Box 201704
Helena, MT 59620-1704

Re: Response to Montana Dakota Utilities Letter Dated November 2, 2017 to the Montana Energy and Telecommunications Interim Committee

Dear Mr. Graff,

Big Sky Gas ("Big Sky"), a competitive natural gas supplier founded by Montanans for Montanans, appreciates the opportunity to provide a response to the letter from Montana Dakota Utilities ("MDU") concerning the expansion of customer choice in Montana's natural gas market. Big Sky gas was acquired earlier this year by Crius Energy LLC, in recognition of the potential benefits that competitive natural gas markets can bring to Montana and its citizens.

Big Sky believes that as a competitive supplier in Montana and in 14 other states, we can bring unique insights as to how to unlock the benefits of a competitive natural gas market for the economic growth and prosperity of all of Montana and not just those customers who receive service from NorthWestern Energy.

MDU's Role as local distribution company is a strong argument for deregulating natural gas supply to their customers

One of the pervasive themes in MDU's Response is that they are just a "local distribution company"[1] and this is a reason why, unlike NorthWestern Energy, MDU chose not to deregulate. Big Sky agrees with this characterization that MDU is just a local distribution company.

However, one of the key differences between MDU and Big Sky is whether being a local distribution company makes more or less sense for offering consumer choice in the market that MDU serves. Based on more than a decade and a half of experience in multiple deregulated gas markets throughout the country, Big Sky believes that MDU's role strictly as a local distribution company facilitates the move to choice rather than hinders it.

Specifically, MDU's primary role as a distribution utility focused on delivering reliable gas service to its customers in Montana would not change in a move to open the Eastern Montana consumer natural gas market. If anything, such a change would allow MDU to continue to focus on its core business—natural gas ***delivery***—and eliminate the distractions of having to worry about the retail gas supply function with all of its attendant risks and costs. Costs which ultimately are paid for by Montanans rather than having that risk borne by third party market participants.

MDU points out that it does not "own (so does not earn a profit on) any gas supply, transmission or storage rate base assets. MDU purchases gas on a competitive bid basis from approximately 20 third-party suppliers

[1] *Montana-Dakota Utilities Co. Information Provided to the Energy and Telecommunication Interim Committee, House Joint Resolution No. 28—The Study of the Natural Gas Consumer Choice in Eastern Montana*, Nov. 2, 2017 at 1. Unless indicated otherwise, all references to MDU's response or testimony are to this document.

through a combination of fixed price and indexed price contracts."[2] While MDU does not earn a profit on natural gas supply, they fail to point out an important but logical corollary—namely that they do not take a loss if they enter into one or more above market natural gas supply contracts. This is a critical difference between the current market structure and one where there are competitive suppliers. With the ability to pass through the costs of natural gas supply to customers *regardless of whether they are above or below market costs*, MDU has no economic incentive to actively manage its supply cost risk.

Conversely, an independent third party supplier like Big Sky depends on its ability to effectively manage risk to remain economically viable. Big Sky has to live with the economic consequences of its decisions when purchasing natural gas supply for customers. This necessitates effective risk management and will ultimately create benefits for Montanans as their natural gas supplier's economic decisions will dictate whether or not the company can offer competitive rates.

Finally, while Big Sky understands the desire to draw from a comprehensive base of suppliers, Big Sky questions whether having over 20 different suppliers offering products to MDU, a self-described local distribution company, would lead to inefficiencies and unnecessary overhead. Managing multiple vendors is a time consuming task, and is contrary to MDU's desire to focus on and remain a local distribution company. Big Sky believes that it makes more sense to move the process of managing and evaluating the costs and benefits of various supply options to an entity that bears the financial risk associated with that management and which specializes in this activity. In addition, Big Sky posits that moving this activity out of MDU would decrease overhead costs, at least partially off-setting some of the potential cost increases referenced in MDU's Response.

The Transition to a Competitive Market would not impose significant additional burdens/costs on MDU

MDU's Response provides information to ETIC that suggests the move to choice in their market would either create administrative burdens or impose higher costs on customers. However, a closer examination of the information provided by MDU reveals that these concerns may be overstated.

MDU Response notes that it purchases certain firm commitments from transmission and storage providers[3] and these costs are incurred regardless of the amount of natural gas actually consumed by customers. The current regulatory structure "allows it (MDU) to spread its fixed costs among all customers on a consistent basis.".[4] The implication is that these costs could somehow not be allocated to customers if they chose a competitive supplier. However, MDU contradicts this implication later in its response when MDU says:

the only component of MDU's current rates that would be eliminated for gas choice customers would be the actual cost of the gas commodity and the minimal volumetric transmission charges attributable to that customer's usage.[5]

In other words, MDU would be able to spread those storage and transportation costs either to its retail customers through the delivery charge or alternatively could allocate those costs to competitive suppliers using a methodology that does not discriminate between MDU and competitive supplier(s). In addition, the purchase of these firm commitments are certainly not into perpetuity, and can therefore be reduced over time, possibly even before implementation of full choice takes place.

<u>The Cost Estimates Provided in the MDU Responses seem high</u>

In reviewing the MDU Response to the October 4, 2017 questions, Big Sky was a little surprised at the numbers put forth. For instance, the Implementation Costs of $2.085 million appear to be over-estimated. However, even if these costs are accurate, when allocated over 5 years, they amount to only $0.41/month

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[2] *Id.*

[3] As MDU notes, the cost for transportation and storage are set by tariffs regulated by the Federal Energy Regulatory Commission.

[4] *Id.*

[5] *Id.* at 3

or less than $5.00 per year. Big Sky also believes that the ongoing annual costs of $1 million are overstated but even if they are accurate, they amount to less than $1.00/customer per month. Assuming that costs assigned in the MDU Response are accurate, this amounts to less than $1.50/customer/month. If competition lowers a customer's *annual* natural gas bill by just $18.00, customers will see a net benefit. Given that in a pending rate case, MDU is proposing to increase its costs of gas to residential customers by over 12% to $0.3892/therm heading into the winter[6], a move to a competitive market could easily yield savings to cover the increased cost estimates provided in MDU's Response.

Following are some of the cost estimates which concerned Big Sky and the omission of any cost estimate provided in the MDU Response should not be interpreted as Big Sky agreeing that the numbers are accurate.

- CIS Costs of $275,000 annually. Based on the information in the MDU response, this appears to be costs associated with billing customers taking competitive service. Big Sky would note that if customers are dual billed, with MDU billing for everything but commodity, this annual cost should be negligible.

- Measurement Management—While this accounts for roughly half of the estimated implementation and annual costs, it is unclear to Big Sky what is covered by these costs. Big Sky would request that MDU provide additional granularity as it relates to these costs before providing ETIC with Big Sky's comments on these Measurement Management cost estimates.

- Customer Service with an estimated implementation cost of $600,000 and ongoing costs of $300,000. This money would, according to the MDU responses, be for deployment of information and training to new customer service representatives and then ongoing customer support. Big Sky questions why there is a need for increases in customer service representatives. One question which the ETIC should explore is whether NorthWestern Energy has seen a need for increase in customer service representatives in light of the successful implementation of choice programs in their service territory.

Conclusion

Big Sky believes that because of MDU's unique role as a local distribution company supports a move to expanded customer choice. MDU would not be required to divest any current assets and is ideally positioned to serve as a platform for providing reliable natural gas service. The opening of MDU to choice provides eastern Montanans the same rights and benefits that their fellow citizens served by NorthWestern Energy enjoy. The opportunity for Montana to continue to unlock its natural resources for the benefit of its citizens and economy should not be limited to those served by NorthWestern Energy but should be expanded to all areas.

I look forward to the opportunity to provide additional information and insight to ETIC members and answer any questions you may have at the meeting on January 15, 2018.

Sincerely,

Rob Cantrell
EVP, Crius Energy

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[6] *See Natural Gas Interim Rates Effective September 19, 2017*, available on-line at: https://www.montana-dakota.com/docs/default-source/bill-inserts-by-state/natural-gas-interim-rates-(sep---oct)-(37430).pdf?sfvrsn=6