

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO**

**IN THE MATTER OF THE TARIFF SHEETS)
FILED BY COLORADO NATURAL GAS, INC.)
WITH ADVICE LETTER 89)**

Proceeding No. 18AL-___G

**DIRECT TESTIMONY OF
KENT D. TAYLOR**

May 8, 2018

**SUBMITTED ON BEHALF OF
COLORADO NATURAL GAS, INC.**

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1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. Kent D. Taylor, 777 29th Street, Suite 200, Boulder, Colorado, 80303.

4 Q. ON WHOSE BEHALF IS YOUR TESTIMONY PRESENTED?

5 A. Colorado Natural Gas, Inc. ("CNG").

6 Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

7 A. I am an independent consultant working exclusively for Kinect Energy Group.
8 Headquartered in Plymouth, Minnesota, Kinect offers advisory and fulfillment
9 solutions with respect to power, natural gas, and other energy products. I provide
10 regulatory consulting services to Kinect as requested.

11 Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND RELEVANT
12 BUSINESS EXPERIENCE.

13 A. Information responsive to this question is shown in Appendix 1.

14 Q. HAVE YOU TESTIFIED BEFORE OTHER REGULATORY BODIES?

15 A. Yes. I have testified before the Federal Energy Regulatory Commission, the
16 Colorado Public Utilities Commission, the Public Service Commission of Nevada,
17 Régie Du Gaz Naturel Du Quebec, the Missouri Public Service Commission, and
18 the Florida Public Service Commission.

19 Q. IN WHAT CAPACITY?

20 A. I have testified as a cost of service, cost allocation and rate design witness, and
21 as a client management representative.

22 II. PURPOSE OF TESTIMONY

23 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

1 A. I will explain the analysis and conclusions that led CNG to propose its rate design.

2 **III. LIST OF EXHIBITS SPONSORED IN TESTIMONY**

3 **Q. ARE YOU SPONSORING EXHIBITS?**

4 A. Yes, I am sponsoring Exhibit KDT-1, Rate Design.

5 **Q. WAS YOUR EXHIBIT PREPARED BY YOU OR UNDER YOUR DIRECTION?**

6 A. Yes.

7 **IV. CONCLUSION SUMMARY**

8 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS.**

9 A. CNG has historically collected a significant portion of its customer-related costs
10 from volumetric distribution charges rather than from fixed service and facility
11 charges. I conclude this ratio should be adjusted such that more revenue is
12 collected from service and facility charges and less revenue is collected from
13 distribution charges. This approach is consistent with the generally accepted
14 ratemaking principle that, when practicable, costs should be recovered from the
15 customers that cause them. Although my proposal does not completely align cost-
16 recovery with cost-causation, the ratio of revenue recovered through service and
17 facility charges would increase compared to CNG's existing practices, and more
18 closely align with this principle.

19 **V. CNG'S PREVIOUS RATE FILINGS**

20 **Q. PLEASE EXPLAIN HOW CNG'S PREVIOUS RATE FILINGS ASSIGNED**
21 **COSTS TO CUSTOMER CLASSES AND TO RATE CLASSIFICATIONS.**

22 A. CNG has filed three general rate cases since it commenced operations in 2000. In
23 its first two general rate case filings, Docket Nos. 05S-412G and 06S-394G, CNG

1 did not perform a class cost of service study. The monthly service and facility
2 charges were set without analytical support, the corresponding service and facility
3 revenues were calculated, and the residual revenue requirements were divided by
4 the total projected sales volumes in order to calculate the volumetric distribution
5 charge applied to all of CNG's retail sales customer classes. In its third general
6 rate case filing, Docket No. 13AL-0153G, CNG performed a modified cost of
7 service study, like the one Tyson Porter performed for this proceeding, but agreed
8 to continue the practice of under-collecting customer-related costs from service
9 and facility charges and collecting the shortfall through volumetric distribution
10 charges.

11 **Q. HOW MUCH OF THE COST OF SERVICE WAS REPRESENTED BY**
12 **CUSTOMER-RELATED COSTS IN THE SETTLEMENT OF THE LAST RATE**
13 **CASE AND HOW MUCH WAS PREDICTED TO BE RECOVERED THROUGH**
14 **THE SERVICE AND FACILITY CHARGES?**

15 A. In the last rate case, the Commission approved a cost of service of \$18,086,942.
16 Of that amount, customer-related costs were \$7,451,415, or 41.20% of the total.
17 Under the principle that costs should be recovered from cost causers, this amount
18 would have been recovered through CNG's service and facility charges. However,
19 the ultimate resolution of the case approved by the Commission reduced the
20 amount of costs to be recovered through service and facility charges from 41.20%
21 to 18.07% of the total approved cost of service.

22 **VI. RATE DESIGN**

23 **Q. HAVE YOU CALCULATED RATES SUFFICIENT TO COLLECT ALL**

1 **CUSTOMER-RELATED COSTS FROM SERVICE AND FACILITY CHARGES?**

2 A. Yes. Exhibit KDT-1, Schedule 1, calculates the rates needed to recover all of
3 CNG's customer-related costs from service and facility charges and all of its
4 noncustomer-related costs from distribution charges. Customer-related costs are
5 shown as \$10,784,787, representing 46.25% of the total cost of service.

6 **Q. ARE YOU PROPOSING RATES AS CALCULATED IN EXHIBIT KDT-1,**
7 **SCHEDULE 1?**

8 A. No. Exhibit KDT-1, Schedule 1 shows what the monthly service and facility
9 charges would be if CNG collected all its customer-related costs through fixed
10 charges. If CNG did so, the Mountain Division's residential customers would see
11 their monthly service and facility charge increase 236%, from \$14.00 to \$47.00,
12 and the Eastern Colorado Division's residential customers would see their monthly
13 service and facility charge increase 90%, from \$10.00 to \$19.00. However, to
14 lessen the impact of significant increases in monthly fixed charges, CNG proposes
15 to collect only part of its customer-related costs through fixed charges and collect
16 the remainder of them through volumetric charges.

17 **Q. CAN YOU DESCRIBE THE SERVICE AND FACILITY CHARGE COMPONENT**
18 **OF CNG'S PROPOSED RATES?**

19 A. I (1) set the residential service and facility charges at \$25.00 for the Mountain
20 Division and \$15.00 for the Eastern Colorado Division, which amounts are less
21 than the full-cost amounts discussed above; (2) retained the commercial and large
22 volume customer service and facility charges from the values calculated in Exhibit
23 KDT-1, Schedule 1, on lines 5 and 13, (3) calculated the revenues from the service

1 and facility charges referenced in (1) and (2) above; and (4) calculated the
2 volumetric distribution charges applied to all customer classes using the residual
3 revenue requirement. Exhibit KDT-1, Schedule 2, reflects this analytical narrative.

4 **Q. HOW DOES YOUR PROPOSED RATE DESIGN COMPARE TO THE SERVICE**
5 **AND FACILITY CHARGES THAT WOULD BE JUSTIFIED IN EXHIBIT KDT-1,**
6 **SCHEDULE 1?**

7 A. Strictly applying the principle that costs should be recovered from cost causers
8 would lead to recovery of 46.25% of CNG's total cost of service through service
9 and facility charges. To lessen the impact on residential customers of significant
10 increases in monthly fixed charges and provide them greater control over their fuel
11 bills, CNG proposes that it recover 26.55% of its total cost of service from service
12 and facility charges. This is substantially less than the 46.25% referenced in Exhibit
13 KDT-1, Schedule 1, but, on a percentage basis, still above the 18.07% the
14 Commission approved in CNG's last rate case and brings CNG's rate design more
15 in line with generally accepted ratemaking principles.

16 **VII. CONCLUSION**

17 **Q. PLEASE STATE YOUR CONCLUSIONS.**

18 A. CNG's proposed hybrid approach to rate design helps lessen the impact on
19 residential customers of significant increases in fixed charges, while moving the
20 residential service and facility charges closer to those which are justified by Exhibit
21 KDT-1, Schedule 1.

22 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

23 A. Yes.

AFFIDAVIT

STATE OF COLORADO

)
) 18AL _____ G, IN THE MATTER OF THE TARIFF
) SHEETS FILED BY COLORADO NATURAL GAS,
) INC. WITH ADVICE LETTER 89

BOULDER COUNTY

)

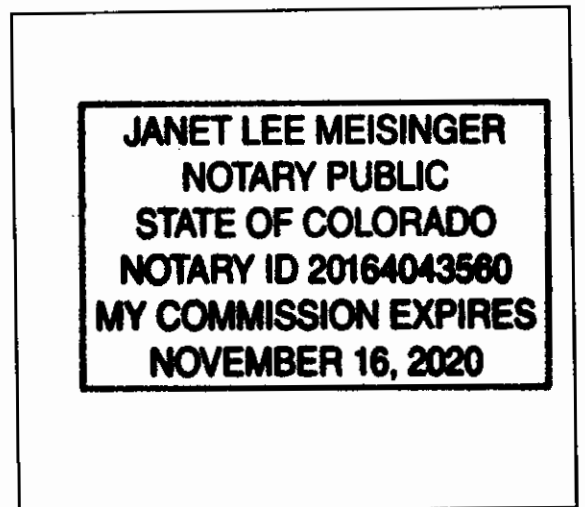
I, Kent D. Taylor, having been duly sworn upon my oath, state that I am the person identified in the foregoing prepared testimony and/or exhibits; that such testimony and/or exhibits were prepared by or under my direction; that the answers and/or information appearing therein are true to the best of my knowledge and belief; and that if asked the questions appearing therein, my answers thereto would, under oath, be the same.

Kent D. Taylor
Kent D. Taylor

Subscribed and sworn before me to this 8th day of May, 2018

Janet Lee Meisinger
Notary Public

My Commission expires: November 16, 2020



KENT D. TAYLOR
PROFESSIONAL QUALIFICATIONS

**INDUSTRY
EXPERIENCE**

OCTOBER 2015 to CURRENT

Independent consultant working exclusively for Kinect Energy, Inc.

OCTOBER 1984 to OCTOBER 2015

Chairman, KTM, an energy management and consulting business specializing in the economic interests of large natural gas and electricity users.

JANUARY 1984 to OCTOBER 1984

Director of Gas Acquisitions, KN Energy, Inc. Responsible for natural gas supply for company's integrated pipeline system, operating in seven states. Other responsibilities included all liquids marketing, negotiation of transportation and exchange agreements, pursuit of additional markets, and gas sales agreements for affiliate exploration company.

APRIL 1981 to JANUARY 1984

Director of Corporate Development, Celeron Corporation. Responsible for new business development, acquisitions and mergers, strategy development for existing pipelines (Louisiana Intrastate Gas and Mid Louisiana Gas), and gas marketing for Rocky Mountain area exploration efforts.

AUGUST 1980 to APRIL 1981

Senior Sales Representative, Colorado Interstate Gas Company (CIG). Primary responsibility was new market development. Also negotiated industrial gas sales agreements.

APRIL 1978 to JULY 1980

Senior Staff Analyst, Special Projects, CIG. Responsibilities included formulation of negotiating strategies, initiation of new business opportunities and economic analyses for investment decisions.

JANUARY 1975 to AUGUST 1978

Senior Rate Analyst, CIG. All facets of interstate pipeline rate making.

KENT D. TAYLOR
PROFESSIONAL QUALIFICATIONS

EDUCATION

BSBA, University of Florida, Gainesville, Florida
1967
Major: Accounting

MS, The George Washington University, Washington D.C.
1972
Major: Public Administration

MBA, University of Colorado, Colorado Springs
1979
Major: Accounting/Finance

U.S. Naval Flight Training
Designated U.S. Naval Aviator July 1969

Defense Resource Management Education Course, Navy
Postgraduate School, Monterey, California
1988

PROFESSIONAL QUALIFICATIONS

Certified Public Accountant, Colorado
Captain, U.S. Naval Reserve (retired)

OTHER TESTIMONY

Regie Du Gaz Naturel Du Quebec
Florida Public Service Commission
Colorado Public Utilities Commission
Public Utilities Commission of Nevada
Federal Energy Regulatory Commission
Missouri Public Service Commission

Colorado Natural Gas, Inc.

Rate Design

Exhibit No. KDT-1

May 8, 2018

Colorado Natural Gas, Inc.
CPUC Docket No 18AL - _____ G
Rate Design with Full Cost Classification by Rate Area

Line No	Particulars	Reference	Cost of Service	Residential	Commercial	Large Volume
	(a)	(b)	(c)	(d)	(e)	(f)

Mountain System

Customer Costs						
1	Amount	Exhibit TDP-4	\$ 9,817,416			
2	Percent of total	allocation factor (7)	100.00%	96.33%	3.67%	
3	Assignment			\$ 9,457,441	\$ 359,974	
4	Annual bills	allocation factor (7) * 12		201,420	5,808	
5	Monthly Customer Charge	line 3 ÷ line 4		\$ 46.95	\$ 61.98	
Noncustomer costs						
6	Amount	Exhibit TDP-4	\$ 11,198,007			
7	Annual wx normalized sales volume - dt	Exhibit TDP-2	1,448,448			
8	Distribution rate	line 6 ÷ line 7	\$ 7.731	\$ 7.731	\$ 7.731	

Eastern Colorado

Customer Costs						
9	Amount	Exhibit TDP-4	\$ 967,371			
10	Percent of total	allocation factor (7)	100.00%	89.58%	9.23%	1.19%
11	Assignment			\$ 866,553	\$ 89,289	\$ 11,529
12	Annual bills	allocation factor (7) * 12		46,272	3,612	360
13	Monthly Customer Charge	line 11 ÷ line 12		\$ 18.73	\$ 24.72	\$ 32.02
Noncustomer costs						
14	Amount	Exhibit TDP-4	\$ 1,335,213			
15	Annual wx normalized sales volume - dt	Exhibit TDP-2	392,589			
16	Distribution rate	line 14 ÷ line 15	\$ 3.401	\$ 3.401	\$ 3.401	\$ 3.401

Reconciling Calculations

Mountain System				
Customer	\$ 9,817,416		46.72%	customer charges
Noncustomer	11,198,007			
Total Cost of Service	<u>\$ 21,015,423</u>			
Eastern Colorado				
Customer	\$ 967,371		42.01%	customer charges
Noncustomer	1,335,213			
Total Cost of Service	<u>\$ 2,302,584</u>			
Total				
Customer	\$ 10,784,787		46.25%	customer charges
Noncustomer	12,533,221			
Total Cost of Service	<u>\$ 23,318,007</u>			

Colorado Natural Gas, Inc.
CPUC Docket No 18AL - _____ G
Rate Design with Residential S&F Charge at \$25.00/\$15.00; fully allocated for others (note 1)

Line No	Particulars (a)	Reference (b)	Cost of Service (c)	Residential (d)	Commercial (e)	Large Volume (f)
Mountain System						
Rate Design Calculations						
1	Customer costs	Exhibit TDP-4	\$ 9,817,416			
2	Noncustomer costs	Exhibit TDP-4	<u>11,198,007</u>			
3	Total Revenue Requirement	line 1 + line 2	\$ 21,015,423			
4	Monthly Customer Charge	proposed (note 1)		\$ 25.00	\$ 61.98	
5	Annual bills	allocation factor (7) * 12		<u>201,420</u>	<u>5,808</u>	
6	Amount to Recover by Customer Class	line 4 * line 5	\$ 5,395,474	\$ 5,035,500	\$ 359,974	
7	Residual amount to recover from distribution charge	line 3 - line 6	\$ 15,619,948			
8	annual sales volumes in Dt	Exhibit TDP-2	<u>1,448,448</u>			
9	Distribution rate		<u>\$ 10.784</u>			
Eastern Colorado						
Rate Design Calculations						
10	Customer costs	Exhibit TDP-4	\$ 967,371			
11	Noncustomer costs	Exhibit TDP-4	<u>1,335,213</u>			
12	Total Revenue Requirement	line 10 + line 11	\$ 2,302,584			
13	Monthly Customer Charge	proposed (note 1)		\$ 15.00	\$ 24.72	\$ 32.02
14	Annual bills	allocation factor (4)		<u>46,272</u>	<u>3,612</u>	<u>360</u>
15	Amount to Recover by Customer Class	line 13 * line 14	\$ 794,898	\$ 694,080	\$ 89,289	\$ 11,529
16	Residual amount to recover from distribution charge	line 12 - line 15	\$ 1,507,687			
17	annual sales volumes in dt	Exhibit TDP-2	<u>392,589</u>			
18	Distribution rate		<u>\$ 3.840</u>			

Notes (1) Residential S&F charges are established at \$25.00 for Mountain System and \$15.00 for Eastern Colorado. Commercial and Large Volume S&F charges are calculated using the same percentage relationships to residential as in current tariff but limited to Exhibit KDT-1, Schedule 1 maximums.

Reconciling Calculations

Mountain System			
Customer	\$ 5,395,474	25.67%	customer charges
Noncustomer	<u>15,619,948</u>		
Total Cost of Service	<u>\$ 21,015,423</u>		
ECU			
Customer	\$ 794,898	34.52%	customer charges
Noncustomer	<u>1,507,687</u>		
Total Cost of Service	<u>\$ 2,302,584</u>		
Total			
Customer	\$ 6,190,372	26.55%	customer charges
Noncustomer	<u>17,127,635</u>		
Total Cost of Service	<u>\$ 23,318,007</u>		