

Michael Green  
900 N. Last Chance Gulch, Suite 200  
P.O. Box 797  
Helena, MT 59624-0797  
406.457.2021 direct line  
406.449.5149 facsimile  
mgreen@crowleyfleck.com

February 20, 2018

**Via Electronic Mail**

Trevor Graff  
Research Analyst  
Montana Legislative Environmental Policy Office  
PO Box 201704  
Helena, MT59620-1704

Re: HJ 28- Response to ETIC regarding MDU cost estimates of Gas Choice

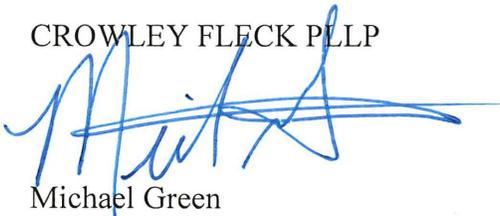
Dear Mr. Graff,

Attached is Montana Dakota Utilities' response to the Committee's request for additional information regarding the cost estimates for implementation and operation of a gas choice program. While Montana Dakota conducted a robust analysis of the potential costs related to implementation of a gas choice program, the process was somewhat informal. Given the uncertainty regarding the scope and terms of a future gas choice program Montana Dakota relied on various assumptions and estimates. As a result, the attached work sheet is intended to provide the additional non-confidential information Montana Dakota is willing to share regarding the assumptions utilized to develop estimates based on its internal costs and experience with similar software system upgrades.

Please do not hesitate to contact me, Aimee Grmoljez, or Gary Forrester with any questions.

Sincerely,

CROWLEY FLECK PLLP



Michael Green

cc: MDU

# Montana-Dakota Utilities Co.

## Customer Choice Program

### Estimated Implementation and Maintenance Costs

*Underlying Assumption - Customer Choice on Montana-Dakota's system could result in 4-5 suppliers participating in various programs that could be offered to Montana-Dakota's 84,000 natural gas customers located in 38 communities in Montana*

#### Initial Start Up Costs

Meter Data Management System	A meter data management software system will be required to properly collect, maintain, control, and report daily measurement data for use in balancing gas receipts at Montana-Dakota's border stations for Montana-Dakota and Customer Choice suppliers and deliveries to individual customers. This information will also be required for proper billing. Montana-Dakota has access to network data over most of its system however, currently this data is retrieved and used for billing purposes on a monthly basis. Montana-Dakota does currently maintain a daily meter measurement system for its interruptible transportation services but this system is designed for a limited customer count and not scalable to a potentially large customer base.	\$1,000,000
Customer Billing Changes	Approximately 7,700 hours of Information Technology Staff time estimated to be necessary to design, develop and implement changes to the Company's billing system and bill form necessary to accommodate Customer Choice. Extensive testing will be required to ensure the integrity of the customer information system for billing all other customers is not compromised.	385,000
Regulatory	Outside legal costs associated with developing, filing and processing a case before the PSC in order to unbundle rates and implement Gas Choice terms and conditions of service provisions in its tariff	100,000
Customer Service Center	Develop web changes and new work flows or customer processes to accommodate Customer Choice activities.	300,000
		\$1,785,000

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## Customer Choice Program

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#### Ongoing Operation & Maintenance Expense

##### Gas Supply

2.5 FTE will be required to more rigorously monitor and adjust forecasting formulae to accommodate the dynamics a Customer Choice program may present. Specifically:

- 1.) core customer demand is highly dependent on customer count on a particular day,
- 2.) customers choosing Customer Choice will impact the formulae variables used for demand forecasting (an individual forecast would be required for Choice customers in addition to core customer forecast), and
- 3.) transmission capacity management will need strict attention to maintain ample capacity, allowing Montana-Dakota to provide backup service
- 4.) data transmission from MDU's fixed network to the Meter Data Management System(s) will need to be closely monitored to mitigate risk of misinformation represented on billing and balancing.
- 5.) nominations, balancing, and reporting of gas flow by vendor for Choice Customer use will need to be managed

\$425,000

##### Customer Service Center

Assumed a potential for 25% of the customer base calling to discuss Customer Choice Program. This results in the need to add 5 customer service agents in order to maintain targeted phone response times for all customers.

300,000

##### Customer Accounting

1.5 FTE for incremental IT maintenance of the customer billing system to accommodate customer choice & 1.5 FTE for revenue accounting personnel to address billing issues and adjustments associated with Customer Choice

275,000

##### Total Ongoing Expenses

\$1,000,000

Montana-Dakota Utilities Co.  
Customer Choice Program  
Estimated Implementation and Maintenance Costs

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**Other Variable Costs Depending on Customer Location**

MDU's fixed network will be required throughout MDU-Montana service territory to maintain the ability to collect daily measurement data. These territories includes locations that would not normally be considered a candidate for fixed network due to lower population density. These costs include equipment, joint use agreements (as needed), and installation costs.

\$125,000