

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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	)	<b>DOCKET NO. 19-057-02</b>
	)	
<b>APPLICATION OF DOMINION</b>	)	
<b>ENERGY UTAH TO INCREASE</b>	)	<b>Exhibit No. DPU 4.0 Dir</b>
<b>DISTRIBUTION RATES AND</b>	)	
<b>CHARGES AND MAKE TARIFF</b>	)	
<b>MODIFIATIONS</b>	)	<b>Direct Testimony of</b>
	)	<b>David Thomson</b>
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**FOR THE DIVISION OF PUBLIC UTILITIES  
DEPARTMENT OF COMMERCE  
STATE OF UTAH**

**Direct Testimony of**

**David Thomson**

**October 17, 2019**

1 **Introduction**

2 **Q. Please state your name and occupation.**

3 A. My name is David Thomson. I am employed by the Utah Division of Public Utilities  
4 (“Division”) as a Utility Technical Consultant.

5 **Q. What is your business address?**

6 A. Heber M. Wells Office Building, 160 East 300 South, Salt Lake City, Utah, 84111.

7 **Q. Please describe your education and work experience.**

8 A. I graduated from Brigham Young University with a Bachelor of Science degree in  
9 Accounting. I am a Certified Public Accountant, licensed in the state of Utah. I began  
10 working for the Division in July of 2004.

11 **Q. Have you testified before the Public Service Commission of Utah (Commission)**  
12 **previously?**

13 A. Yes. I have testified in many rate case proceedings and other matters before the Commission.

14 **Q. What is the purpose of the testimony that you are now filing?**

15 A. The purpose of my testimony is to explain and provide support for the Division’s adjustment  
16 to Dominion Energy Utah’s (Company) 2017 Lead Lag Study that was provided in its  
17 general rate case filing (“GRC”) Docket No. 19-057-02<sup>1</sup>.

18 **Q. Please summarize the Division’s conclusions.**

19 A. The Division believes that the Company’s filed Lead Lag Study indicating net lag days of  
20 7.358 should be adjusted to show net lag days of -0.828 or negative 0.828 days. DPU  
21 Exhibit 4.1 Dir is the Company’s Lead Lag Summary page 1.1.1 after the proposed Division

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<sup>1</sup> See Direct Testimony of Jordan K. Stephensen; Section K; Lines 420 to 460 and DEU Exhibit 3.27 attached to his testimony.

22 adjustments. The Company's page 1.1.1 initially showed the filed net lag days of 7.358 but  
23 after all of the Division's adjustments, as reflected in Exhibit 4.1 Dir, the net lag days are  
24 shown to be negative 0.828. Using the Division's proposed negative 0.828 net lag days  
25 reduces the Company's requested revenue requirement by \$1,496,508. This is the stand alone  
26 dollar amount for the Lead Lag adjustment. The dollar amount for the adjustment may  
27 change when combined together with other DPU adjustments.

28 **Q. Did the Division review the Lead Lag Study that the Company provide in its GRC**  
29 **filing?**

30 A. Yes. Division Utility Analyst Jeffrey S. Einfeldt and I worked together to review the  
31 Company's Lead Lag Study and the Division's proposed change results from those efforts.  
32 As part of our review of the filing we met with Company personnel to discuss specific  
33 questions that we had after our initial review of the Lead Lag Study. We also reviewed data  
34 request responses the Company provided to others that directly related to the Company's  
35 Lead Lag Study. The Division did not prepare any data requests related to the Lead Lag  
36 Study.

37 **Q. How many adjustments did the Division make to the Company's Lead Lag Study?**

38 A. The Division made four adjustments to the Company's Lead Lag Study. The adjustments are  
39 explained in the following testimony.

40 **Q. Please explain the Division's first adjustment.**

41 A. In its initial review of the Company's Lead Lag Study the Division discovered an addition  
42 error on the Company's Lead Lag summary page 1.1.1. The Depreciation and Deferred  
43 Income Tax (DIT) lag line amounts in the Revenue and Expense column and the Amount for

44 Lead Lag column were left out of the Total Expense Lag amounts for the above respective  
45 columns. In other words these amounts needed to be included in the calculation but were  
46 not. In the Division's Lead Lag meeting with the Company this error was pointed out and  
47 the Company verbally agreed that the error did exist in the summary and should be corrected.  
48 This was later agreed to in writing as a response to the Office of Consumer Services (OCS)  
49 Data Request No. 5.30. A copy of this data request can be found in DPU Exhibit 4.2 Dir.  
50 DPU Exhibit 4.8 Dir shows that correcting this addition error reduces the Company's net lag  
51 days by 2.986 days (See number 1 of the Exhibit – parenthesis around the numbers in the  
52 exhibit means a reduction or negative amount).

53 **Q. What is Division's second adjustment?**

54 A. This adjustment is also a correction to the Company's Lead Lag summary page 1.1.1. The  
55 Division noted after its review of OCS Data Request No. 5.29, that in response to the OCS  
56 question as to why the depreciation expense in the summary was being included as a negative  
57 expense, the Company stated that the depreciation expense should be a positive number.  
58 This Division adjustment changes the depreciation expenses amounts from negative to  
59 positive. A Copy of OCS Data Request No. 5.29 can be found in DPU Exhibit 4.3 Dir. Per  
60 DPU Exhibit 4.8 Dir, the changing of the depreciation amount from negative to positive  
61 reduces the Company's net lag days by 0.758 days (See number 2 of the Exhibit).

62 **Q. Will you explain the Division's third adjustment?**

63 A. Yes. In response to a Working Capital query by the OCS in its Data Request No. 5.12, which  
64 the Division has provided in DPU Exhibit 4.4 Dir, the Company stated the following.

65 Beginning in 2017, Dominion Energy Utah has not contributed to the pension  
66 plan. The pension credit shown above is a component of costs that have

67 typically been included in the lead-lag study. In this case, the Company has  
68 proposed removing the pension from the test period and would support  
69 removing the pension credit from the lead-lag as well, for consistency.  
70

71 The Division is proposing in its third adjustment to remove pension plan expense from the  
72 Lead Lag Study. To determine the impact of this adjustment to Lead Lag days required a  
73 two-step process. The first step was to remove the pension plan expense from the payroll  
74 overhead workpaper in the Lead Lag Study. This workpaper is page 5.4.1 in the Study. A  
75 copy of this page with the pension expense removed is found in DPU Exhibit 4.5 Dir and the  
76 removal of the pension expense is the first highlighted row of the Exhibit. After removal of  
77 pension plan expense, the payroll overhead lag days changed from 18.152 lag days to 26.174  
78 lag days. This is shown by the second highlighted row in DPU Exhibit 4.5 Dir. The  
79 Company verified this change in OCS Data Request No. 5.14. DPU Exhibit 4.6 Dir provides  
80 a copy of this data request.

81  
82 The second step was to use the 26.174 lag days in the Company's Lead Lag workpaper 5.1.1  
83 which is a summary of payroll and payroll overhead lag. DPU Exhibit 4.7 Dir provides a  
84 copy of this workpaper page with the information after the Division's changes. The first  
85 highlighted row on DPU Exhibit 4.7 Dir substitutes 26.174 lag days for the original lag days  
86 of 18.152. The second highlighted row on DPU Exhibit 4.7 Dir shows that after the  
87 substitution of 26.174 lag days, the lag days for payroll and payroll overhead becomes  
88 18.603 days, the Amount to O&M becomes \$50,476,812 and the Dollar Days become  
89 \$939,033,600.

90

91 These new amounts and lag days were then used to correct the old amounts and days in the  
92 Lead Lag summary for the line entitled Payroll & Payroll Overhead Lag as can be found at  
93 that line in DPU Exhibit 4.1 Dir. DPU Exhibit 4.8 Dir, shows that this adjustment reduces  
94 net lag days by 0.111 (See number 3 of the Exhibit).

95 **Q. What is the Divisions fourth and final adjustment related to your testimony?**

96 A. The fourth adjustment removes Federal income taxes and State income taxes from the Taxes  
97 Lag section on the Company's summary page 1.1.1. Referring to DPU Exhibit 4.1, which  
98 shows all of the Division adjustments, you can see that this has been done. All columns for  
99 the Federal Income Taxes and the State Income Taxes rows in the summary are either blank  
100 or have zeros (0.000). DPU Exhibit 4.8 Dir indicates that this adjustment reduces Lead Lag  
101 days by 4.331 days (See number 4 of the Exhibit).

102 **Q. Why did the Division remove Federal and State income amounts and lag days from the**  
103 **Lead Lag Study?**

104 A. The Division removed these amounts and lag days to be consistent with the way the  
105 Company has historically treated Federal and State income expense in past Lead Lag Studies  
106 when no tax expense was paid by the Company in the year of the study. As stated above, in  
107 its Lead Lag Studies for 2010 and 2014, the Company did not include Federal and State  
108 income taxes in its Taxes lag section because the Company did not owe taxes for those  
109 years.<sup>2</sup> In response to OCS data request 5.22, the Company stated the following.

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<sup>2</sup> See the Note at the bottom of page 6.6.1 for the 2010 Lead Lag Study which states, "The Company was in the position of a Net Operating Loss in 2010. Thus, no tax payments were made." Because no tax payments were made, page 6.6.1 had zero for Amounts, Lag Days, and Dollar days to carry over to the Summary, which is page 1.1.1. Thus the Summary has zeros for all columns for the Federal and State taxes rows under the Taxes Lag section of the Summary. See also Note 1/ at the bottom of page 6.6.1 for the 2014 Lead Lag Study which states, "The Company was in the position of a Net Operating Loss in 2014. Bonus depreciation was extended for 2014 at the end of 2014

110 The Company historically has relied on the most recent year's actual activity  
111 related to taxes to complete the lead-lag study.

112 In response to OCS data request 5.24, the Company stated the following.

113 Dominion Energy, Inc. and Subsidiaries' 2017 Federal Income Tax Return was  
114 in an overpaid position so no cash income tax payments were made to the  
115 Federal Government in 2017 or in 2018 for tax year 2017.

116 In 2010 and 2014 no taxes were paid due to a net operating loss or no tax liability,  
117 respectively. In 2017 no taxes were paid due to an overpaid position. Since the Company  
118 historically has relied on the most recent year's actual activity related to taxes to complete  
119 the Lead Lag Study, the 2017 tax activity should be used for the 2017 Lead Lag Study.

120  
121 The Company in its 2017 Lead Lag Study has negative Federal and State tax expense and  
122 negative Dollar Days in the Summary page 1.1.1. In OCS Data Request No. 5.19, the  
123 Company explained that the negative amount represents Federal tax cash settlements made to  
124 the company for the 2017 tax year. It was not recorded as Federal income tax expense on the  
125 Company's Books during 2017, because the Company had no payments to the government in  
126 2017 and thus no expense. The Division's reason for eliminating Federal and State income  
127 taxes in the 2017 Lead Lag Study is consistent with the Company's prior filings. In its filing  
128 and accompanying testimony the Company has not justified using negative amounts from a  
129 settlement in the Federal and State tax expense section of the Lead Lag Study. It was  
130 included in the study without comment, explanation, or justification. Thus its use is  
131 unsupported.

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which resulted no tax liability for the year." This situation for 2014 was treated exactly the same on the 2014 summary as it was for the 2010 summary explained above.

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133 This is the first time that negative amounts have been used in the Taxes Lag section of the  
134 Company Lead Lag summary compared with the previous three Lead Lag Studies. The 2006  
135 Lead Lag Study summary had positive amounts and, as explained above, for years 2010 and  
136 2014 the Taxes Lag section had no amounts. Since negative amounts have not been seen in  
137 past studies is it a onetime occurrence? Was it generated by the tax law change, most likely a  
138 once in a generation event or more, or some similar one-time event? To derive lag days from  
139 a non-recurring event would be improper because, for rate making purposes the Lead Lag  
140 Study should use Lead Lag components that are consistent from period to period. The  
141 components to compute Lead Lag days should not reflect a one-time event.

142 **Q. Does this conclude your testimony?**

143 A. Yes.