

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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|   |   |                                     |
|---|---|-------------------------------------|
| Application of Dominion Energy Utah to  | ) |                                     |
|   | ) | <b>Docket No. 19-057-02</b>         |
| Increase Distribution Rates and Charges | ) |                                     |
|   | ) | <b>Phase II Direct Testimony of</b> |
|   | ) | <b>James W. Daniel</b>              |
| and Make Tariff Modifications           | ) | <b>On behalf of the</b>             |
|   | ) | <b>Office of Consumer Services</b>  |

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November 14, 2019

**CONFIDENTIAL INFORMATION INCLUDED**

Subject to Rule 746-100-16

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1 ***Experience and Qualifications***

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is James W. Daniel. My business address is 919 Congress Avenue,  
4 Suite 1110, Austin, Texas, 78701.

5 **Q. PLEASE OUTLINE YOUR FORMAL EDUCATION.**

6 A. I received the degree of Bachelor of Science from Georgia Institute of Technology  
7 in 1973 with a major in economics.

8 **Q. WHAT IS YOUR PRESENT POSITION?**

9 A. I am an Executive Consultant with the firm GDS Associates, Inc. ("GDS") and  
10 Manager of GDS's office in Austin, Texas.

11 **Q. PLEASE STATE YOUR PROFESSIONAL EXPERIENCE.**

12 A. From July 1974 through September 1979 and from August 1983 through February  
13 1986, I was employed by Southern Engineering Company. During that time, I  
14 participated in the preparation of economic analyses regarding alternative power  
15 supply sources and generation and transmission feasibility studies for rural  
16 cooperatives. I participated in wholesale and retail rate and contract negotiations  
17 with investor-owned and publicly-owned utilities, industrial customers,  
18 associations, and government agencies. From October 1979 through July 1983, I  
19 was employed as a public utility consultant by R.W. Beck and Associates. During  
20 that time, I participated in rate studies for publicly-owned electric, gas, water and  
21 wastewater utilities. My primary responsibility was the development of revenue  
22 requirements, cost of service, and rate design studies as well as the preparation  
23 and submittal of testimony and exhibits in utility rate proceedings on behalf of

24 publicly-owned utilities, industrial customers and other customer groups. Since  
25 February 1986, I have held the position of Manager of GDS's office in Austin,  
26 Texas. In April 2000, I was elected as Vice President of GDS. While at GDS, I have  
27 provided testimony in numerous regulatory proceedings involving electric, natural  
28 gas, and water utilities, and I have participated in generic rulemaking proceedings.  
29 I have prepared retail rate studies on behalf of publicly-owned utilities, and I have  
30 prepared utility valuation analyses. I have also prepared economic feasibility  
31 studies, and I have procured and contracted for wholesale and retail energy  
32 supplies.

33 **Q. WOULD YOU PLEASE DESCRIBE GDS?**

34 A. GDS is an engineering and consulting firm with offices in Marietta, Georgia; Austin,  
35 Texas; Auburn, Alabama; Manchester, New Hampshire; Madison, Wisconsin; and  
36 Orlando, Florida. GDS has over 160 employees with backgrounds in engineering,  
37 accounting, management, economics, finance and statistics. GDS provides rate  
38 and regulatory consulting services in the electric, natural gas, water, storm, and  
39 telephone utility industries. GDS also provides a variety of other services in the  
40 electric utility industry including power supply planning, generation support  
41 services, energy procurement and contracting, energy efficiency program  
42 development, financial analysis, load forecasting, and statistical services. Our  
43 clients are primarily privately-owned utilities, publicly-owned utilities,  
44 municipalities, customers of investor-owned utilities, groups or associations of  
45 customers, and government agencies.

46 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY**  
47 **COMMISSIONS?**

48 A. I have testified many times before regulatory commissions including the Public  
49 Service Commission of Utah. A complete list of regulatory proceedings in which I  
50 have presented expert testimony is provided as Exhibit OCS 4.1D.

51 ***Introduction***

52 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

53 A. I am testifying on behalf of the Utah Office of Consumer Services ("OCS").

54 **Q. PLEASE DESCRIBE OCS.**

55 A. OCS is Utah's utility consumer advocate. OCS represents residential, small  
56 commercial, and agricultural consumers in various electric, natural gas, and  
57 telephone utility proceedings before the Utah Public Service Commission ("PSC"  
58 or "Commission").

59 **Q. WHAT WAS YOUR ASSIGNMENT IN THIS PROCEEDING?**

60 A. My assignment was to analyze Dominion Energy Utah's  
61 ("DEU" or "Company") proposed class cost of service study ("COSS") and rate  
62 design in this proceeding.

63 **Q. PLEASE SUMMARIZE THE CONCLUSIONS AND RECOMMENDATIONS YOU**  
64 **HAVE REACHED BASED UPON YOUR REVIEW AND ANALYSIS OF DEU'S**  
65 **APPLICATION.**

66 A. Based on my review and analysis, I have reached the following conclusions and  
67 recommendations:

68 (1) General plant depreciation expenses should be allocated on the  
69 basis of a gross general plant allocation factor.

- 70 (2) Costs should be allocated to interruptible customers consistent with  
71 the Commission's Order in Docket No. 07-057-013.
- 72 (3) DEU's proposed GS rate re-design causes significant increases in  
73 smaller GS customers' bills while providing significant decreases in  
74 larger GS customers' bills.
- 75 (4) DEU's proposed GS rate re-design should be rejected in this case  
76 since anticipated customer migrations will change the customer  
77 composition of the GS class and the costs allocated to the class.
- 78 (5) The revenue distribution should be based on my adjusted COSS.
- 79 (6) One of the customers in the TBF customer class should no longer be  
80 considered a bypass threat and should take service under a non-  
81 discounted rate.
- 82 (7) In its next rate case, DEU should consider dividing the GS customer  
83 class into two or more classes or justify its use of a single rate class.  
84 In its next rate case, DEU should consider developing a separate  
85 rate class for smaller transportation customers.

86 ***Class Cost of Service Study Issues***

87 **Q. WOULD YOU BRIEFLY DESCRIBE THE PURPOSE OF A COSS?**

88 A. The primary purpose of a class COSS is to determine the portion of the utility's  
89 total retail cost of service or revenue requirement that should be borne by each  
90 customer class, absent other factors that may be appropriate to consider. Each  
91 cost component of the utility's total cost of service is either directly assigned or  
92 allocated to the various customer classes. The results are then considered to  
93 determine the level of revenues needed to be recovered through rates from each  
94 customer class. The results of the COSS will also provide important information  
95 for designing rates.

96

97 **Q. WHAT ARE THE BASIC STEPS FOR PREPARING A CLASS COSS?**

98 A. A COSS is typically developed in three distinct steps. First, the various  
99 components of the utility's overall revenue requirements are assigned to their  
100 functional use, *e.g.*, transportation, distribution, metering, and billing and customer  
101 service. Next, the functionalized costs are classified based on cost causation  
102 factors to the cost categories of fixed or demand-related, variable or consumption-  
103 related, and customer-related. Finally, the classified costs are directly assigned or  
104 allocated to customer classes using allocation factors developed for each  
105 classified cost category. Various methodologies or approaches exist for  
106 conducting each step in the COSS process.

107 **Q. IS DETERMINING THE CUSTOMER CLASSES AN IMPORTANT STEP IN**  
108 **DETERMINING THE COSS?**

109 A. Yes. Determining the customer groups to be used as customer classes is an  
110 important step in ratemaking. For determining customer classes, it is critical that  
111 similar customers be grouped into classes. Criteria that are typically used to group  
112 customers into customer classes include usage and demand characteristics, end-  
113 uses, size, and/or location on the system,

114 **Q. BASED UPON YOUR REVIEW AND ANALYSIS OF DEU'S PROPOSED COSS,**  
115 **HAVE YOU IDENTIFIED ANY ISSUES OR PROBLEMS WITH DEU'S STUDY?**

116 A. Yes. I have identified four problems with DEU's COSS. These are: (1) DEU has  
117 incorrectly allocated general plant related depreciation expenses, (2) DEU has not  
118 followed Commission precedent in allocating costs to the interruptible service  
119 customer class, and (3) the customer classes used for DEU's COSS do not match

120 DEU's expected make-up of these customer classes. I will further discuss each  
121 problem below.

122 ***Allocation of General Plant Depreciation Expenses***

123 **Q. PLEASE EXPLAIN HOW DEU IS ALLOCATING GENERAL PLANT RELATED**  
124 **DEPRECIATION EXPENSES TO CUSTOMER CLASSES.**

125 A. In addition to specifically developed allocation factors, COSS models typically  
126 develop internally generated allocation factors within the model. Examples of  
127 internally generated allocation factors include total operations and maintenance  
128 ("O&M") expenses, gross plant, net plant, rate base, or total revenue. In its COSS,  
129 DEU uses an internally generated total gross plant allocator for allocating general  
130 plant depreciation expenses.

131 The problem with using the total gross plant allocation factor is that general  
132 plant, and therefore, general plant depreciation expenses, has no relationship to  
133 total gross plant. By far the largest component of DEU's total gross plant is  
134 distribution plant. Therefore, using the gross plant allocation factor to allocate  
135 general plant depreciation expenses will allocate most of this expense on the basis  
136 of gross distribution plant. General plant depreciation expenses are caused by  
137 general plant, not distribution plant.

138 **Q. WHAT IS THE APPROPRIATE ALLOCATION FACTOR TO ALLOCATE**  
139 **GENERAL PLANT DEPRECIATION EXPENSES?**

140 A. Since general plant depreciation expenses are based on general plant, then an  
141 allocation factor based on gross general plant should be used. This is consistent  
142 with DEU's allocation of distribution plant depreciation expenses, which was



143 allocated using a gross distribution plant allocation factor. Correcting this  
144 allocation factor reduces the costs allocated to the General Service (“GS”) class  
145 by approximately \$803,000.

146 ***Allocation of Costs to Interruptible Service Customers***

147 **Q. IS DEU PROPOSING TO CHANGE THE METHODOLOGY APPROVED BY THE**  
148 **COMMISSION IN DEU’S 2007 RATE CASE FOR ALLOCATING COSTS TO**  
149 **INTERRUPTIBLE SERVICE CUSTOMERS?**

150 A. Yes. In Docket No. 07-057-13 the Commission ordered that interruptible service  
151 customers should pay for a portion of costs allocated on the basis of peak demand.  
152 DEU uses a design-day allocation factor for allocating peak demand related costs.  
153 In its 2009 general rate case, DEU used a version of a design-day allocation factor  
154 that partially allocated peak demand related costs to the interruptible service  
155 customers per the Commission’s order.

156 In this case, DEU is ignoring the Commission’s order in Docket No. 07-057-  
157 13 and again not allocating any peak demand related costs to interruptible service  
158 customers.

159 **Q. IS DOCKET NO. 07-057-13 THE LAST LITIGATED DEU RATE CASE?**

160 A. Yes, all cases since then have been settled or withdrawn.

161 **Q. DOES DEU SUPPORT THIS DEPARTURE FROM THE COMMISSION’S PRIOR**  
162 **ORDER OR DEMONSTRATE THAT CHANGES HAVE OCCURRED WHICH**  
163 **WOULD SUPPORT THIS DEPARTURE FROM THE COMMISSION’S ORDER?**

164 A. No. It appears that DEU is mostly making arguments similar to those previously  
165 rejected by the Commission. DEU also states there is a “risk” that an excessive

166 level of costs could be allocated to interruptible customers. Since DEU is departing  
167 from the most recent Commission Order regarding this issue, the Company has  
168 an obligation to provide a higher level of support for using an allocation method  
169 that is contrary to Commission precedent.

170 **Q. HAVE THE INTERRUPTIBLE SERVICE CUSTOMERS BEEN REQUIRED TO**  
171 **INTERRUPT DURING PEAK DEMAND PERIODS?**

172 A. Very infrequently. Per DEU's response to OCS Data Request No. 6.17, during the  
173 last six years, DEU has only asked interruptible customers to reduce usage to their  
174 firm contract demand on three occasions. These are: (1) December 5, 2013, (2)  
175 December 31, 2014, and (3) January 6, 2017. I would note that on these same  
176 days, DEU also asked its firm Transportation Service ("TS") customers to reduce  
177 their usage to the lower of their firm contract demand or their scheduled quantities  
178 for the day. A copy of DEU's response to OCS Data Request No. 6.17 is included  
179 in Exhibit OCS 4.2D.

180 **Q. HAS ANYTHING HAPPENED THAT WILL FURTHER REDUCE THE**  
181 **LIKELIHOOD OF INTERRUPTIONS OF INTERRUPTIBLE CUSTOMERS?**

182 A. Yes, the Commission approved a liquefied natural gas ("LNG") facility for DEU in  
183 Docket No 19-057-13. The LNG facility can be used to avoid having to call on  
184 interruptible customers to interrupt.

185 **Q. HAS DEU PROVIDED THE INFORMATION NECESSARY TO ALLOCATE**  
186 **COSTS TO THE INTERRUPTIBLE CUSTOMERS CONSISTENT WITH THE**  
187 **COMMISSION'S ORDER IN DOCKET NO. 07-057-13?**

188 A. Yes. In its response to OCS Data Request 2.18, DEU provided a revised  
189 calculation of the design day allocation factor. I have used this revised factor in  
190 my adjusted COSS. A copy of DEU's response to OCS Date Request No. 2.18 is  
191 included in Exhibit OCS 4.2D.

192 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE ALLOCATION OF**  
193 **COSTS TO INTERRUPTIBLE CUSTOMERS?**

194 A. DEU has not supported departing from the Commission's order in Docket No. 07-  
195 057-13 regarding the allocation of costs to the interruptible customers. The  
196 Commission should again reject DEU's arguments regarding not allocating peak  
197 demand related costs to the interruptible service customers. Changing this  
198 allocation factor reduces the costs allocated to the GS class by approximately  
199 \$54,000.

200 ***Customer Classes Used for the COSS***

201 **Q. HAS DEU RAISED A CUSTOMER MIGRATION ISSUE IN ITS RATE CASE**  
202 **APPLICATION?**

203 A. Yes. This issue is generally discussed on page 11, lines 275-284, of the direct  
204 testimony of DEU witness Austin Summers. As described, DEU has been  
205 experiencing the migration of larger Rate GS and Rate FS customers to the TS  
206 rate class. As large customers leave the GS and FS rate classes, this leaves costs  
207 that the remaining, smaller GS and FS customers must pay. In addition, the  
208 customers migrating to the TS rate class are bringing new costs to a class that is  
209 already being subsidized.

210 **Q. WHAT IS DEU'S PROPOSED SOLUTION TO THE CUSTOMER MIGRATION**  
211 **ISSUE OR PROBLEM?**

212 A. DEU is proposing a three-pronged solution to the problem. First, DEU proposes a  
213 minimum Dth gas usage threshold required to qualify for the TS rate, i.e.,  
214 transportation service rate. Second, DEU proposes to re-design the GS Rate so  
215 that large GS customers do not pay as much as they do under the current rate  
216 design. Third, DEU proposes to significantly increase the TS rate so that the  
217 smaller TS customers in that class will likely be forced to move to another rate  
218 class.

219 **Q. DO THESE PROPOSALS CAUSE ANY COST ALLOCATION PROBLEMS?**

220 A. Yes. While these three proposed solutions to the problem are more-related to rate  
221 design issues, they will cause a COSS problem. Assuming DEU's proposals work,  
222 it will cause a customer migration from the TS class back to other rate classes.

223 **Q. WHY IS THIS A PROBLEM?**

224 A. This customer migration will change the make-up of the TS customer class and  
225 the classes that TS customers migrate to, which changes the allocated cost of  
226 service of each customer class.

227 **Q. IS DEU'S PROPOSED RE-DESIGN OF THE GS RATES BASED ON THE**  
228 **CURRENT MAKE-UP OF THE CUSTOMER CLASSES?**

229 A. Yes.

230

231

232 **Q. IN YOUR OPINION, IS IT REASONABLE TO IMPLEMENT A MAJOR RE-**  
233 **DESIGN OF THE GS RATES IN THIS CASE KNOWING THAT THE CUSTOMER**  
234 **CLASS MAKE-UP AND CHARACTERISTICS WILL CHANGE IN DEU'S NEXT**  
235 **RATE CASE?**

236 A. No. In my opinion that would be inefficient and could cause rate instability for some  
237 customers in the GS customer class. The intended customer migrations will likely  
238 result in different costs being allocated to the GS class. These different costs could  
239 result in reversing, or partially reversing, some of the proposed GS rate changes  
240 in this case. As I will further explain later in my testimony, DEU's proposed re-  
241 design of the GS rates has different impacts on customers in the customer class.  
242 Smaller customers get rate increases while larger customers get rate decreases.  
243 It makes no sense to implement these rate changes in this case while planning to  
244 regroup customer classes in the next rate case that could alter or reverse these  
245 proposed rate changes.

246 ***Revenue Distribution***

247 **Q. WHAT ARE THE RESULTS OF DEU'S PROPOSED COSS?**

248 A. As shown on DEU Exhibit 4.06, the current rate revenues of some customer  
249 classes are substantially below the class's allocated cost of service. These  
250 customer classes are TBF and TS. Since the TBF rate is discounted to try to  
251 prevent customers from implementing their bypass option, it is by design that the  
252 current TBF rate would be below the cost of service. There is not a similar reason  
253 for the TS customer class.

254 **Q. DOES DEU EXPLAIN WHY THE CURRENT TS RATES ARE SO LOW?**

255 A. Yes. Per DEU's COSS the current base TS rates are only paying for approximately  
256 40% of that customer class's allocated cost of service. DEU witness Austin  
257 Summers explains on page 11, lines 267-284 and on page 13, line 321, through  
258 page 14, line 357, of his direct testimony why the Company believes the TS rate  
259 is currently so far below its cost of service.

260 **Q. IS THE COMPANY PROPOSING TO INCREASE THE TS RATES TO FULL**  
261 **COST OF SERVICE?**

262 A. Yes. DEU states that this customer class has been subsidized for many years and  
263 that it is time to fix the problem.

264 **Q. DO YOU AGREE WITH DEU'S PROPOSED INCREASE FOR THE TS RATE**  
265 **CLASS?**

266 A. While typically I would recommend that a Commission consider potential rate  
267 shock and gradualism, I understand that the subsidy of the TS class has continued  
268 for many years and has been getting worse. Thus, I understand that it is the  
269 Office's position to move the TS class to full cost of service. I would also note that  
270 the Office's revenue requirement analysis and recommendation for a rate  
271 decrease will serve to mitigate any rate shock of bringing classes to full cost of  
272 service.

273 **Q. HOW DOES YOUR ADJUSTED COST OF SERVICE TREAT THE TS CLASS?**

274 A. My adjusted COSS, at the OCS's revenue requirement, allocates a lower cost of  
275 service to the TS rate class. A comparison of the class rate increases (or  
276 decreases) necessary to move each class to their cost of service is provided in the  
277 Table below:

278

Table 1

| Line No. | Rate Class                 | Current Base Rate     | Dominion Proposed Base Rate Increase |             | OCS Proposed Base Rate Increase (Note 1) |              |
|----------|----------------------------|-----------------------|--------------------------------------|-------------|--|--------------|
|          |                            | Revenues              | \$                                   | %           | \$                                       | %            |
|          | (a)                        | (b)                   | (c)                                  | (d)         | (e)                                      | (f)          |
| 1        | General Service            | \$ 343,174,439        | \$ 5,152,407                         | 1.5%        | \$ (25,008,602)                          | -7.3%        |
| 2        | Firm Sales                 | 2,670,970             | 200,760                              | 7.5%        | (50,903)                                 | -1.9%        |
| 3        | Interruptible Sales        | 186,124               | (32,023)                             | -17.2%      | 17,987                                   | 9.7%         |
| 4        | Transportation Service     | 28,202,776            | 12,869,493                           | 45.6%       | 9,293,026                                | 33.0%        |
| 5        | Transportation Bypass Firm | 1,507,777             | 876,956                              | 58.2%       | 640,687                                  | 42.5%        |
| 6        | Natural Gas Vehicle        | 2,634,071             | 208,576                              | 7.9%        | 928,464                                  | 35.2%        |
| 7        | <b>Total</b>               | <b>\$ 378,376,157</b> | <b>\$ 19,276,170</b>                 | <b>5.1%</b> | <b>\$ (14,179,342)</b>                   | <b>-3.7%</b> |

Note 1: Does not reflect adjustment to Transportation Bypass Firm Class Discount.

279

280

A copy of my adjusted COSS is provided as a workpaper.

281

**Q. SINCE OCS IS RECOMMENDING AN OVERALL REVENUE DECREASE FOR DEU, WOULD IT BE REASONABLE TO INCREASE THE RATES FOR ANY CUSTOMER CLASS?**

283

284

A. Given the subsidy situation regarding the TS class, as discussed in the direct testimony of DEU witness Austin Summers, I believe it is reasonable to increase the TS rates in this case while some customer classes should get rate decreases.

285

286

287

**Q. BASED ON YOUR ADJUSTED COSS, WHAT IS YOUR RECOMMENDED REVENUE DISTRIBUTION TO THE CUSTOMER CLASSES?**

288

289

A. I recommend that customer class revenue levels be set equal to their allocated cost of service in my adjusted COSS, as shown on Table 1 above.

290

291

### **Rate Design Issues**

292

**Q. PLEASE PROVIDE A BRIEF DISCUSSION OF THE RATE DESIGN PHASE OF ESTABLISHING RATES.**

293

294

A. The rate design phase is the last step in the ratemaking process. A specific rate will be designed for each customer class. The class revenue distribution is the starting point for each customer class rate design. The class's revenue distribution

295

296

297 (or allocated cost of service if the class revenue equals the results of the COSS)  
298 is then assigned to the various rates, e.g., base DNG rate or fixed charge rate.  
299 Each rate is then calculated based on adjusted billing determinants such that the  
300 rates recover the class revenue requirement.

301 ***Proposed GS Rate Re-Design***

302 **Q. PLEASE DESCRIBE DEU'S PROPOSED GS RATE DESIGN CHANGES.**

303 A. The current GS volumetric rates have two rate blocks with a higher rate for the first  
304 rate block which is applied to the first 45 Dth of usage and a lower rate for the  
305 second rate block which is applied to all usage over 45 Dth. There is also a  
306 summer/winter rate differential with the winter rate being \$1.24855 per Dth higher  
307 than the summer rate. DEU is proposing to change both of these rate design  
308 features. Under DEU's proposed GS rate, the Dth usage threshold between the  
309 first and second rate blocks will be reduced from 45 Dth to 30 Dth. In addition, the  
310 summer/winter rate differential is reduced from \$1.24855 per Dth to \$1.00297 per  
311 Dth. The Company is also proposing to increase the rate differential between the  
312 first and second rate blocks by \$0.75114 per Dth.

313 **Q. WHAT IS THE BASIS FOR DEU'S PROPOSED GS RATE RE-DESIGN?**

314 A. DEU claims that the larger GS customers are subsidizing the small customers.  
315 The Company has developed cost curves to attempt to determine rates that reduce  
316 the claimed intra-class subsidies.

317

318



319 **Q. HAS DEU SHOWN HOW ITS PROPOSED GS RATE RE-DESIGN IMPACTS**  
320 **CUSTOMER'S BILLS?**

321 A. The Company has only shown the impact on a "typical" GS customer. As  
322 discussed on page 28, lines 725-734, of the direct testimony of DEU witness Austin  
323 Summers, a "typical" GS customer that uses 80 Dth will see their annual bill  
324 increase by \$42.16. As shown on DEU Exhibit 4.16, the \$42.16 bill increase is a  
325 6.83% increase over the "typical" customer's total bill, including charges for  
326 supplier non-gas ("SNG") rates and gas costs.

327 **Q. ARE THERE ANY PROBLEMS WITH DEU'S ANNUAL BILL IMPACT**  
328 **ANALYSIS FOR A "TYPICAL" GAS CUSTOMER?**

329 A. Yes, there are several problems with DEU's analysis. However, before discussing  
330 these problems, it is important to point out that the monthly usage of DEU's "typical"  
331 GS customer never exceeds 14.9 Dth in any month and averages only 6.7 Dth per  
332 month. The 14.9 Dth is less than one-half of the proposed 30 Dth usage break  
333 between the two rate blocks. In other words, the "typical" GS customer's monthly  
334 usage never gets close to the 30 Dth level needed to reach the lower rate for the  
335 second block. This is an indication that the customer make-up of the GS class and  
336 the GS rate design are not in sync.

337 The first problem with the Exhibit 4.16 annual bill impact analysis is that it  
338 was using total charges to calculate the 6.83% increase. The total charges include  
339 the SNG charges and gas costs. This case is only considering distribution non-  
340 gas ("DNG") charges. By calculating the percent increase over total current  
341 charges, DEU is understating the proposed percent increase over the DNG

342 charges, i.e., the charges that are affected by this case. For this “typical” GS  
343 customer, DEU’s proposed increase of \$42.16 over the DNG charges is actually  
344 15.25%.

345 The second problem with DEU’s customer bill impact analysis is that it only  
346 looks at one customer size, or the “typical” customer. The GS class includes a  
347 very diverse group of customers. Their annual usage levels are also very diverse  
348 and are mostly very different from the “typical” 80 Dth of annual gas usage used  
349 for DEU Exhibit 4.16. Since DEU is proposing a major rate re-design for the GS  
350 class, the percentage impacts on customer’s bills will vary substantially. Under  
351 DEU’s proposed GS rate design, the larger GS customers will receive decreases  
352 in their bills. However, the “typical” customers and smaller customers will receive  
353 significant increases in their bills. I have prepared an exhibit that shows the diverse  
354 impact on GS customers due to DEU’s proposed rate re-design and revenue  
355 requirement increase. This Exhibit is identified as Exhibit OCS 4.3D. The table  
356 below summarizes the results shown on that exhibit.

357

358

359

360

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362

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364

365

Table 2

| Customer's Annual Usage | Annual Bill Under |                   | DEU Proposed Increase / (Decrease) |         |
|-------------------------|-------------------|-------------------|------------------------------------|---------|
|                         | Dth               | Current DNG Rates | Proposed DNG Rates                 | Amount  |
| 40                      | \$ 178.61         | \$ 199.68         | \$ 21.07                           | 11.80%  |
| 80                      | \$ 276.22         | \$ 318.35         | \$ 42.13                           | 15.25%  |
| 120                     | \$ 373.81         | \$ 526.05         | \$ 152.24                          | 40.73%  |
| 200                     | \$ 569.03         | \$ 658.33         | \$ 89.30                           | 15.69%  |
| 350                     | \$ 895.05         | \$ 929.33         | \$ 34.28                           | 3.83%   |
| 500                     | \$ 1,149.75       | \$ 1,153.83       | \$ 4.08                            | 0.35%   |
| 1000                    | \$ 1,913.02       | \$ 1,806.60       | \$ (106.42)                        | -5.56%  |
| 3000                    | \$ 4,605.09       | \$ 3,997.60       | \$ (607.49)                        | -13.19% |
| 5000                    | \$ 7,211.88       | \$ 6,155.54       | \$ (1,056.34)                      | -14.65% |
| 10000                   | \$ 13,728.89      | \$ 11,550.42      | \$ (2,178.47)                      | -15.87% |

366

367 As shown above, only showing the bill impact on the one "typical" GS customer is  
 368 misleading as to the consequences of DEU's proposed GS rate re-design.

369 **Q. HOW HAS DEU SUPPORTED REDUCING THE DTH USAGE LEVEL FOR THE**  
 370 **FIRST RATE BLOCK?**

371 A. As previously stated, the Company prepares cost curves to analyze costs and  
 372 rates. This is a statistical analysis that the Company claims provides insight for  
 373 designing some rates.

374 **Q. DOES THE COMPANY ALSO USE THE COST CURVES TO SUPPORT ITS**  
 375 **PROPOSED DECREASE IN THE RATE BLOCK RATE DIFFERENCES AND IN**  
 376 **THE SUMMER/WINTER RATE DIFFERENTIAL?**

377 A. It is not clear. The Company does not explain the basis for these two rate design  
 378 changes.

379

380 **Q. DO YOU BELIEVE THE COMPANY'S COST CURVES SUPPORT DEU'S**  
381 **PROPOSED GS RATE RE-DESIGN?**

382 A. No. The cost curves appear to use flawed assumptions regarding customer usage  
383 characteristics within a customer class. For example, the cost curves appear to  
384 assume all customers in the class have the same load factor. That is not the case.  
385 I have reviewed the average usage of various groups of GS customers. The load  
386 factors of those average usage amounts ranged from 28.8% to 35.7%. I would  
387 expect that the range of load factors for individual GS customers to be even  
388 greater. My load factor analysis is provided as a workpaper. The information used  
389 for this analysis was provided in response to OCS Data Request No. 6.14, which  
390 is included in Exhibit OCS 4.2D.

391 **Q. SHOULD THE COMMISSION REJECT DEU'S PROPOSED DESIGN OF THE GS**  
392 **RATE?**

393 A. Yes, for at least three reasons. First, DEU is proposing to cause customer  
394 migrations in this case so any major rate designs should be considered in DEU's  
395 next rate case when better information will be available for the changed customer  
396 classes. Second, DEU's proposed GS rate re-design has too big of an impact on  
397 the smaller customers in the rate GS class. Third, DEU has not adequately  
398 supported (1) the proposed change in the 45 Dth first block usage level, (2) the  
399 change in the rate differential between the first and second blocks, and (3) the  
400 proposed change in the summer/winter rate differential.

401

402

403 **Q. IS DEU PROPOSING MAJOR RATE RE-DESIGNS FOR THE FS, TS, IS AND**  
404 **TBF RATE CLASSES?**

405 A. No. This is explained on page 28, line 750, to page 29, line 760 of DEU direct  
406 testimony of DEU witness Austin Summers as follows:

407 These customer classes have all had customers leave in the last  
408 decade to take advantage of the subsidized rate in the TS class. If  
409 the Company were to change the rate design in these classes to  
410 accommodate the current customers, there would be risk that the  
411 proposed changes would not be effective for customers who choose  
412 to return to one of these classes once the TS class is at full cost. As  
413 with the TS class, the Company proposes to adjust any block breaks  
414 or block differentials after the customer classes have settled  
415 following the implementation of full-cost rates for the TS class.

416  
417 **Q. ISN'T THIS THE SAME REASON YOU USE FOR NOT APPROVING DEU'S**  
418 **PROPOSED GS RATE RE-DESIGN IN THIS CASE?**

419 A. Yes.

420 ***Rate TBF Issue***

421 **Q. HAS THE SIZE OF DEU'S TBF RATE CLASS DECREASED?**

422 A. Yes. As explained by DEU witness Austin Summers, one TBF customer migrated  
423 to rate TS. Also, one of the two remaining TBF customers has greatly reduced its  
424 annual Dth usage in recent years.

425 **Q. WHY DO YOU THINK ONE OF THE TBF CUSTOMER'S ANNUAL DTH USAGE**  
426 **HAS BEEN DECREASING?**

427 

428 

429 

430 [REDACTED]

431 **\*\*\*END CONFIDENTIAL\*\*\***

432 **Q. SHOULD THIS CUSTOMER CONTINUE TO RECEIVE SERVICE UNDER THE**  
433 **DISCOUNTED TBF RATE?**

434 A. Not in my opinion. In order to bypass the DEU system, this TBF customer would  
435 need to build a pipeline to another gas transportation pipeline in the area.

436 **\*\*\*BEGIN CONFIDENTIAL\*\*\*** [REDACTED]

437 [REDACTED]

438 [REDACTED] **\*\*\*END CONFIDENTIAL\*\*\*** Therefore, in my opinion, this customer  
439 is not a bypass threat and should not receive a discounted rate. This TBF  
440 customer uses **\*\*\*BEGIN CONFIDENTIAL\*\*\*** [REDACTED]

441 [REDACTED]

442 [REDACTED]

443 [REDACTED] **\*\*\*END**

444 **CONFIDENTIAL\*\*\***

445 ***Rate GS Customer Class Composition***

446 **Q. DO YOU HAVE ANY CONCERNS REGARDING THE COMPOSITION OF THE**  
447 **GS CUSTOMER CLASS?**

448 A. Yes. The current GS customer class includes residential customers plus a diverse  
449 variety of “general” or other customers. As previously discussed, DEU considers  
450 a “typical” GS customer to be one that uses 80 Dth per year. However, there are  
451 GS customers that use in excess of 18,000 Dth per year. This is a huge range in  
452 customer size for customers within the class. The average rate FS customer only

453 uses 6,070 Dth per year. In my opinion, it may make better sense from a  
454 ratemaking perspective to divide the GS customer class into two or more separate  
455 customer classes.

456 **Q. HAS DEU PROVIDED SUPPORT FOR THE CURRENT COMPOSITION OF THE**  
457 **GS CUSTOMER CLASS?**

458 A. No, other than stating the GS rate class has been in existence for several rate  
459 cases.

460 **Q. DO YOU BELIEVE DEU SHOULD CONSIDER CHANGING THE COMPOSITION**  
461 **OF THE GS CUSTOMER CLASS?**

462 A. Yes. After this rate case, DEU is anticipating customer migrations among several  
463 rate classes. It is also planning to address rate design problems with several  
464 customer classes in its next rate case. That next rate case would be the best time  
465 to also consider changing the composition of the GS customer class, or provide  
466 evidence demonstrating why a single GS class should be continued. As previously  
467 discussed, DEU should also wait to propose a GS rate re-design until its next rate  
468 case. The next rate case is when all GS rate issues can be considered together  
469 rather than in piecemeal.

470 ***Rate TS Customer Class Composition***

471 **Q. EXPLAIN DEU'S PROPOSAL TO INCENTIVIZE SMALLER RATE TS**  
472 **CUSTOMERS TO MIGRATE FROM A TRANSPORTATION SERVICE RATE**  
473 **CLASS TO A GAS SALES OR BUNDLED RATE CLASS?**

474 A. DEU claims that the TS rate class was not intended for service to small customers.  
475 To fix this problem, DEU is proposing to change the classification provisions for

476 rate TS and to significantly increase the TS rates in order to incentivize the small  
477 TS customers to migrate from a transportation service rate class to a gas sales or  
478 bundled rate class.

479 **Q. IS THERE ANOTHER SOLUTION TO DEU'S CLAIMED PROBLEM WITH THE**  
480 **COMPOSITION OF THE TS CUSTOMER CLASS?**

481 A. Yes. Instead of forcing small transportation service customers to move to a gas  
482 sales or bundled rate class, DEU could start a new transportation rate for service  
483 to smaller customers and design it to recover the appropriate level of costs to serve  
484 these customers.

485 **Q. SHOULD THIS ALTERNATIVE SOLUTION BE CONSIDERED IN THIS**  
486 **PROCEEDING?**

487 A. I do not believe the information necessary to develop a new transportation service  
488 rate class for smaller customers is available in DEU's rate application. This solution  
489 would need to be considered in DEU's next rate case.

490 ***Summary and Conclusions***

491 **Q. WHAT SUMMARY AND CONCLUSIONS HAVE YOU REACHED?**

492 A. Based on my review and analysis, I have reached the following conclusions and  
493 recommendations:

494 (1) General plant depreciation expenses should be allocated on the  
495 basis of a gross general plant allocation factor.

496 (2) Costs should be allocated to interruptible customers consistent with  
497 the Commission's Order in Docket No. 07-057-013.

498 (3) DEU's proposed GS rate re-design causes significant increases in  
499 smaller GS customers' bills while providing significant decreases in  
500 larger GS customers' bills.



- 501 (4) DEU's proposed GS rate re-design should be rejected in this case  
502 since anticipated customer migrations will change the customer  
503 composition of the GS class and the costs allocated to the class.
- 504 (5) The revenue distribution should be based on my adjusted COSS.
- 505 (6) One of the customers in the TBF customer class should no longer be  
506 considered a bypass threat and should take service under a non-  
507 discounted rate.
- 508 (7) In its next rate case, DEU should consider splitting the GS customer  
509 class into two or more classes.
- 510 (8) In its next rate case, DEU should consider developing a rate class  
511 for smaller transportation customers.

512 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

513 A. Yes.