–BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH–

IN THE MATTER OF THE REQUEST OF DOMINION ENERGY UTAH TO INCREASE DISTRIBUTION RATES AND CHARGES AND MAKE TARIFF MODIFICATIONS	))))))))	**DOCKET NO. 19-057-02** **Exhibit No. DPU 6.0 DIR** **Direct Testimony** **Howard E. Lubow** **Phase II**

FOR THE DIVISION OF PUBLIC UTILITIES

DEPARTMENT OF COMMERCE

STATE OF UTAH

Direct Testimony of

Howard E. Lubow

November 14, 2019

CONTENTS

LIST OF EXHIBITS

INTRODUCTION

Q. Please state your name and business address.

A. My name is Howard E. Lubow. My business address is Overland Consulting, 14105 Stearns Street, Overland Park, KS 66221.

Q. Please state your current position with Overland Consulting and summarize your professional experience relevant to your testimony in these proceedings.

A. I am President of Overland Consulting ("Overland"). I have testified in numerous proceedings across the country on gas distribution utility issues including gas curtailment, gas supply procurement, class cost of service, and tariff structures. I have also addressed natural gas pipeline matters, both on behalf of pipelines and shippers. I have addressed these matters on behalf of utilities and state commissions before state and federal regulatory agencies in the United States and Canada. I have provided class cost of service and rate design testimony in recent cases in Arizona and New Jersey on behalf of the ACC and BPU Staffs, respectively. In prior testimony, I have frequently developed electric and gas cost of service analyses, including proposed rate design structures. I testified here in Utah in Docket No. 17-057-09 regarding peak hour service requirements. A more complete representation of my experience is included in my resume attached to this testimony as DPU Exhibit 6.1 DIR.

Q. Would you please briefly summarize your experience as it relates to gas pipeline and distribution company operations and procurement practices?

A. I was the Chief Operating Officer of a gas pipeline company in the Midwest. In this capacity, among others, the Senior Vice-President, Engineering and Operations reported directly to me. Overland performs management audits of gas distribution companies, assessing various aspects of governance, finance, and operations. More specifically, these audit reviews encompass gas operations and supply practices. These engagements are focused on management effectiveness, policies and procedures, and the assessment of utility operations in light of industry best practices. I am currently the Project Director in a review of NYSEG and Rochester

Gas & Electric on behalf of the New York State Public Service Commission. Included with the scope of this audit is the review of gas planning, forecasting, and procurement practices.

Q. What is the scope of your testimony in this proceeding?

A. Overland was retained by the Division of Public Utilities ("DPU") to review the Dominion Energy Utah ("DEU" or "the Company") filing in this proceeding and to specifically address:

- The class cost of service ("CCOS") study filed by DEU; and
- The rate design proposals sponsored by DEU witnesses.

This testimony addresses my review of these subjects; and, more specifically, the direct testimony and exhibits of Company witnesses Austin C. Summers and Jessica L. Ipson.

Q. What material did you rely upon as the basis for your review and analysis?

A. I generally relied upon the following materials:

- The Application, direct testimony, and exhibits filed by DEU on July 1, 2019;
- Proposed Tariff Sheets filed with the Application;
- Presentation materials distributed at the Technical Conference held on September 12, 2019;
- Responses to discovery; and
- Interviews conducted at DEU corporate offices in Salt Lake City on October 11.

DEU CLASS COST OF SERVICE STUDY

Q. Would you please summarize the key elements of the DEU CCOS study filed in this proceeding?

A. Yes. As a result of my analysis, the following items have a potential for material variation in CCOS results and are worthy of further comment in this testimony and consideration in these proceedings.

- Customer classes and tariffs relied upon in the DEU CCOS and rate design.
- Key factors employed in the DEU study.

- Overland sensitivity analysis.

Q. Before we get into the specifics of your analysis, would you please provide a general assessment of the DEU study as filed in this proceeding?

A. As pointed out by Mr. Summers, the allocation factors used in the current CCOS are similar, if not the same, as those relied upon in recent DEU rate cases.[1] The most notable deviation from the prior study is the exclusion of interruptible volumes in the peak demand allocation factor.[2] While the DEU methodology is generally consistent with recognized cost allocation principles, I believe that it is desirable to consider a few modifications to better reflect Company and customer specific system characteristics.

Q. Is it possible to develop and implement a CCOS model capable of resulting in outcomes with absolute precision?

A. No. CCOS methodologies vary from company to company based on a number of factors, without any bias intended to achieve a particular outcome for one class of customers over another.

Q. Would you please describe the classes and / or customer tariffs considered in the current DEU study?

A. DEU has generally based its CCOS on its current customer tariffs. These tariffs include certain assumptions about customer groupings (such as combining residential and commercial customers in a GS tariff) that I recommend be addressed and modified with the goal of providing more precise and more transparent data upon which to support customer rates. These recommendations are associated with the GS and TS tariffs.

The GS tariff includes residential and commercial customers. While DEU is not necessarily the only utility in the US to combine these customers into a single tariff, it is much more common to separate them for CCOS and rate design purposes. While these customers share similar load

[1] Response to Discovery, DPU 1.03.
[2] Direct Testimony of Austin C. Summers at pages 8-9, lines 210-220.

characteristics arising from their usage being driven primarily by heating demand, their loads and load characteristics are not identical. The various methods employed by DEU to estimate customer load characteristics, even when assumed to produce reasonable outputs, cannot assure the same level of accuracy as would a stratification or separation of the GS customers.

Aside from separating the residential and commercial customers, a further separation of the commercial customers is also frequently made between large and small users defined by some volumetric consumption threshold.

Q. Do you recommend that these changes be made in this proceeding?

A. No. DEU did not develop analyses in this proceeding necessary to support these CCOS and rate design modifications. If the Commission finds that these modifications should be made, I propose that they be implemented in the next DEU rate proceeding. Further, as I will address in a later section of this testimony, I recommend that the TS class be split based on customer usage, and that such a separation be implemented in this proceeding.

DISTRIBUTION PLANT FACTOR.

Q. Have you had an opportunity to review the Distribution Plant Factor Study developed by DEU?

A. Yes, I have. This factor is important as it drives a material portion of the costs being allocated. The approach employed in this case is consistent with prior studies. It is based on a random sample of active meters for the GS class, relying on actual data for other customer groups.[3] The results of the DEU study are found in DEU Exhibit 4.03, page 6 of 6. 97.85% of costs attributable to this factor are assigned to the GS customers, 1.78% to the TS class, with only 0.37% being assigned to other classes. This concentration in the GS and TS classes supports stratification as proposed.

[3] Direct Testimony of Austin C. Summers at page 3, lines 69-75.

A further concern implicit in the Distribution Plant Factor Study is its failure to consider the system design based on non-coincident demand, having the implicit effect of assigning more cost to lower load factor customers. Data was not available in this case to determine the materiality of this load characteristic.

I do not propose any specific modifications to the Distribution Plant factor at this time. However, the factors identified above are taken into account in the proposals regarding further separation of current classes and tariffs, as well as in the hybrid design day/throughput factor weighting addressed later in this testimony.

DESIGN-DAY FACTOR.

Q. Did you perform a review and analysis of the peak responsibility factor that DEU employs?

A. Yes. DEU utilizes a Design-Day factor to assign costs it associates with customer coincident peak demand. I address two matters or issues associated with this factor as proposed by DEU in this case; these being somewhat interrelated.

The criteria employed by DEU to define its Design Day results in only a remote likelihood that demand for such capacity will be experienced. The actual use of the system capacity at the time of its peak day is a better benchmark of the benefit derived from facilities benefiting DEU customers. DEU has represented that the actual peak-day use by class or tariff rate schedules is not available.[4]

The projected 2020 Design-Day demand is 1,706,275 Dth;[5] while usage used to determine the Design Day Factor computed by DEU in this case is 1,442,192 Dth.[6] The actual peak day demand

[4] Response to Discovery, DPU 15.02 and 15.13.
[5] Direct Testimony of Austin C. Summers at page 9, lines 222-224.
[6] DEU Exhibit 4.05.

in 2018 was 1,064,752 Dth.[7] The material difference in design day and actual peak day demand is not unique to 2018.

There are two important factors at play in the use of the DEU design day versus actual peak usage. Low load factor, weather driven customers are assigned a greater percentage of the peak responsibility due to their peak-day load requirements in relation to other customers. This is further amplified by recent cases where DEU has set its planning criteria to reflect peak hour demands; thus attributing even greater demands on the low load factor, for weather sensitive customer loads. That is, during the peak hour, residential customers are projected to use more gas for heating purposes under peak design criteria employed by DEU. Secondly, interruptible usage on an actual peak day is ignored. DEU does not plan for interruptible usage in its construction of a design-day demand. However, interruptible customers have historically had gas deliveries during actual peak day conditions. In the last five years, curtailments occurred on December 31, 2014 and January 6, 2017.[8] While these curtailments occurred during cold weather conditions, they were not necessarily based on lack of pipeline or transmission capacity, but rather operational problems such as valve freeze-ups or equipment failures.

Based on the above circumstances, I have two recommendations:

- Use actual peak day usage instead of design day usage in CCOS.
- Include actual interruptible volumes occurring in the time of the peak day.

Based on its responses to discovery in this case, we do not have peak day data to develop an actual peak day factor in this case. However, I recommend that actual peak day data be utilized in the next DEU filing. Should the Commission choose not to impose this revision on DEU at this time, I would then recommend that DEU be required to develop and include this data in its next filing for consideration of the parties in that case.

[7] Response to Discovery, DPU 1.08.
[8] Response to Discovery, DPU 15.04.

Q. Is it possible to reflect the actual interruptible usage in the DEU peak day factor at this time?

A. Yes. As Mr. Summers explained in his testimony, interruptible usage has previously been included in the CCOS, but DEU has recommended it be excluded in this case. However, these volumes are available and have been produced in discovery. Exhibit 6.2 provides a recalculation of the Design Day Factor, recognizing interruptible volumes delivered at the time of the 2018 peak day. I have considered the impact of this modification on the CCOS results, and will address this in a later section of this testimony. The impact of this modification is not material on the IS customer allocation, and has a nominal effect on the TS allocation, increasing the allocation percentage by about 2.5%. The dollar impact of this change on TS customers is shown on Exhibit 6.3, raising the TS cost of service by approximately $2.2 million, or 7.6%.

60% DESIGN DAY; 40% THROUGHPUT FACTOR

Q. Have you reviewed the DEU hybrid allocation factor, which recognizes a combination of design day and throughput?

A. I have. Of course, this type of factor is ultimately somewhat subjective as to how to weight peak and annual usage among customer classes. Utilities often propose a 50% / 50% assignment where such a factor is employed. I am sure it is possible to reference a range of allocations employed in other cases in Utah and elsewhere. To my knowledge, however, there is no empirical analysis that supports a specific distribution to these components. The goal here is to recognize the diversity in the use of the system among various customer groups. Given the current use of a design day peak factor instead of an actual peak day factor, I believe that it is more appropriate to use a 50% peak day / 50% throughput hybrid factor. This would somewhat offset the overweighting of capacity costs to lower load factor firm users.

COST OF SERVICE RESULTS

Q. Have you developed a summary of the CCOS results based on the various issues you have raised thus far.

A. Yes. First, however, it is important to establish the starting point in the revenue requirement. Based on the filed testimony of Douglas D. Wheelwright, Overland has used the assumptions consistent with the DPU's indicated deficiency of $1,262,327.

Q. Recognizing the DPU revenue requirement results as a starting point, have you developed an analysis of the CCOS?

A. Yes. Exhibit 6.3 provides a summary of the results of my CCOS analysis. It contains four scenarios. For purposes of considering CCOS in this case, these factors should be recognized.

- Base Case (Reflects DPU Revenue Requirement; no Overland CCOS Adjustments)
- Design Day Adjusted to Reflect Interruptible Usage
- Design Day as Adjusted to Reflect 50% / 50% Hybrid Factor
- Adjusted Design Day and 50% / 50% Hybrid Factor

For now, if we focus on the impacts of these various these cases on GS and TS customers, it reveals a cost shift ranging from $2.2 million to $4.4 million from GS to TS customers. In my opinion, the case reflecting interruptible use in the Design Day Factor and recognition of the 50/50% Hybrid Factor presents the most reasonable assumptions in determining CCOS. In evaluating proposed rates, I believe that these results provide the best benchmark when considering proposed rate design. I will address this more specifically below as I discuss the rate design issues in this case.

Q. Have you reviewed Mr. Summers testimony regarding the migration of GS and FS customers to the TS class?

A. Yes, I have. Given the history described by Mr. Summers, I agree with him that "It is time to bring the TS rate class to full cost of service."[9] Mr. Summers indicates that TS customers currently pay only about 40% of the cost of service.[10] Taking the sensitivity analysis performed in this testimony, it is apparent that the disparity between cost and rates within the TS class would only widen if the additional factors identified are included in the CCOS.

RATE DESIGN

Q. Do you agree with Mr. Summers' testimony regarding the need to minimize interclass and intraclass subsidies?[11]

A. Yes, with certain caveats. While the consideration of CCOS is a desirable goal, it can never be reduced to a point estimate with absolute certainty. As Mr. Summers also recognizes, CCOS is not the only criteria applied in designing customer rates.

Q. Do you believe that the DEU development and use of cost curves represent "an accurate depiction of the costs that are caused by different customers within a class"?

A. To the extent that these classes are composed of relatively homogeneous groups, I would agree that the cost curves can produce reasonable estimates necessary to associate costs and revenue recovery over a range of usage. However, as stated earlier in my testimony, more accuracy and transparency will result if groups are stratified into separate classes, consistent with typical industry practice, where obvious disparities in consumption and load patterns exist.

TS CLASS RATE DESIGN

Q. The Company proposes no changes to the TS rate design aside from imposing a percent increase across the current rate structure and billing determinants. Do you agree with this approach?

[9] Direct Testimony of Austin C. Summers at page 12, line 301.
[10] Id. at page 14, lines 355-357.
[11] Id. at page 18, lines 463-476.

A. No. DEU is proposing a 35,000 Dth minimum use as a threshold criterion for eligibility in the TS class upon implementation of the proposed rates. I agree with this recommendation. However, I would also propose to isolate current nonconforming customers into a separate class; grandfather them in; and freeze the rate schedule at this time. These customers are clearly more aligned in size and consumption characteristics with GS customers than the large TS customers in this group. Separating these customers allows us to see the subsidies provided to this group, and to deal with it more directly; now and in future cases. Aside from this recommendation, I agree with the rate increase and rate structure principles proposed by DEU. More specifically, should the segregation of smaller users result in an implied subsidy by larger customers within this class, I agree that DEU should restrict the amount of the increase on this group at this time.

GS CLASS RATE DESIGN

Q. What is your view of the proposed changes in the GS class rate design?

A. As previously mentioned, I would place a high priority on the separation of residential customers in the next rate case. I also believe that a separation of large customers from small customers would constitute an additional enhancement. DEU has proposed to reduce its current block break from 45 Dth to 30 Dth. As a component of the DEU proposals, along with the indicated increase in the DEU revenue requirement, I would probably be agnostic on this proposed change. However, the DPU and OCS have recommended that revenues should be unchanged or reduced. This, coupled with my recommendations to separate this class into two or three groups in the future, leads me to a recommendation to defer at this time any revision in usage levels in the rate structure.

Q. Have you developed rate design and rate structure analyses consistent with the DPU revenue requirement and your proposed rate design modifications?

A. Yes. I have employed the DEU model to produce the various outcomes associated with the rate design options contained in this testimony, which again, includes:

- Base Case (Reflects DPU Adjustments) Exhibit 6.4.

- Design Day Adjusted to Reflect Interruptible Usage Exhibit 6.5.
- Design Day as Adjusted to Reflect 50%/50% Hybrid Factor Exhibit 6.6.
- Adjusted Design Day and 50%/50% Hybrid Factor Exhibit 6.7.

Each of these exhibits contains eight pages. Exhibit 6.4 is based on the DPU revenue requirement, and excludes the proposed Overland adjustments for the various factors identified in each of the scenarios identified above. The indicated increases to the TS class ranges from 37.9% to 53.2%, as detailed in Exhibits 6.4 to 6.7. These increases are primarily offset by decreases of 3.0% to 4.2% in the GS class. This intuitively makes sense, based on the migration of GS customers to TS service. The dollar amounts associated with these changes are almost offsetting. Given the size of the indicated increases, and recognizing that the overall revenue requirement is essentially unchanged, I do not propose to fully reflect the recovery of the TS costs in rates at this time.

Q. Based on the results of your CCOS study, and the outcome of the DPU revenue requirement analysis, what would you recommend that the Commission do in terms of rate design changes at this time?

A. I would recommend the following assuming the Overland Base Case (no Overland CCOS adjustments):

- No change in rates for FS, IS, and NGV customers.
- Increase TS and TBF customers 35% at this time. This results in increases of $10,141,180 and $559,131, respectively.
- Decrease GS in an amount equal to the TS and TBF increases, less $1,272,327. This results in a decrease of $9,437,984 or 2.67%.

Given the assumption of little to no change in the total Company revenue requirement, I would further recommend no changes to the current rate structure components, including rate blocks.

Q. Aside from the proposed rate design recommendations made directly above, would you please summarize the other recommendations made throughout your direct testimony?

A. Yes. With regard to the CCOS and rate design recommendations addressed, they include:

- Separate the residential customers from the GS class in the next rate case. To enable DEU and others to properly evaluate that change and its effects on proposals, analysis, and the like, the Commission should signal its intent to make the future change in this case's order.
- Consider separating the remaining GS commercial customers into large and small groups.
- Implement a peak responsibility factor based on actual peak usage rather than Design Day estimates. Should the Commission choose to not require this revision at this time, direct DEU to provide this peak day factor and supporting data for review and consideration by the parties in the next rate case proceedings.
- Modify the Design Day factor to include interruptible use as proposed in Exhibit 6.2.
- Change the 60% Design Day; 40% Throughput Factor to a 50% / 50% weighting.
- Split the TS Class based upon the 35,000 Dth threshold proposed by DEU, and freeze this group of nonconforming customers at this time.

Q. Have you reviewed the tariff changes proposed by Jessica L. Ipson?

A. Yes. I found the proposed revisions to be reasonable.

Q. Does this complete your prepared direct testimony?

A. Yes, it does.