BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF DOMINION ENERGY UTAH TO INCREASE DISTRIBUTION RATES AND CHARGES AND MAKE TARIFF MODIFICATIONS	Docket No. 19-057-02

REBUTTAL TESTIMONY OF

ALAN FELSENTHAL

ON BEHALF OF

DOMINION ENERGY UTAH

November 14, 2019

DEU Exhibit 6.0R

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1 **I. INTRODUCTION**

2 **Q. Please state your name, business address, occupation and employer.**

3 A. My name is Alan Felsenthal. My business address is One North Wacker Drive,
4 Chicago, Illinois, 60606. I am a Managing Director at PricewaterhouseCoopers LLP
5 ("PwC").

6 **Q. On whose behalf are you submitting this rebuttal testimony?**[1]

7 A. I am submitting this testimony on behalf of Dominion Energy Utah ("Dominion Energy",
8 "DEU", or the "Company").

9 **Q. Please describe your educational background and business experience.**

10 A. I graduated from the University of Illinois in 1971 and began my career at Arthur
11 Andersen & Co ("Arthur Andersen"), where I was an auditor, and focused on audits of
12 financial statements of regulated entities. In 2002, I joined PwC and became a
13 Managing Director in their Power and Utilities Group and continued performing audits
14 for regulated entities. I was hired by Huron Consulting Group ("Huron") in 2008 and
15 returned to PwC in November of 2010. At both Arthur Andersen and PwC, I
16 supervised audits of financial statements on which the firms issued audit opinions that
17 were filed with the SEC, the Federal Communications Commission, the Federal
18 Energy Regulatory Commission ("FERC") and various state commissions. At Arthur
19 Andersen, PwC and Huron, I consulted on a significant number of utility rate cases and
20 helped develop testimony for myself and others on a variety of issues, including
21 construction work in progress in rate base, projected test years, lead-lag studies, cost
22 allocation, several accounting issues (e.g., pension accounting, regulatory accounting,
23 income tax accounting, cost of removal) and compliance with the income tax
24 normalization requirements. I developed and presented utility accounting seminars
25 focusing on the unique aspects of the regulatory process and the resulting accounting

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[1] This rebuttal testimony was prepared in connection with the current Dominion Energy Utah rate case and for the use and benefit of Dominion Energy Utah. PwC disclaims any contractual or other responsibility to others based on their access to or use of this rebuttal testimony and the information contained herein.

26 consequences of the application of GAAP. I have also conducted these seminars in-
27 house for the FERC, several state commissions and I have presented at various Edison
28 Electric Institute and American Gas Association ratemaking and accounting seminars.

29 **Q. Please describe your duties and responsibilities at PwC.**
30 A. I am currently a member of the firm's Complex Accounting and Regulatory Solutions
31 practice. Throughout my career, my focus has been on the regulated industry sector,
32 primarily electric, gas, telecommunication and water utilities. I have focused on utility
33 accounting, income tax and regulatory issues, primarily as a result of auditing regulated
34 enterprises. The unique accounting standards applicable to regulated entities embodied in
35 Accounting Standards Codification ("ASC") 980, Regulated Operations (formerly,
36 Statement of Financial Accounting Standards ("SFAS"″) 71, FAS 90, FAS 92, FAS 101
37 and various Emerging Issues Task Force ("EITF") issues, all need to be understood so
38 that auditors can determine whether a company's financial statements are fairly presented
39 in accordance with generally accepted accounting principles ("GAAP"). I have
40 witnessed the issuance of these standards and have consulted with utilities as to how
41 they should be applied. At both Arthur Andersen and PwC, I worked with the technical
42 industry, accounting and auditing leadership to communicate and consult on utility
43 accounting and audit matters. My curriculum vitae is attached as DEU Exhibit 6.01R.

44 **Q. Have you previously provided testimony before the Utah Public Service Commission**
45 **("Commission")?**
46 A. No.

47 **Q. Have you testified in other jurisdictions?**
48 A. Yes. I have testified before the Arizona Corporation Commission, the Florida Public
49 Service Commission, the Hawaii Public Utilities Commission, the Illinois Commerce
50 Commission, the Indiana Utility Regulatory Commission, the Maine Public Utilities
51 Commission, the New Jersey Board of Public Utilities, the Public Utility Commission of
52 Ohio, the Public Utility Commission of Texas, the Washington Utilities and
53 Transportation Commission and FERC.

54 **Q. Have you read the direct testimony of DEU witness Jordan K. Stephenson,**
55 **Donna Ramas on behalf of the Office of Consumer Services ("OCS"), and Kevin C.**
56 **Higgins on behalf of the Utah Association of Energy Users Intervention Group**
57 **("UAE")?**
58 A. Yes.

59 **Q. What is the purpose of your rebuttal testimony?**
60 A. In its direct filing, DEU removed all pension-related components (prepaid pension asset
61 ($112.5 million), related accumulated deferred income taxes ("ADIT") ($27.8 million)
62 and pension expense (-$5.5 million)—in this instance, a negative pension expense) from
63 the cost-of-service determination. DEU witness Stephenson supported this position on
64 the basis that DEU did not contribute to the pension trust in 2017 and 2018 and does not
65 anticipate making cash contributions to the pension trust in the test period. Both OCS
66 and UAE disagreed with the Company's treatment of pension expense and recommended
67 including the negative pension expense in cost of service, while excluding the prepaid
68 pension asset from rate base, denying any return associated with this amount.

69 **II. SUMMARY**
70
71 **Q. Can you please summarize your rebuttal testimony?**
72 A. My rebuttal testimony discusses:

73 • Why DEU's approach, removing all pension items in the cost-of-service determination
74 for ratemaking purposes is appropriate in this general rate case proceeding as it is
75 supported by Federal Energy Regulatory Commission ("FERC") precedent and,
76 importantly, achieves a symmetrical and consistent result for all of DEU's pension-
77 related components (pension expense/credit, prepaid pension asset and related ADIT).
78 The approach supported by OCS and UAE is not symmetrical;

79 • Background on the accounting treatment of DEU's pension costs including the ERISA
80 requirements for contributions to the pension trust and why the existence of a prepaid
81 pension asset provides quantitative and qualitative benefits to ratepayers by reducing

82 pension expense (an operating expense included in cost of service) as well as
83 providing employees the likelihood that amounts will be available to pay their
84 retirement benefits; and

85 • The inequitable result stemming from the proposed ratemaking position advocated by
86 OCS and UAE which would provide customers the benefit of the lower pension
87 expense (in this case negative) without compensating investors, who are the source of the
88 prepaid pension asset that is lowering pension expense, a return on their investment for
89 the cash advanced to effectuate this cost of service reduction.

90 III. DEU'S RATEMAKING ADJUSTMENTS TO PENSION COSTS AND
91 ASSOCIATED REVENUE REQUIREMENT COMPONENTS

92 **Q. Please summarize DEU's ratemaking adjustments to the cost-of-service?**
93 A. In its filing, DEU eliminated the pension costs/credits from O&M expenses in its cost-of-
94 service and eliminated the prepaid pension asset (a working capital component) and the
95 associated ADIT from rate base. The rationale provided for this approach was that DEU
96 did not make any pension contributions to the pension trust in the test period nor does it
97 anticipate any contributions in the foreseeable future and is therefore excluding all
98 pension components from its filing. It is important to understand the interplay between
99 pension costs/credits and the prepaid pension asset to conclude why these components
100 must be treated consistently.

101 **Q. How has the Federal Energy Regulatory Commission's (FERC) regulation of the**
102 **gas pipeline industry addressed the ratemaking treatment of pension costs?**
103 A. In a number of cases, FERC regulators have taken an approach that permits recovery of
104 pension costs in ratemaking as long as such amount is consistent with the test period cash
105 contribution amounts made to the pension trust. In Docket No. RP87-115-000, the
106 FERC found that Williston Basin Interstate Pipeline Company's pension fund was fully
107 funded and no contributions would be made during the effective rate period, and
108 therefore, Williston Basin was not entitled to include the expense in its cost of service.
109 FERC has maintained this position in subsequent gas pipeline rate cases. FERC again

110 reaffirmed its methodology on pension costs in Docket No. RP92-163-000 in Williston
111 Basin Interstate Pipeline Company's subsequent Section 4 base rate case, by stating that
112 Williston Basin's sole reliance on the FAS 87 pension accrual is not sufficient
113 justification for the expense to be allowed in the cost-of-service for ratemaking purposes.

114 In more recent rate cases, FERC Staff has maintained the FERC Commission's position
115 on pension cost recovery. In one FERC rate case, no pension cost was allowed because:

116 "48. Even though El Paso presented evidence that its proposed pension expense figure is
117 derived from actuarial reports, El Paso did not establish that it was meeting, or will meet,
118 an obligation to fund the additional pension amounts, either by showing actual payment
119 or any other requirement that it make payment. El Paso has not shown that it was legally
120 required to make a pension expense nor has it shown that it deposited money into an
121 account designated for employee pensions."[2]

122 FERC recently reinforced its pension cost recovery methodology relative to DEU's
123 affiliate, Dominion Energy Transmission, Inc. (DETI) tax reform docket, RP19-62-000.
124 In that filing DETI made similar regulatory accounting adjustments in its filing to remove
125 all pension-related components from its cost-of-service calculation because no payment
126 to the pension fund was required and that no cash contribution to the pension fund
127 occurred in the period under review. Protests were filed in that docket, claiming that the
128 pension credit accruals should be included in the cost-of-service. The FERC ruled that
129 the pension adjustments were appropriate.[3]

130 **Q. Is DEU's position in this proceeding consistent with the FERC rulings discussed**
131 **above?**
132 A. Yes. As one more precedential FERC ruling, the FERC agreed with the position to not
133 permit pension expense in test periods where pension contributions were not made. In an

[2] 145 FERC ¶ 61,040 UNITED STATES OF AMERICA FEDERAL ENERGY REGULATORY COMMISSION El Paso Natural Gas Company Docket No. RP10-1398-000
[3] DEU Exhibit 6.02R

134 Order on Rehearing involving Williston Basin Interstate Pipeline Company, the FERC
135 stated:

136 "The Commission also said that use of accrual accounting for PBOP costs was generally
137 consistent with that allowed for pension costs, further noting that a company is not
138 permitted to charge ratepayers for accrued pension expenses when the plan was already
139 fully funded."[4]

140 In the various FERC decisions referenced, while pension costs were excluded from cost
141 of service, no prepaid pension asset was allowed in rate base either. Thus, a consistent
142 approach was adopted whereby none of the components of pension cost were included in
143 determining the allowed revenue requirement when no contributions to the pension trust
144 were made in the test period. This is the approach the Company has followed in its filing
145 in this docket. None of the components of pension cost have been included in
146 determining DEU's revenue requirement.

147 **Q. You have mentioned the importance of symmetry or consistency when considering**
148 **rate case treatment of pension cost components. Why is this important?**

149 A. Because the existence of a pension asset affects the calculated pension cost, both
150 components should be treated consistently in the rate case. In DEU's application, all
151 pension-related components have been removed from DEU's revenue requirement
152 determination, a symmetrical approach. An alternative position, also symmetrical, would
153 be to include both the prepaid pension asset in rate base and the pension expense
154 determined on an accrual basis (whether positive or negative) in cost of service.
155 However, including pension expense/credit in cost of service, but not including the
156 prepaid pension asset in rate base is both inconsistent and inequitable.

[4] 3 FERC ¶ 61,162 at 61,588 (1992)

157 **Q. Has there been any indication of the circumstances that contributed to the existence**
158 **of DEU's prepaid pension asset?**
159 A. By definition, the $112.5 million prepaid pension asset results from contributions to the
160 pension trust in excess of the cumulative amount of recorded pension expense. The
161 source of the contributions in excess of the cumulative amount of recorded pension
162 expense were DEU investors, requiring a return. Of such amount, $75 million represents
163 a direct contribution to the pension trust as part of the Commission's order and
164 Settlement Stipulation approving the merger of Questar and Dominion. The remaining
165 prepaid pension asset was funded through previous investor contributions to the pension
166 trust necessary to comply with the requirements of the Employee Retirement Security Act
167 of 1974 ("ERISA") or other discretionary investor funded contributions which all have
168 the effect of reducing pension cost.

169 **Q. In her testimony, as her basis for excluding the prepaid pension asset from the rate**
170 **base, OCS Witness Ramas' claims that Utah customers are not receiving the**
171 **benefits of the $75 million contribution to the pension trust presented in the**
172 **Questar-Dominion merger case. Is that an accurate statement?**
173 A. No. The entire $112.5 million prepaid pension asset representing investor contributions
174 (including the $75 million contribution to the pension trust as a condition of the merger)
175 will indeed provide benefits to customers. In its last general rate case (Docket No. 13-
176 057-05, DEU included, and the Commission approved, a pension accrual amount of
177 $8.18 million. This allowed pension expense was less than it otherwise would have been
178 due to existence of the prepaid pension asset (although DEU did not include the prepaid
179 pension asset in rate base in that filing). Whether pension expense is set to zero as part of
180 cost of service as proposed by the Company in this proceeding or the negative pension
181 expense is included to reduce cost of service as proposed by OCS and UAE witnesses,
182 customers will benefit through cost of service being less than it otherwise would have
183 been had the contributions to the pension trust (and resulting prepaid pension asset) not
184 been made.

185 The prepaid pension asset provides benefits to customers by: 1) reducing annual pension
186 cost as "return on pension assets," resulting in a specific offsetting component of the
187 pension cost calculation; 2) providing an important, qualitative benefit as DEU's
188 employees are protected by DEU specifically funding the benefits that have already been
189 earned; 3) the existence of a well-funded pension plan that allows DEU to retain qualified
190 employees providing the level of service expected by DEU's customers, and 4)
191 increasing DEU's perceived financial strength by eliminating/reducing unfunded
192 obligations, preserving its status with rating agencies.

193 **Q. Does the existence of a pension credit accrual somehow produce a benefit that can**
194 **provide funds to lower DEU's overall cost-of-service for ratemaking?**

195 A. No. Including a pension credit in the revenue requirement calculation does not provide
196 any funds, it is a journal entry. Earnings on the assets in DEU's pension fund can only be
197 used to meet DEU's pension service obligations. In other words, DEU does not have
198 discretionary use of pension earnings, which contribute to a reduction in or sometimes,
199 as in this case, a negative pension cost. The source of this benefit, the prepaid pension
200 asset funded by investors, needs to be considered and provided a return (by way of
201 including the prepaid pension asset in rate base). Said another way, if a pension credit is
202 permitted in cost of service as proposed by OCS and UAE witnesses, customers will
203 benefit through a reduced revenue requirement. However, by reducing cost of
204 service/revenue requirements for a non-cash accrual, additional investor contributions are
205 necessary to fund the operating expenses that DO REQUIRE cash payments. The
206 additional investor supplied contribution requires a return. The OCS and UAE position
207 would provide customers with a lower (in this case negative) pension expense, in part
208 due to DEU having a prepaid pension asset funded by investors, but would not permit a
209 return to those investors on their pension trust contribution. The pension expense/credit
210 and prepaid pension asset must be considered together to provide an accurate
211 measurement of the overall cost related to pension benefits. DEU has chosen to achieve
212 this symmetry by excluding both the pension credit as a component of operating expenses
213 as well as excluding the prepaid pension asset from the rate base calculation.

214 **Q. You mentioned there is a methodology for pension costs which the Commission**
215 **could consider as an alternative to the one presented by DEU for ratemaking? One**
216 **that is also symmetrical and consistent?**
217 A. Yes. As I stated previously, instead of excluding the various pension-related costs, the
218 Commission could consider including both the pension credit as a negative component of
219 operating expense and including the prepaid pension asset as a component of rate base.
220 This approach would also be symmetrical and equitable.

221 The methodologies proposed by OCS and UAE to include the pension credit as a
222 reduction of operating expenses (benefitting customers) without acknowledging investors
223 as the source of the prepaid pension asset contributing to the negative pension expense is
224 unfair and inequitable. In the remainder of my testimony, I provide background on
225 pension accounting and show the relationship between pension expense and the prepaid
226 pension asset so that the Commission can see why it is equitable for consistent treatment
227 of both components, and why the OCS and UAE approaches are asymmetrical and
228 inequitable.

229 IV. BACKGROUND ON PENSION ACCOUNTING AND CONTRIBUTIONS

230 **Q. How is pension expense under GAAP (ASC 715) determined?**
231 A. For accounting purposes under GAAP, an employee's pension is "accrued" (recognized
232 as an expense) over the employee's service life. Although pension expense is presented
233 as a single amount, it is actually made up of several components. These components are
234 described in Accounting Standards Codification 715, Compensation, Retirement Benefits
235 (which includes Financial Accounting Standards Board Opinion 87, Employers'
236 Accounting for Pensions (FAS 87). The first component, referred to as service cost, is
237 the actuarial present value of the benefits for employees for a given year. Since present
238 values are used, the second component of pension expense is the interest cost. As the
239 time grows closer to when the benefits recognized in the past will be paid, the present
240 value increases. This accretion of the obligation is measured as interest cost.
241 Conceptually, service cost and interest cost are generally independent of how or even if
242 the plan is funded by the employer. The third component of pension expense is the

243 expected gain or loss on the plan's investments in a given year. To the extent that assets
244 exist in a pension trust applying an expected return on such assets REDUCES pension
245 costs. (The difference between the actual gain or loss on investments and the expected
246 return is referred to as the actuarial gain or loss. ASC 715 allows this actuarial gain or
247 loss to be deferred into future periods in order to reduce the volatility of the pension
248 expense.) The net effect of this deferral is to include the expected return on investments
249 in the pension expense for the given year. The remaining components of pension
250 expense are essentially the recognition through amortization of the deferral of actual
251 gains and losses and the deferrals of other events that occurred in the past, such as
252 unrecognized prior service costs resulting from changes to the pension plan that increase
253 benefits for services provided by employees in prior periods. ASC 715 allows these
254 retroactive benefits to be deferred and amortized over the remaining service lives of the
255 employees expected to benefit from the plan changes. Taken collectively, these
256 components comprise the pension cost for a given year.

257 **Q. When does the pension accrual stop?**
258 A. Once the employee retires, his/her expense accrual stops and pension payments begin.
259 Over time, pension expense (which considers investment returns on pension assets,
260 reducing such expense) will equal the pension benefits paid to retirees (less expenses of
261 the plan, if any).

262 **Q. Do most regulators, including the Commission, allow pension costs to be included as**
263 **a component of cost of service on an accrual basis**
264 A. Yes, but in some instances, such as in the FERC Williston Basin proceeding, there need
265 to be contributions to the pension trust as a condition to consider pension costs.

266 **Q. There is another accounting/ratemaking concept relating to pensions, a "prepaid**
267 **pension asset." Both OCS and UAE witnesses advocate inclusion of a pension credit**
268 **(negative pension expense) in cost of service while excluding the prepaid pension**
269 **asset in rate base. Please briefly summarize what the prepaid pension asset is,**
270 **including its source, and how it relates to pension expense and pension**
271 **contributions?**
272 A. In short, pensions are promised/contracted payments to retirees under a defined
273 benefit plan. The prepaid pension asset is the difference between (1) cumulative pension
274 amounts expensed for GAAP (and included as a component of test year expenses) and (2)
275 contributions to the pension trust. To the extent that cumulative contributions are in
276 excess of GAAP pension expense, a prepaid pension asset will exist.

277 **Q. What do you mean by "contributions to the pension trust"?**
278 A. Apart from the determination of pension expense for GAAP and ratemaking purposes,
279 companies must be able to fund the future retiree payments. It is a prudent business
280 decision to put away amounts prior to the time such retiree payments are to occur and
281 most companies have established a pension trust to accomplish this. This is the
282 "funding" part of the equation. While GAAP governs the accounting for pensions,
283 requirements for contributions to the pension trust are mandated by ERISA while the
284 deductibility of such amounts is based on the Internal Revenue Service ("IRS") rules.
285 The IRS sets minimum and maximum funding requirements and imposes penalties and
286 other limitations for less well-funded pension plans. The Pension Benefit Guarantee
287 Corporation ("PBGC") requires participant notices for missed contributions and
288 additional reporting for less well-funded plans.

289 **Q. Can a Company use the assets or returns from the pension trust to fund operations**
290 **or for other purposes?**
291 A. No. Assets in the pension trust cannot be removed for any purpose other than retiree
292 pension payments. Amounts in the fund can be invested in securities and other vehicles
293 to earn a return for the pension plan—thus reducing the amount that eventually needs to

294 be contributed to the fund in order to have enough cash accumulated to fund the retiree
295 benefits once they begin.

296 If, for example, $50,000 was needed to fund pension benefits for an employee that will
297 retire in 10 years (the payments beginning in year 11), it is possible to contribute less
298 than $50,000 to the pension trust if the earnings on the amounts invested produce the
299 required $50,000 when payment to the retiree becomes due. Further, the sooner that
300 contribution is made, the longer that contribution is available to earn within the plan,
301 again requiring less than would be needed if the contribution is delayed. The sooner
302 and greater the contribution, the less the company will be required to contribute over
303 time to be able to make the pension payments.

304 As a result, and importantly from a ratemaking standpoint, pension trust earnings reduce
305 ongoing annual pension expense. As pension expense is included as a recoverable cost in
306 the ratemaking process, these trust earnings accrue to the benefit of customers.

307 **Q. Is it your testimony that the pension expense required under GAAP and pension**
308 **contributions to the pension trust are determined on different bases to achieve**
309 **different objectives?**

310 A. Yes. There is no correlation between pension accounting and pension funding under
311 ERISA. In a paper on the subject of pensions prepared by the Pension Committee of the
312 American Academy of Actuaries, it states clearly that "amounts calculated under pension
313 funding rules are completely different than those calculated for pension accounting, and
314 one must be careful not to mix the two topics." [5]

315 In addition, in the Basis for Conclusions in Statement of Financial Accounting for
316 Pensions No. 87, Employer's Accounting for Pensions the FASB stated:

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[5] See Fundamentals of Current Pension Funding and Accounting For Private Sector Pension Plans, an analysis by the Pension Committee of the American Academy of Actuaries, July 2004.

317 "This Statement reaffirms the APB's conclusion that funding decisions should not
318 necessarily be used as the basis for accounting recognition of cost. The amount funded
319 (however determined) is, of course, given accounting recognition as a use of cash, but the
320 Board believes this is one of many areas in which information about cash flows alone is
321 not sufficient, and information on an accrual basis is also needed. **The question of when**
322 **to fund the obligation is not an accounting issue**. It is a financing question that is
323 properly influenced by many factors (such as tax considerations and the availability of
324 attractive alternative investments) that are unrelated to how the pension obligation is
325 incurred." (Emphasis added).

326 The prepaid pension asset represents the excess of cumulative contributions to the
327 pension trust above the cumulative GAAP expense. The ERISA minimum funding
328 requirement (as well as the maximum tax-deductible limitation) is not based on GAAP
329 expense or accruals.

330 **Q. Please summarize the difference between Pension Accounting/ Ratemaking and**
331 **Pension Contributions?**

332 A. In a regulated entity, revenue requirements may include recovery of pension expense
333 as determined in accordance with GAAP, while contributions to the pension trust are
334 determined to comply with ERISA laws at a minimum, but additional amounts may be
335 contributed in certain years in connection with an organization's particular business
336 objectives. ERISA requirements have minimum funding levels determined by the
337 Government to help ensure that funds will be available to pay pension benefits, but
338 the ERISA rules governing contributions are unrelated to the GAAP requirements to
339 accrue pension costs. These ERISA laws do not and should not factor into cost of
340 service. ERISA contributions are based on a number of factors, which I just described.
341 As discussed previously, GAAP pension expense (accrual basis) is generally included
342 in cost of service. When a company makes contributions in excess of GAAP pension
343 expense (regardless if such contributions are above or equal to ERISA minimums), a
344 prepaid pension asset is recorded. The amount of that prepaid pension asset is the
345 cumulative amount of contributions in excess of cumulative GAAP pension expense.

346 As pension expense is recovered from customers, amounts contributed in excess of this
347 amount must come from investors. Thus, by definition, the prepaid pension asset is
348 funded entirely by investors and should earn a return. In this manner, customers benefit
349 from a reduced pension cost occasioned by the existence of a prepaid pension asset and
350 investors are compensated for this provided benefit by receiving a return on contributions
351 to the pension trust above the level of pension expense.

352 **Q. Can you provide a simplified example to illustrate the accounting, funding and**
353 **ratemaking?**

354 A. Yes. Assume that cumulative GAAP pension expense is $100 and cumulative pension
355 contributions (pursuant to ERISA) are $150. The journal entry to record the pension
356 expense and pension contribution is:

357 Dr. Pension Expense $100

358 Cr. Accrued Pension $100

359 Dr. Pension Asset $150

360 Cr. Cash $150

361 (The above example does not include the ultimate payments made to the pensioners
362 after they retire – which will come from the pension trust – such payments to retirees
363 from the trust are not a factor in this cause.)

364 Continuing the example, for ratemaking purposes $100 has been included in cost of
365 service/ revenue requirements as this is the GAAP pension expense. As a result, IF
366 pension trust contributions equaled GAAP pension expense (which would only be a
367 coincidence) (i.e. $100), then there would be no prepaid pension asset ($100 of
368 expense offset by $100 of contributions—the prepaid pension asset will equal the
369 pension liability).

370 It would only be a coincidence if the two were equal as they are the result of different
371 calculations and are achieving different purposes. However, since the company was
372 able to contribute $150 to the trust with only $100 coming from customers through

373 recovery of pension expense, the additional $50, recorded as a prepaid pension asset,
374 MUST have come from investors, as there are no other sources. Even if the ERISA
375 minimum was, say $120, yet the company made the decision to fund $150, the entire
376 prepaid pension asset ($50) would be sourced from investors. As this example
377 demonstrates the prepaid pension asset is 100% funded by investors, regardless of the
378 amount related to ERISA minimums versus discretionary contributions above the
379 ERISA minimum, and as a result should earn a return. Not a penny of the prepaid
380 pension asset has been funded by customers.

381 **Q. Is there any other point you would like to make with this simplified example?**
382 A. Yes. It should be remembered that under GAAP the pension cost calculation includes a
383 factor to reduce pension expense for the expected return on pension trust assets including
384 the prepaid pension asset. The reduction in pension expense (perhaps even resulting in a
385 pension credit, as in this case), reduces the cost of service/revenue requirement,
386 benefitting customers. The two concepts are inter-related.

387 **Q. You stated that, by definition, the source of the prepaid pension asset is investors. Is**
388 **there any doubt that this is the case at DEU?**
389 A. No. Not only does the source of the prepaid pension asset have to be investors as I have
390 shown, but in the instant case, DEU investors explicitly contributed $75 million to the
391 pension trust in a prior period. Thus, there is no doubt that at least $75 million directly
392 came from DEU investors. As the source of the prepaid pension asset is investors, it
393 should earn a return.

394 **Q. In the long-run, will the cumulative pension expense recorded under GAAP**
395 **equal the contributions to the pension trust?**
396 A. Yes. During the entire lifetime of the pension plan, total cumulative employer
397 contributions must necessarily equal total cumulative GAAP pension expense (i.e., in
398 the long-run, once the last participant has been paid their final benefit, the prepaid
399 pension asset or liability will be $0)). Because, in the long-run, contributions to the
400 pension trust will equal the long-run pension expense, it follows that by making

401 pension trust contributions earlier in the lifetime of the plan the total required
402 contributions to the pension trust will be reduced, and, therefore total pension expense
403 will be reduced, providing a long term benefit to customers.

404 **Q. UAE Witness Higgins makes a statement that suggests that customers rates will**
405 **fully fund the pension plan costs over the life of the plan? Is this an accurate**
406 **statement?**
407 A. Mr. Higgins and I agree that over the life of the pension plan, the cumulative GAAP
408 pension expense will equal employer contributions (which cannot be withdrawn from the
409 pension trust other than to pay benefits) required to fund retiree pension benefits. He
410 states that "by and large, customer rates will fully fund the pension plan" and he then
411 footnotes "by and large" to clarify that "since FAS pension costs changes annually, and
412 base rates are not reset every year, the cumulative pension cost in rates will likely not
413 match the cumulative sum of funding contributions over the life of the plan." This is an
414 important distinction and one that needs emphasis.

415 It is a well-established ratemaking principle that customers pay for service, they do not
416 pay for individual cost-of-service line items. If, however, instead of determining an
417 overall revenue requirement by reference to rate base, return and operating
418 income/expense (which, due to regulatory lag and the ratemaking process is not perfect),
419 the Commission employed deferral accounting as single issue ratemaking item in either
420 base rates or through the use of a tracker mechanism, then the pension issue in this
421 proceeding would be resolved so that during the entire lifetime of the pension plan, total
422 cumulative employer contributions must necessarily equal total cumulative GAAP
423 expense (i.e., in the long-run, once the last participant has been paid their final benefit,
424 the prepaid pension asset or liability will be $0). However, that is not the case when
425 pension costs are determined only periodically in connection with general rate cases.

426 **V. REGULATORY TREATMENT BY THE COMMISSION AND OTHER**
427 **JURISDICTIONS**

428 **Q. Has the Utah Public Service Commission ever taken the position to exclude the**
429 **entire prepaid pension asset from the determination of return as recommended**
430 **OCS Witness Ramas and UAE witness Higgins in this proceeding?**
431 A. My understanding is that the Commission has not addressed this issue in a final Order. In
432 witness Ramas' testimony, she cites a previous case involving Rocky Mountain Power
433 (Docket 13-035184) in which a prepaid pension asset was requested. However, she goes
434 on to state that the case was settled with no mention of the treatment of the prepaid
435 pension asset. Based on feedback from the Company on its regulatory experience, there
436 has not been a situation in a general rate case where the pension trust was over-funded
437 which created a negative pension accrual on its books during a test period under review.
438 My understanding is that this is the first general rate proceeding where this fact set has
439 existed.

440 **Q. Are there other jurisdictions that follow a methodology similar to DEU's**
441 **ratemaking methodology for pension and related costs in this proceeding; meaning**
442 **a consistent/symmetrical treatment of pension expense (positive or negative) and the**
443 **prepaid pension asset?**
444 A. Yes. As I have stated, the FERC has taken a symmetrical approach to pension costs by
445 not including pension costs as a recoverable cost when no contributions are made in the
446 test period. In such cases, a consistent result among the pension components occurs.

447 **Q. Do the vast majority of jurisdictions, including FERC, permit pension expense**
448 **(positive or negative) as determined under GAAP as a component of cost of service**
449 **for ratemaking purposes?**
450 A. Yes. In addition, there are a large number of jurisdictions that apply symmetry to pension
451 costs in the ratemaking process by including both the pension expense in cost of service
452 and the prepaid pension asset in rate base (or as a zero-cost component of the capital
453 structure, an economic equivalent to including in rate base). Twenty-four jurisdictions

454 follow this symmetrical approach. (Six other jurisdictions utilize a recovery method
455 based on cash pension contributions.) While the decisions of other courts and
456 jurisdictions are not binding on this Commission, they do clearly identify the issue,
457 correctly state federal law, and their straightforward and accurate reasoning for
458 recognizing these assets should serve as persuasive guidance to the Commission.

459 For example, while the FERC has excluded pension costs in a situation where no
460 contributions to the pension trust have been made (the position taken by DEU in this
461 proceeding), they have also permitted rate regulated entities to include pension costs
462 determined under GAAP as a component of cost of service (positive or negative) while
463 also permitting a return on the prepaid pension asset, still a symmetrical approach. In
464 Docket No. ER08-129-000, page 8, the FERC provided the rationale for this position:

465 "[P]repaid pensions arise when the income earned on pension funds accumulated in an
466 external trust exceeds the net periodic pension cost, i.e., the current year's pension
467 income exceeds the current year's pension expense. By law, a utility cannot withdraw
468 such income, although it is required (under Generally Accepted Accounting Principles) to
469 reflect the income as a reduction to its pension expense…. At the same time, the utility
470 records a corresponding amount of prepaid pensions. If that reduction in pension expense
471 is used in determining a utility's rates, there will be a corresponding reduction in the
472 amounts collected from ratepayers. Because a utility cannot withdraw the pension
473 income, it will be out-of-pocket for the amount of pension income that has reduced rates,
474 i.e., it must reduce its pension expense by the amount of income, even though it is not
475 allowed to receive such income from the pension trust. Thus, when a utility's rates have
476 been reduced by pension income, but the utility has not received such income from the
477 external trust, it will have to finance such amount, and is entitled to include the pension
478 income in rate base."

479 In another case, the Indiana Utility Regulatory Commission permitted Indiana Michigan
480 Power Company to include its prepaid pension asset in rate base. That Commission
481 concluded as follows:

482 "The record reflects that the prepaid pension asset was recorded on the Company's books
483 in accordance with governing accounting standards. The record also reflects that the
484 prepaid pension asset has reduced the pension cost reflected in the revenue requirement
485 in this case and preserves the integrity of the pension fund. Petitioner made a
486 discretionary management decision to make use of available cash to secure its pension
487 funds and reduce the liquidity risk of future payments. In addition, the prepayment
488 benefits ratepayers by reducing total pension costs in the Company's revenue
489 requirement. Therefore, we find that the prepaid pension asset should be included in
490 Petitioner's rate base."[6]

491 In New Mexico, the New Mexico Supreme Court found that a utility should be
492 compensated for prepayments for both physical property and other investments on behalf
493 of customers and employees:

494 "A utility can include prepayments for pension expenses in its rate base because the
495 utility is out-of-pocket for such costs until they are recovered from ratepayers and is
496 therefore entitled to recover its cost of financing such prepaid expenses. For example, in
497 the context of prepaid pension assets, income earned on the pension 16 fund is reported
498 under [GAAP] as a reduction to the utility's pension expense. If that reduction in pension
499 expense is used in determining a utility's rates, there will be a corresponding reduction in
500 the amounts collected from ratepayers. Under these circumstances, the utility must
501 finance the reduction because it cannot use the income from the pension trust to pay other
502 current obligations; as a result, the utility is allowed to recover the costs of financing the
503 reduction by including the pension income in the rate base.

504 […]

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[6] *In re Indiana & Michigan Power Co.,* Cause No. 44075 at 10 (IURC 2/13/2013)

505 Basically, when a utility supplies working capital to fund contributions in excess of
506 pension expenses to create an income producing prepaid pension asset, the utility
507 finances the entire cost of the prepaid pension asset.[7].

508 In his testimony, Mr. Higgins does not necessarily reject the concept of including a
509 prepaid pension asset in rate base. He states, "recognition of a prepaid pension asset in
510 rate base is an important policy decision with long-term ramifications" and does not
511 believe it should be recognized <u>in this case.</u> He cites the Public Utility Commission of
512 Oregon as one regulator that studied the issue and rejected it. However, I believe there
513 were a number of flaws in that decision, one being the contention that a negative pension
514 expense could not create a prepaid pension asset. Further, in that proceeding the Oregon
515 staff supported prospective inclusion in rate base of the prepaid pension asset. As I have
516 stated, there are a number of regulators, including the FERC, who have addressed and
517 ruled in favor of including a return on the prepaid pension asset, most often by including
518 the prepaid pension asset in rate base without a separate hearing solely on this topic.

519 I would agree that this is an important policy decision, but I have demonstrated why the
520 equitable and correct decision is symmetry in either including or excluding the pension
521 expense/credit and the prepaid pension asset.

522 **Q. Because of the year to year volatility of the various factors included in the**
523 **determination of pension costs, such as discount rates, returns on pension trust**
524 **assets and plan changes and amendments, have any companies and regulators**
525 **adopted a tracker or rider approach whereby the various components are tracked**
526 **from year to year and included as a separate rider in order to increase the**
527 **likelihood that customer rates will reflect the net pension costs for the period?**

528 A. Yes, in a number of jurisdictions, such as California, Massachusetts, New York and
529 Hawaii, such a rider exists. Under this approach, once the pension costs are determined
530 in a general rate case proceeding, amounts are adjusted annually to true-up the net

[7] N.M. Atty. Gen. v. N.M. Pub. Regulation Comm'n, 359 P.3d 133, 137-38 (N.M. 2015) (citing S. Co. Servs., Inc., 122 FERC ¶ 61,218, at 62,235 (2008)

531 pension costs actually incurred for the period. A tracker or rider to capture and true-up
532 costs that can fluctuate from period to period based on factors outside the Company's
533 control can increase the likelihood that customers pay for and the company is made
534 whole for certain costs, no more, no less.

535 An example of a pension tracker is that approved by the Massachusetts Department of
536 Public Utilities for NSTAR gas company.[8] The tariff demonstrates that all components
537 of pension costs, including the prepaid pension amounts, are captured in the formula,
538 thereby ensuring consistency or symmetry of all items in the ratemaking treatment.

539 **VI. NET CUSTOMER IMPACT IN THIS PROCEEDING**

540 **Q. Can you quantify the benefit that customers receive by the existence of a prepaid**
541 **pension asset?**

542 A. Yes. Applying an expected return on plan assets of 8.75 %, per the Company's report, to
543 the prepaid pension asset of $112.5 million produces an approximate $9.8 million
544 reduction to pension cost. That expected return on plan assets is an explicit assumption
545 used to develop annual pension expense.

546 **Q. How does this customer benefit compare to the cost of including the prepaid**
547 **pension asset in the calculation of return?**

548 A. By including the $112.5 million prepaid pension asset in rate base, offset by the related
549 $27.8 million ADIT, the net rate base impact is $84.7 million. Applying DEU's proposed
550 rate of return in this proceeding, 7.73%, to this amount produces a return of $6.5 million.
551 Grossing up this return for income taxes (at 24.75% combined federal and state income
552 tax rate) derives a revenue requirement impact of $8.7 million. Accordingly, if pension
553 costs (in this case a pension credit) is used to reduce cost of service/revenue requirements
554 (as Mr. Higgins and Ms. Ramas have proposed), customers unfairly receive the entire
555 benefit of the reduced expense. Under a fair and equitable, symmetrical approach,
556 revenue requirements would include BOTH the pension credit AND a return on the

[8] DEU Exhibit 6.03

557 investor supplied prepaid pension asset (which produced a reduction to the pension cost).
558 By including both components, customers will receive a net benefit of $1.1
559 million. This quantifiable benefit is in addition to the benefits that DEU employees
560 and customers will receive for years into the future such as the ability of DEU to retain
561 employees knowing their retirement benefits will be there when required and the lower
562 risk associated with a well-funded pension plan. Funding pension benefits is a
563 responsible and integral part of providing service.

564 **VII. CONCLUSION**

565 **Q. What is your recommendation with regard to DEU's methodology on pension-**
566 **related components being removed from the cost-of-service, or alternatively a**
567 **methodology that would capture pension accruals as well as including the prepaid**
568 **pension asset in DEU's cost of service?**
569 A. The Company's symmetrical position of excluding both the pension expense and prepaid
570 pension asset from the test year represents a consistent approach. In this proceeding, the
571 revenue requirement difference between including or excluding the pension components
572 is fairly close.

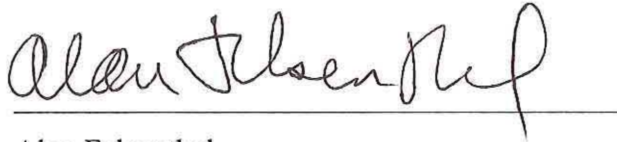
573 Alternatively, DEU's prepaid pension asset results from the interaction of pension
574 expense and funding. Including both the prepaid pension asset in rate base and the
575 pension expense in cost of service provides the necessary symmetry to these components.
576 Customers benefit from the prepaid pension asset by way of a reduced or negative
577 pension expense and it is only appropriate for the source of the pension asset, investor
578 contributions, to receive a fair return on their funds.

579 The position of OCS and UAE, whereby the pension credit reduces DEU's cost of service
580 to the benefit of customers without permitting the prepaid pension asset in rate base for
581 the investor contributions that reduces such pension cost, is one-sided and inappropriate.

582 **Q. Does that conclude your prepared rebuttal testimony?**
583 A. Yes.

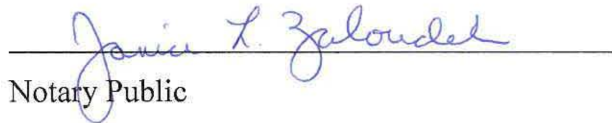
State of Illinois)
) ss.
County of Cook)

I, Alan Felsenthal, being first duly sworn on oath, state that the answers in the foregoing written testimony are true and correct to the best of my knowledge, information and belief. Except as stated in the testimony, the exhibits attached to the testimony were prepared by me or under my direction and supervision, and they are true and correct to the best of my knowledge, information and belief. Any exhibits not prepared by me or under my direction and supervision are true and correct copies of the documents they purport to be.

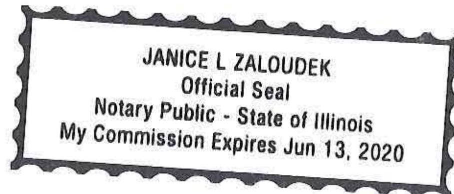


Alan Felsenthal

SUBSCRIBED AND SWORN TO this November 14, 2019.



Notary Public



CURRICULUM VITAE

ALAN D. FELSENTHAL

EDUCATIONAL BACKGROUND

June, 1971	B.S. in Accounting University of Illinois Champaign, Illinois
May, 1972	Certified Public Accountant

EMPLOYMENT

2010-	Managing Director, Power and Utilities PricewaterhouseCoopers LLP
2008-2010	Managing Director-Utilities Industry Huron Consulting Group
2002-2007	Managing Director—Utilities Industry PricewaterhouseCoopers LLP
1985-2002	Principal in Utilities and Telecommunications Practice, Arthur Andersen LLP, Chicago
1976-1985	Manager in Utilities and Telecommunications Practice, Arthur Andersen LLP, Chicago
1971-1976	Staff and Senior Accountant, Arthur Andersen LLP, Utilities and Telecommunications Division, Chicago

TESTIMONY EXPERIENCE

Testified before the Illinois Commerce Commission on behalf of Town Gas Company of Illinois, 1985. Accounting witness covering cost of service issues.

Testified before the Illinois Commerce Commission on behalf of Town Gas Company of Illinois, 1986. Generic hearing regarding high gas costs.

Testified before the Florida Public Service Commission on behalf of Central Telephone Company of Florida (1991). Testimony addressed projected test year,

a computer model we developed to simplify forecast procedures and propriety of including pension asset in rate base.

Submitted an expert report and testified in an appeal by Yellow Cab Company versus the City of Chicago, (2000). Topic dealt with the adequacy of taxicab lease rates. Yellow Cab was appealing the lease rates they were permitted to charge lessees. The model developed by the City of Chicago to set lease rates was based on traditional utility ratemaking principles. Was hired by the City of Chicago to review Yellow Cab's appeal compared to traditional ratemaking principles and submit a report. Yellow Cab appealed the decision and a hearing before a judge resulted.

Testified before the Arizona Corporation Commission on behalf of Tucson Electric Power Company, 2008. Rebuttal testimony addressed application of FAS 71 when a portion of the business was opened to competition and appropriate treatment of the FAS 143 cost of removal regulatory liability.

Testified before the Florida Public Service Commission on behalf of Tampa Electric Company and Peoples Gas, (2008). Direct testimony on income taxes, including the appropriate accumulated deferred income tax calculation when a projected test period is used.

Testified before the Washington Utilities and Transportation Commission on behalf of Avista Corporation, (2008).

Testified before the Illinois Commerce Commission on behalf of The Peoples Gas, Light and Coke Company/North Shore Gas Company (2009). Rebuttal and Surrebuttal testimony on the appropriate treatment of prepaid pension asset in rate base.

Testified before the Indiana Utility Regulatory Commission on behalf of Northern Indiana Public Service Company (2009). Rebuttal testimony on the appropriate treatment of cost of removal vis a vis FAS 143.

Submitted an expert report and a reply expert report to a Seattle-based arbitration panel in a dispute involving Grays Harbor Energy LLC vs. Energy Northwest, 2009. Subject involved the appropriate determination of fixed costs and cost of capital pursuant to a purchase and sale agreement.

Testified before the Public Utility Commission of Texas on behalf of Centerpoint Energy (2010). Direct and Rebuttal testimony on a number of income tax issues including consolidated income tax adjustments and FIN 48.

Testified before the Indiana Utility Regulatory Commission on behalf of Indianapolis Power & Light Company (2015). Rebuttal testimony on including prepaid pension asset in rate base.

Testified before the Public Utility Commission of Ohio on behalf of Dayton Power & Light Company (2015). Direct testimony on the results of a lead-lag study.

Submitted rebuttal testimony to the Indiana Utility Regulatory Commission on behalf of Northern Indiana Public Service Company (2016) on the appropriateness of including the prepaid pension asset in rate base.

Submitted an expert report to the Virginia State Corporation Commission regarding the allocation of Dominion Resources Inc. shared service costs to Virginia Electric Power Company (2016).

Submitted an expert report to the Oregon Public Service Commission regarding the capitalization of administrative and general overhead costs. (2017).

Testified before the Florida Public Service Commission on behalf of Tampa Electric Company and Peoples Gas on the subject of the appropriate treatment of excess Accumulated Deferred Income Taxes resulting from the Tax Cuts and Jobs Act (2018).

Testified before the Indiana Utility Regulatory Commission on behalf of Indianapolis Power & Light Company (2018). Rebuttal testimony on including a return on the Company's prepaid pension asset.

Testified before the FERC on behalf of GridLiance West (2018). Direct testimony supporting the derivation and reasonableness of the Company's Start-Up Regulatory Asset.

Submitted rebuttal testimony to the Indiana Utility Regulatory Commission on behalf of Northern Indiana Public Service Company (2019) on reasons why including a return on the Company's prepaid pension asset is appropriate.

Submitted direct testimony to the New Jersey Board of Public Utilities on behalf of Elizabethtown Gas Company (2019) discussing consolidated income tax adjustments and Excess Accumulated Deferred Income Taxes being passed on to customers after the acquisition of the Company from Southern Company by South Jersey Industries.

Submitted direct testimony to the Hawaii Public Utilities Commission on behalf of Young Brothers (2019) on a number of income tax topics (Excess Accumulated Deferred Income Taxes, including the NOL Deferred Tax Asset in Rate Base, treatment of the Hawaii Capital Goods Excise Tax Credit) and including the prepaid pension asset in rate base.

Participated on accounting panels before the Maine Public Utilities Commission supporting 1) a market study of Central Maine Power Company's shared service costs and 2) the treatment of Excess Accumulated Deferred Income Taxes(2019).

REGULATORY CONSULTING EXPERIENCE

Synopsis—Throughout the late 1970's, the 1980's, 1990's, 2000's and 2010's assisted Andersen and PwC partners in the preparation of regulatory testimony covering a variety of accounting issues. Much of this testimony involved income tax accounting issues related to flow-through versus normalization or investment tax credit and the appropriate accounting and ratemaking treatment of excess accumulated deferred income taxes when statutory tax rates change. Also developed testimony on CWIP in rate base and working capital (lead-lag technique), appropriateness of allocation of service company costs to regulated entities, recovery of pre-operating cost regulatory assets and capital structure issues.

In 2015, assisted with the preparation of an Expert Report for EverSource Energy subsidiary Connecticut Light & Power which was submitted to the Connecticut regulator. The issue concerned reopening a rate order to address the treatment of accumulated deferred income taxes which was incorrectly decided in the rate order.

In 2018, assisted with the preparation of a private letter ruling by American Transmission Company as to whether an internal transfer between a regulated and non-regulated partner would trigger the elimination of accumulated deferred income taxes that would need to be reflected on the books and records of the partnership.

In 2018 and 2019, assisted with the preparation of Expert testimony and a private letter ruling discussing the appropriate income tax treatment of a like-kind

exchange between Oncor and Sharyland. The issue concerned whether the accumulated deferred income taxes relating to the exchanged assets could carry over or would need to be eliminated.

Provided assistance on rate case testimony for the following companies:

- Indianapolis Power & Light Company
- Dayton Power & Light Company
- Pacific Gas & Electric Company
- Iowa-Illinois Gas and Electric Company
- The Peoples Gas Light and Coke Company
- Northern Indiana Public Service Company
- Elizabethtown Gas Company
- New Mexico Gas Company
- GridLiance Corporation
- PPL Montana (contract dispute)
- Southern Bell Telephone Company
- Indiana Bell Telephone Company
- Iowa Power Company
- El Paso Electric Company
- Ameritech Corporation
- Central Illinois Light Company
- Central Illinois Public Service Company
- Tampa Electric Company/Peoples Gas Company
- Public Service Company of New Mexico
- Connecticut Light and Power Company
- Young Brothers, Limited
- Central Telephone Company of Florida
- Central Telephone Company of Texas
- Central Telephone Company of Nevada
- Integrys Energy Group, Inc.
- San Gabriel Valley Water Company
- Transco Pipeline

Provided regulatory consulting for the Panama Canal Company. Tariffs charged to transit the Panama Canal were based on a cost of service approach. Assisted the Panama Canal Company in determining test year costs. Tariffs were established based on these costs.

2012-2019. Led several projects to evaluate a rate case filing prior to filing validating the completeness, accuracy, consistency and support of the filing. As a

result, adjustments and edits were made to the filing to increase the credibility of the utility's filing. Provided a similar role with respect to date request responses and rebuttal testimony.

FINANCIAL CONSULTING EXPERIENCE

Assisted two Chinese utility companies in registration filings to have their shares traded on the New York Stock Exchange. Huaneng Power International and Shandong Huaneng Power Company were the first two Chinese utilities to list on the NYSE. Process involved working with attorneys, company personnel and the Securities and Exchange Commission to file the equivalent of a Form S-1.

Assisted a number of companies in the preparation, review and filing of Registration Statements with the SEC to raise debt and equity capital. Consulted with an electric transmission company on whether costs charged to generation companies based on specific costs are in accordance with the costs permitted by the Federal Energy Regulatory Commission.

Consulted with Ameritech Corporation on a number of projects involving cost allocations and compliance with the Federal Communications Commission separations rules.

Consulted with several entities in the preparation of a private letter ruling request to determine whether certain regulatory/ratemaking approaches would violate the Internal Revenue Service ("IRS") normalization rules. Provided the ratemaking aspect of the request when, combined with income tax consulting assistance formed the basis for a complete request, accepted by the IRS.

FINANCIAL AUDIT EXPERIENCE

- Allegheny Energy
- Ameritech Corporation
- Ameritech Cellular
- Ameritech New Media

- Louisville Gas and Electric Company
- Iowa-Illinois Gas and Electric Company
- Centel Corporation
- Constellation Energy
- Nicor, Inc.
- Peoples Energy
- Nisource
- Focal Communications
- Utilities, Inc.
- Chicago Skyway
- United Airlines

LECTURES AND SEMINARS

Speaker at Edison Electric Institute/American Gas Association Introductory, Intermediate and Advanced Accounting Seminar 1996-2019.

Speaker at SNL (Regulatory Research Associates) Utility Foundations Seminar 2013-2017

Speaker at Power Plan Associates annual conference (2012, 2010, 2008, 2006, 2004, 2002) on recent accounting, regulatory and SEC matters affecting utilities.

Developed and conducted Utilities Industry Basic Accounting and Ratemaking Seminar. This two-day seminar is conducted each year for Andersen, Huron and PwC personnel assigned to utility audits or projects. In addition, the seminar is periodically offered on an open-registration basis for utility company personnel as well as offered and conducted for specific utility companies at their training sites.

Developed and conducted Utility Income Taxes-Accounting and Ratemaking Issues. This two-and-a-half day seminar is conducted each year for Andersen, PwC and Huron personnel assigned to utility audits or income tax projects. In addition, the seminar is conducted annually on an open-registration basis for utility company personnel as well as offered and conducted for specific utility companies at their training sites.

Developed and conducted Rate Case Experience Seminar and Utility Income Tax Seminar. The Rate Case Experience Seminar is week-long seminar is conducted each year on an open-registration basis for utility company personnel as well as offered and conducted for specific utility companies at their training sites. The Utility Income Tax Seminar is a two-day seminar focusing on the accounting, tax return/compliance and financial statement aspects of utility income taxes taking into consideration the consequences of ratemaking/revenue requirements.

Specific examples of special training conducts for utility companies/regulators are as follows:

- Nicor
- Entergy
- Peoples Energy
- Sempra Energy
- Centerpoint
- Nisource, Inc.
- Cleco Corporation
- Consolidated Edison
- Duke Energy
- National Grid
- Dominion Resources
- Tucson Electric Power
- Portland General Electric
- Pepco Holdings, Inc.
- Ameritech Corporation
- Louisville Gas and Electric
- American Water Works
- Tampa Electric
- Natural Gas Pipeline Company of America
- Transco Pipeline
- Federal Energy Regulatory Commission
- Oklahoma Commission
- Arkansas Commission
- PPL Corporation
- Southern California Edison
- Sempra Energy
- Williams Pipeline
- Illinois Commerce Commission
- Sprint Corporation
- American Electric Power
- Consumers Power Company
- Arizona Public Service Company
- Qwest

- Northwest Pipeline
- Alaska Regulatory Commission
- Xcel Energy
- Exelon Corporation
- PG&E Corporation
- One Gas Corporation

PROFESSIONAL ASSOCIATIONS

American Institute of Certified Public Accountants

Illinois CPA Society

166 FERC ¶ 61,178
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Neil Chatterjee, Chairman;
Cheryl A. LaFleur and Richard Glick.

Dominion Energy Transmission, Inc. Docket No. RP19-62-000

ORDER TERMINATING FERC FORM NO. 501-G PROCEEDING

(Issued March 8, 2019)

1. On October 11, 2018, Dominion Energy Transmission, Inc. (Dominion) filed the One-time Report on Rate Effect of the Tax Cuts and Jobs Act,[1] designated as FERC Form No. 501-G, as required by section 260.402 of the Commission's regulations.[2] The Commission required certain natural gas pipeline companies to file FERC Form No. 501-G to assist in determining which jurisdictional natural gas pipelines may be collecting unjust and unreasonable rates in light of the income tax reductions provided by the Tax Cuts and Jobs Act and the Commission's Revised Policy Statement[3] and precedent[4] concerning tax allowances to address the double recovery issue identified by *United Airlines, Inc. v. FERC*.[5] For the reasons discussed below, we find that Dominion has complied with the reporting requirement, and we close this proceeding.

[1] An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018, Pub. L. No. 115-97, 131 Stat. 2054 (2017) (Tax Cuts and Jobs Act).

[2] *Interstate and Intrastate Natural Gas Pipelines; Rate Changes Relating to Federal Income Tax Rate*, Order No. 849, 83 Fed. Reg. 36,672 (Jul. 30, 2018), 164 FERC ¶ 61,031 (2018) (Order No. 849) (adding 18 C.F.R. § 260.402 (2018)).

[3] *Inquiry Regarding the Commission's Policy for Recovery of Income Tax Costs*, Revised Policy Statement, 83 Fed. Reg. 12,362 (Mar. 21, 2018), 162 FERC ¶ 61,227, *order on reh'g*, 164 FERC ¶ 61,030 (2018).

[4] *SFPP, L.P.*, Opinion No. 511-C, 162 FERC ¶ 61,228, at P 9 (2018).

[5] 827 F.3d 122 (D.C. Cir. 2016) (*United Airlines*).

I. Background

2. On July 18, 2018, the Commission issued Order No. 849,[6] a final rule requiring all interstate natural gas pipeline companies, with cost-based stated rates, to file a FERC Form No. 501-G containing an abbreviated cost and revenue study using data in the pipelines' 2017 FERC Form Nos. 2 and 2-A. Order No. 849 also permitted a pipeline to make adjustments to individual line items in additional work sheets in an Addendum to the FERC Form No. 501-G, if the pipeline believes that the data in its FERC Form Nos. 2 or 2-A does not reflect its current situation.[7] Order No. 849 also provided four options each interstate natural gas pipeline may choose from to address the changes to the pipeline's revenue requirement as a result of the income tax reductions: (1) a limited rate reduction filing pursuant to section 4[8] of the Natural Gas Act (NGA) (Option 1), (2) a commitment to file a general NGA section 4 rate case or prepackaged settlement in the near future (Option 2), (3) an explanation why no rate change is needed (Option 3), and (4) no action (other than filing a report) (Option 4).

3. In Order No. 849, the Commission explained that the primary purpose of the FERC Form No. 501-G, together with any comments and protests to it, is to provide information relevant to determining whether the Commission should exercise its discretion to initiate an investigation under NGA section 5 as to whether the subject interstate natural gas pipeline may be collecting unjust and unreasonable rates in light of the recent reduction in the corporate income tax rate and change in the Commission's income tax allowance policies.[9] As the Commission recognized, a rate reduction may not be justified for a significant number of pipelines for a number of reasons.[10] For example, a number of pipelines may currently have rates that do not fully recover their overall cost of service, and thus a reduction in those pipelines' tax costs may not cause their rates to be excessive. The Commission further explained that the FERC Form No. 501-G would provide information as to whether a pipeline may fall into this category. The Commission stated that a pipeline choosing Option 3 could provide, along with any additional supporting information it deems necessary, a full explanation of why, after

[6] Order No. 849, 164 FERC ¶ 61,031 at P 30.

[7] *Id.* P 65.

[8] 15 U.S.C. § 717c (2012).

[9] Order No. 849, 164 FERC ¶ 61,031 at P 69.

[10] *Id.* P 216.

accounting for its reduction in tax costs, its rates do not over recover its overall cost of service, and therefore no rate reduction is justified.[11]

II. Dominion's FERC Form No. 501-G Filing

4. On October 11, 2018, Dominion filed its FERC Form No. 501-G and an Addendum in Docket No. RP19-62-000 consistent with the reporting requirements of Order No. 849. In its FERC Form No. 501-G, Dominion states that it is a separate income taxpaying entity. Therefore, its FERC Form No. 501-G includes a reduced tax allowance reflecting the Tax Cuts and Jobs Act's reduced federal corporate income tax rate. Dominion's FERC Form No. 501-G shows a Total Estimated Return on Equity (ROE) of 13.5 percent after adjusting for the income tax reduction.[12] Dominion's FERC Form No. 501-G shows an indicated percentage cost-of-service reduction of 7.3 percent.

5. Dominion elected to file under Option 3 (statement explaining why no rate adjustment is needed). Dominion asserts that no rate adjustment is appropriate. It states that the unadjusted FERC Form No. 501-G informational filing does not accurately reflect its current status and therefore should not be used to support any adjustment to rates. Instead, Dominion filed an Addendum[13] adjusting its FERC Form No. 501-G in four areas, some of which decrease the indicated ROE and others increase the indicated ROE. In the Addendum, Dominion again states that it is a separate income taxpaying entity and reduces its tax allowance to reflect the Tax Cuts and Jobs Act's reduced corporate income tax rate. Dominion states that it makes the following adjustments: (1) elimination of all amounts related to Asset Retirement Obligations (AROs); (2) elimination of amounts related to pension costs included in its FERC Form No. 2; (3) adjustments to the allocation of construction overhead costs to Construction Work in Progress (Capitalized Overhead); and (4) adjustments regarding a Greenlick Storage Fire Gas Loss Regulatory Asset (Greenlick). Dominion's adjustments result in five changes from the unadjusted FERC Form No. 501-G informational filing: (1) a decrease in Total Natural Gas Storage cost of service by approximately $15 million related to the Greenlick Storage Fire Loss; (2) an increase in Administrative & General Expense of approximately $57 million; (3) a decrease in Depreciation, Depletion, and Amortization of approximately $2.4 million; (4) a reduction of Gas Plant in Service of approximately $142 million; and (5) a reduction of Accumulated Deferred Income Tax – Other by approximately $206 million. Dominion explains that the AROs and pension adjustments

[11] *Id.*

[12] Total Estimated ROE is the ROE as calculated in Dominion's FERC Form No. 501-G found on p. 3, line 26, col. D.

[13] Dominion FERC Form No. 501-G add. (Attachment B).

are appropriate based on Commission regulation and precedent,[14] and that the Capitalized Overhead and Greenlick adjustments comply with a recently-completed audit by the Commission's Division of Audits and Accounting within the Office of Enforcement.[15] With these adjustments, Dominion's Addendum shows a Total Estimated ROE of 11.7 percent after adjusting for the income tax reduction, as opposed to the 13.5 percent ROE calculated in the FERC Form No. 501-G. Dominion concludes that the 11.7 percent ROE estimated in its Addendum is more reflective of its current situation and that its existing rates remain just and reasonable, if not too low, and no rate reduction is justified.

III. Notice, Interventions and Comments

6. Public notice of Dominion's FERC Form No. 501-G filing in Docket No. RP19-62-000 was issued on October 15, 2018. Interventions and protests were due as provided in section 154.210 of the Commission's regulations.[16] Pursuant to Rule 214,[17] all timely filed motions to intervene and any unopposed motions to intervene filed out-of-time before the issuance date of this order are granted. Granting late intervention at this stage of the proceeding will not disrupt this proceeding or place additional burdens on existing parties.

7. Four parties[18] filed protests challenging Dominion's population of FERC Form No. 501-G, Dominion's Addendum, or Dominion's statement that no adjustment to its existing rates is warranted. Two parties[19] filed comments concerning certain entries

[14] Dominion Transmittal at 2 (citing *Accounting, Financial Reporting, and Rate Filing Requirements for Asset Retirement Obligations*, Order No. 631, 103 FERC ¶ 61,021 (2003) (providing guidance on how pipelines should account for AROs); 18 C.F.R § 154.315 (2018) (describing Commission regulations regarding AROs); 18 C.F.R. pt. 201, 926 Employee Pensions and Benefits (2018) (describing Commission regulations regarding employee pensions and benefits)).

[15] *Id.* at 3 (citing *Dominion Energy Transmission, Inc.*, Docket No. FA15-16-000 (Nov. 8, 2017) (delegated order)).

[16] 18 C.F.R. § 154.210 (2018).

[17] 18 C.F.R. § 385.214 (2018).

[18] New Jersey Natural Gas Company (NJ Gas), NJR Energy Services Company (NJR Energy), PSEG Energy Resources & Trade LLC (PSEG Energy), and Process Gas Consumers Group and American Forest and Paper Association (Process Gas).

[19] Indicated Dominion Shippers (which includes Atlanta Gas Light Company and Virginia Natural Gas; the City of Richmond, Virginia; Consolidated Edison Company of

included in Dominion's FERC Form No. 501-G and adjustments in its FERC Form No. 501-G Addendum filing.

8. Protestors argue that the Commission should initiate an NGA section 5 investigation and set the matter for hearing.[20] With regard to Dominion's FERC Form No. 501-G, Indicated Dominion Shippers question Dominion's calculation of the amortization of its Excess Accumulated Deferred Income Taxes (EDIT) resulting from the reduction in the corporate income tax. Indicated Shippers and Indicated Dominion Shippers also note that Dominion does not have a fuel tracking mechanism. Therefore they request more details on Dominion's fuel data entries. Indicated Shippers state that Dominion did not support its statement that it was a separate income taxpaying entity. Process Gas argues that Dominion did not completely populate the portion of the FERC Form No. 501-G requiring capital structure related data, because, among other things, it did not provide information concerning its own capital structure.

9. Protestors also argue that Dominion's four adjustments in its Addendum are unsupported and should be reviewed in detail. Indicated Shippers and Indicated Dominion Shippers note that, with regard to the pension adjustment, Dominion states it made no pension contribution in 2017, yet it increased its administrative and general (A&G) costs by approximately $34 million as a result of the pension adjustment. They also request a fuller explanation of Dominion's adjustments made in conformance with the Commission's audit, further noting that Dominion has contested portions of the audit. Protestors request that once Dominion provides the required back-up information, the Commission should analyze what bearing the adjustments have on the ratemaking process for Dominion. Protestors state that, while Dominion's base rates and storage fuel retention rates were reduced in a prepackaged settlement filed in 2005[21] and its system fuel retention rates were reduced as part of another prepackaged settlement in 2014,[22] its rates and cost of service have not been reviewed in a litigated proceeding. Indicated

New York, Inc.; Exelon Corporation on behalf of Baltimore Gas and Electric Company and PECO Energy Company; National Fuel Gas Distribution Corporation; The National Grid Gas Delivery Companies; New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation, subsidiaries of Avangrid, Inc.; Philadelphia Gas Works; and Washington Gas Light Company) and Indicated Shippers (which includes BP Energy Company and Direct Energy Business Marketing, LLC).

[20] Process Gas Protest at 7; NJ Gas Protest at 4-5; NJR Energy Protest at 4-5; PSEG Energy Protest at 1-3; Indicated Shippers Comments at 6.

[21] *Dominion Transmission, Inc.*, 111 FERC ¶ 61,285 (2005).

[22] *Dominion Transmission, Inc.*, 146 FERC ¶ 61,068 (2014).

Shippers also question the validity of Dominion's Addendum adjustments to exclude ARO costs.

10. On November 14, 2018, Dominion filed a motion for leave to answer and answer to the protests and comments in this proceeding. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure[23] prohibits answers to a protest or an answer unless otherwise ordered by the decisional authority. We accept the answer filed by Dominion because it has assisted us in our decision-making process.

11. In its answer, Dominion first argues that it properly populated the FERC Form No. 501-G. Dominion states that the EDIT amortization calculation was consistent with the Commission-approved Average Rate Assumption Methodology. With regard to the fuel revenue question, Dominion states that its data entries reflect its Electric Power Cost Tracker, and are intended to eliminate these revenues and expenses so as to not have any impact on the estimated ROE. As for the challenge to its tax status, Dominion, citing its 2017 FERC Form No. 2, states that it is entitled to an income tax allowance because Dominion participates in the filing of a consolidated federal and select state income tax returns and in an intercompany tax sharing agreement with Dominion Energy, Inc., a C corporation. As for Process Gas' argument that Dominion did not properly populate the capital structure data elements of FERC Form No. 501-G, Dominion notes that it answered all the questions included in the FERC Form No. 501-G designed to determine whether it should use its own capital structure, its parent's, or a hypothetical capital structure. The answers to those questions required that Dominion use the capital structure of its parent (Case 3 in the FERC Form No. 501-G), and therefore it only populated the data elements relevant to that case. Finally, with regard to the protestors' questions on fuel revenue, Dominion notes that FERC Form No. 501-G is structured to provide a non-fuel cost of service. Thus, Dominion explains, it was not required to address any fuel cost over-recovery. Notwithstanding, Dominion states that it did recognize the fact that it does not have a fuel tracking mechanism, and it re-affirmed that accounting for that fact may result in an approximately 0.5 percent increase in its estimated ROE.

12. Dominion also addresses the issues raised with regard to its Addendum. Dominion argues that its adjustment to remove pension expenses follows Commission policy. Dominion states its pension plan is currently overfunded, that it made no contributions in 2017, and anticipates no contributions to the pension plan in 2018. Therefore, Dominion argues that it appropriately removed all amounts related to pension costs included in the FERC Form No. 2, from its cost of service in the Addendum.[24] Protestors requested further information on the two adjustments Dominion attributed to

[23] 18 C.F.R. § 385.213(a)(2) (2018).

[24] Dominion Answer at 7.

the results of a FERC audit. Dominion states those adjustments related to removing A&G costs that it had capitalized. The results of the audit required Dominion to remove these capitalized A&G costs from its plant accounts. The result was an increase in A&G costs in the cost of service and a reduction in rate base. Dominion states that it reported these adjustments in its June 2018 FERC Form 3Q, and states that these adjustments are proper for ratemaking purposes.

IV. Discussion

13. We have reviewed Dominion's FERC Form No. 501-G, Dominion's Addendum, comments filed in this docket, and publicly available information on file with the Commission. We find that Dominion has complied with the reporting requirement, and we close this proceeding.

14. We find that Dominion properly populated its FERC Form No. 501-G and accordingly reject the protests contending otherwise. As described above, Dominion's FERC Form No. 501-G, reflecting the reduced corporate income tax provided by the Tax Cuts and Jobs Act, shows a Total Estimated ROE of 13.5 percent. The protestors took issue with how Dominion populated the form, specifically Dominion's income tax status, EDIT calculation, fuel related costs and revenues and capital structure. Dominion adequately responded to each of these issues. Dominion cites to its 2017 FERC Form No. 2, a report whose contents are certified by an independent certified public accountant, supporting its claim that it is an income taxpaying entity. Dominion explained that it used the Commission-approved Average Rate Assumption to calculate its EDIT. However, it was not required to provide supporting spreadsheets.[25] Dominion is correct that FERC Form No. 501-G is structured to identify a non-fuel cost of service.[26] Notwithstanding, Dominion did not ignore the fact that it does not have a fuel tracking mechanism, providing a separate estimate of how its over-recovery of fuel would affect the ROE calculated in the FERC Form No. 501-G. Finally, with regard to fully populating the capital structure portion of FERC Form No. 501-G, Dominion explained that it supplied all the required financial data. We find that Dominion properly populated its FERC Form No. 501-G and accordingly reject these protests.

15. As described above, Dominion argues that no rate adjustment is appropriate, and in support of that position it supplied an Addendum that made four adjustments: (1) elimination of all amounts related to AROs; (2) elimination of pension costs included in FERC Form No. 2; (3) adjustments to the allocation of construction overhead costs to

[25] Order No. 849, 164 FERC ¶ 61,031 at P 151.

[26] *Id.* P 183.

Capitalized Overhead; and (4) adjustments regarding Greenlick. As a result of these adjustments, Dominion's Addendum shows a Total Estimated ROE of 11.7 percent.

16. Parties question Dominion's pension costs adjustment. Dominion, in its answer, states that it has an overfunded pension, which results in an accrual of net pension credits to its books and therefore, Dominion "removed all pension related components from its cost of service in the Addendum."[27] As a result, in the Addendum's supporting work paper, Dominion increased its cost of service for pension costs by approximately $34 million.[28] Additionally, the pension adjustment eliminated approximately $206 million of the ADIT reduction to Rate Base, which is consistent with Dominion's removal of pension related costs for ratemaking purposes. Increasing the cost of service has the effect of decreasing the estimated ROE. Based on the information submitted, this adjustment appears to be appropriate. The other adjustments in the Addendum also appear to be appropriate. Dominion correctly cited Order No. 631 in support of removing ARO costs. Dominion's adjustments to the allocation of construction overhead costs to Capitalized Overhead are consistent with the results of the Commission audit. And, lastly, Dominion correctly decreased its storage cost of service by approximately $15 million consistent with the Commission audit instructions to write-off the gas loss related to a 2008 incident at the Greenlick facility. Accordingly, we find that Dominion has supported the downward adjustments to its ROE in its Addendum.

17. In these circumstances, Dominion's ROE does not appear to be sufficiently excessive to justify initiating an investigation of its rates pursuant to NGA section 5. Such an investigation would likely provide little or no rate relief to Dominion's customers. Accordingly, we exercise our discretion not to institute an NGA section 5 investigation into Dominion's rates at this time.[29]

18. For these reasons, we find that Dominion has complied with the reporting requirement, and the proceeding is closed.

[27] Dominion Answer at 7.

[28] Dominion's FERC Form 501-G add. Adjustments, line 15, col. (d), (g) and (h)

[29] *General Motors Corp. v. FERC*, 613 F.2d 939, 944 (D.C. Cir. 1979) (addressing Commission discretion to initiate section 5 investigation).

The Commission orders:

The captioned FERC Form No. 501-G proceeding is terminated.

By the Commission. Commissioner McNamee is not participating.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

Document Content(s)

RP19-62-000.DOCX...1-9

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

5.2 Applicability

The Service Quality Penalty Factor ("SQPF") shall be applied to therm sales of the Company, subject to the jurisdiction of the M.D.P.U., as determined in accordance with the provisions of this rate schedule. Such SQPF shall be determined by the Company for each Rate Class Sector subject to review and approval by the M.D.P.U. as part of the Company's LDAF approval process.

5.3 Annual Service Quality Penalty Factor Formula

The SQPF shall be calculated according to the following formula:

$$SQPF_S = \frac{SQP \times BDRA_S}{T{:}Thru_S}$$

where

$SQPF_S$	Service Quality Penalty Factor by Rate Class Sector
$T{:}Thru_S$	Forecasted firm throughput volumes in therms, by Rate Class Sector, for twelve consecutive months November to October, inclusive.
$BDRA_S$	Base Distribution Revenue Allocator for each Rate Class Sector

5.4 Information to be filed with the M.D.P.U.

As part of the Company's annual LDAF filing, the Company will submit to the M.D.P.U. for its consideration and approval, the Company's request for a change in the Annual Service Quality Penalty Factor applicable to the LDAFs for each Rate Class Sector during the next subsequent twelve-month period commencing with the billing month of November.

6.0 PENSION AND PBOP EXPENSE ALLOWABLE FOR LDAC

6.1 Purpose

The purpose of this provision is to provide the Company a mechanism to adjust, on an annual basis and subject to the jurisdiction of the M.D.P.U., its rates for customers of distribution service to recover costs associated with pension and post-retirement benefits other than pensions ("PBOPs") and to reconcile pension and PBOP expense amounts with the total expense amounts booked by the Company pursuant to SFAS 87 and SFAS 106.

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

6.2 Applicability

This Pension/PBOP Adjustment mechanism shall be applicable to NSTAR Gas and all firm gas, as measured in therms, delivered by the Company unless otherwise designated.

6.3 Effective Date of Annual Pension/PBOP Adjustment Factor

The date on which the annual Pension/PBOP Adjustment Factor ("PAF") becomes effective shall be the first day of each calendar year, unless otherwise ordered by the M.D.P.U.. The Company shall submit PAF filings as outlined in Section 6.6 of this tariff at least 30 days before the filing is to take effect.

6.4 Definitions

Term	Definition
ERISA	Employee Information Retirement Income Security Act of 1974, as amended from time to time.
Pension Plan	Qualified Pension Plan, as defined by ERISA
Post Retirement Plan Other Than Pension Plan	Qualified PBOP, as defined by ERISA.
Pre-Paid Amount	The difference between: (1) the actual cash contributions to the Pension Plan and the PBOP Plan and (2) the amounts recognized in accordance with SFAS 87 and SFAS 106. These amounts are the Company's allocation of the total Eversource amounts.
Prior Year	The calendar year previous to the effective date of a proposed PAF.
Reconciliation Deferral	The difference between: (1) the total pension and PBOP expense amounts included in the Company's rates; and (2) the total expense amounts booked by the Company in the Prior Year in accordance with the requirements of SFAS 87 and SFAS 106.

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

6.5 Pension and PBOP Adjustment Factor Formula

$$PAF_S = \frac{(RA_x + cc(URD_x + APPA_x - DTA_x) + PPRA_x) \times LA_S}{Ftherms_S}$$

where

PAF_S The annual Pension/PBOP Adjustment Factor by Rate Class Sector

RA_x The Reconciliation Adjustment for $Year_x$ which is one-third of the Unamortized Reconciliation Deferral at the end of the Prior Year.

URD_x The Unamortized Reconciliation Deferral which is the amount of the Reconciliation Deferral that has not yet been collected in retail rates. At the beginning of $Year_x$ the Unamortized Reconciliation Deferral is the sum of: (1) the Unamortized Reconciliation Deferral at the beginning of the Prior Year; plus (2) the Reconciliation Deferral for Prior Year; minus (3) the Reconciliation Adjustment for the Prior Year.

cc The Cost of Capital is the tax-effected weighted-average cost of capital as most recently approved by the M.D.P.U..

$APPA_x$ The Average Pre-Paid Amount, for $Year_x$ which is one half of the sum of: (1) the Pre-Paid Amount recorded on the Company's books as of the beginning of the Prior Year; and (2) the Pre-Paid Amount to be recorded on the Company's books as of the end of the Prior Year.

DTA_x The Deferred Tax Amount which is the deferred taxes associated with (i) the Average Pre-Paid Amount and (ii) the URD at the end of the Prior Year.

$PPRA_x$ The Past Period Reconciliation Amount which is the sum of: (a) the difference between (1) the amount of PAF revenue that should have been collected by the Company in the year preceding the Prior Year and the Prior Year; and (2) the amount of PAF revenue actually received by the Company in the year preceding the Prior Year and the Prior Year; and (b) the amount computed in clause (a) times the prime rate computed in accordance with 220 C.M.R. § 6.08(2).

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

$Ftherms_S$ The forecasted amount of therms, by Rate Class Sector, to be distributed to the Company's distribution customers for the upcoming calendar year.

LA_S Labor Allocators are the allocation factors for each Rate Class Sector that are applied to the Pension and PBOP expense that the Company is allowed to recover through PAF mechanism to determine the PAF for each Rate Class Sector. The following are the Labor Allocators approved by the M.D.P.U. in the Company's most recent base rate case, D.P.U. 14-150:

Rate Class Sector	Labor Allocator
Residential	73.8059%
Small Commercial & Industrial	11.5420%
Medium Commercial & Industrial	7.9577%
Large Commercial & Industrial	6.6944%

6.6 Information Required to be Filed with the M.D.P.U.

Information pertaining to the Pension Adjustment mechanism shall be filed with the M.D.P.U. at least thirty (30) days before the date on which a new PAF is to be effective. Additionally, the Company will file with the M.D.P.U. a complete list by (sub)account of all Pension and PBOP Plan accounts claimed as recoverable through the PAF over the relevant calendar year. This information will be submitted with each annual PAF filing, along with complete documentation of the reconciliation-adjustment calculations.

6.7 Customer Notification

The Company will notify customers in simple terms of changes to the PAF, including the nature of the change and the manner in which the PAF is applied to the bill. In the absence of a standard format, the Company will submit this notice for approval at the time of each PAF filing. Upon approval by the M.D.P.U., the Company must immediately distribute these notices to all of its distribution customers either through direct mail or with its bills.

7.0 RESIDENTIAL ASSISTANCE ADJUSTMENT CLAUSE

7.1 Purpose

The purpose of the Residential Assistance Adjustment Clause ("RAAC") is to provide the Company a mechanism for the recovery of lost revenue, on an annual basis and subject to the jurisdiction of the M.D.P.U., based on the following: