–BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH–

IN THE MATTER OF APPLICATION OF DOMINION ENERGY UTAH TO INCREASE DISTRIBUTION RATES AND CHARGES AND MAKE TARIFF NOTIFICATIONS.	))))))))	**DOCKET NO. 19-057-02** **Exhibit No. DPU 2.0 SR** **Surrebuttal Testimony of Eric Orton**

FOR THE DIVISION OF PUBLIC UTILITIES

DEPARTMENT OF COMMERCE

STATE OF UTAH

Surrebuttal Testimony of

Eric Orton

December 5, 2019

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INTRODUCTION

Q. PLEASE STATE YOUR NAME.

A: Eric Orton

Q: BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A: I work for the Division of Public Utilities (Division) as a Utility Technical Consultant.

Q: WHAT AREAS WILL YOU BE ADDRESSING IN YOUR SURREUBTTAL TESTIMONY?

A: I'll be responding briefly to the Company's witnesses Mr. Stephenson and Mr. Mendenhall who are critical of certain aspects of my direct testimony filed on October 17, 2019 in this docket. In the following order, I will address:

- The proposed increase of the Infrastructure High Pressure Feeder Line Replacement Program (Tracker) allowed budget; and
- The proposed capital spending budget for the test year.

Q: PLEASE SUMMARIZE THE DIVISION'S POSITIONS IN THESE AREAS.

A: Certainly.

1) Tracker Budget Increase – The Division is opposed to increasing the Tracker budget. The Division has worked for years to refine and achieve a mutual understanding of the expectations and operations of the Tracker with the Company. The tracker was not intended as a comprehensive fund for all necessary plant upgrades. Rather it was a

limited time and purpose funding mechanism to assist Dominion in its obligation to provide safe and reliable service. It provides a significant benefit to Dominion by reducing regulatory lag in recovery of the allocated funds. It should not be considered an either/or scenario where the funds are necessary for safe reliable service. Generally, the Tracker is working as it should. No budget increase is necessary.

2) Capital Budget - The Division finds that the Company has over-projected its capital expenditures for the test year and recommends that the amount allowed in rates be reduced by $24.659 million, which still represents an aggressive year-over-year increase but is closer to the Company's regular or more average, historical growth rate.

TRACKER BUDGET INCREASE

Q: BRIEFLY DESCRIBE THE COMPANY'S CRITISISM OF THE DIVISION'S POSITION WITH RESPECT TO INCREASING THE TRACKER BUDGET.

A: In my direct testimony I point out that increased costs of one input (some steel pipes) was insufficient to demonstrate that the Tracker budget should be increased. Likewise, these increased costs did not cause the delay claimed in completing the Tracker as the Company claimed. In response, Mr. Mendenhall provided DEU Exhibit 1.04R to provide more evidence of increased costs when compared to the GDP deflator (Index).

Q: WHAT DID THE COMPANY OFFER TO CONTRADICT YOUR CLAIMS EXHIBIT 1.04R PURPORT TO DEMONSTRATE?

A: Mr. Mendenhall provided Exhibit 1.04R that lists some other IHS Markit prices that have risen as well.

Q: DOES THE INFORMATION IN THIS EXHIBIT DEMONSTRATE THAT INCREASED INPUT COSTS IN THE TRACKER NEGATES THE USE OF THE INDEX IN COMPENSATING THE COMPANY FOR CHANGES IN COSTS AND THAT THEREBY THE TRACKER BUDGET SHOULD BE INCREASED?

A: No. To the contrary, it shows that it is appropriate. This Company exhibit shows that some individual raw material construction component costs have risen. That is precisely why the Index works well as individual component costs change over time. The Index helps smooth out the bumps and provides a reasonable number to use as the basis to adjust the overall Tracker budget. It is consistent with the public interest in stable rates, as opposed to chasing fluctuating project component costs.

Q: DOES THE TRACKER LIMIT THE AMOUNT OF PIPELINE REPLACEMENT THE COMPANY CAN SPEND IN REPLACING AGING INFRASTUCTURE?

A: No. The Tracker is a mechanism that requires the utility to retain the risk of cost recovery. If a project cannot be completed under the Tracker budget but is necessary, the utility is not only free to proceed with building it, it is required to do so. It was obligated to do so before the Tracker was implemented and would be obligated if the Tracker did not exist. The Company has had a Feeder Line replacement program since at least 2002, long before the Tracker began. The Company has an obligation to provide safe reliable service to its customers. If prudent management indicates that more pipe should be replaced than can be covered by the Tracker budget, the Company must make the necessary investment, for which it may seek recovery.

Q: HAVE THESE INCREASED COSTS IDENTIFIED BY THE GAS UTILITY BEEN THE CAUSE THE ESTIMATED TRACKER COMPLETION DATE KEEPS EXTENDING?

A: No. The Tracker has gone from a nine-year program to a 27 year program (according to current estimates). The length of time to complete the infrastructure replacements being paid for by the Tracker has tripled. Costs have not tripled. It is likely that a variety of factors are responsible for the lengthening of the project, not merely cost increases.

CAPITAL BUDGET

Q: DOES THE COMPANY CORRECTLY CHARACTERIZE YOUR ISSUES WITH THE $277 MILLION DOLLAR CAPITAL BUDGET FOR THE TEST YEAR?

A: The Company seems to think my view is that the 2020 budget is simply not sufficiently detailed and that by it providing a more detailed breakdown of its projected expenditures this would satisfactorily demonstrate that the budget is reasonable. This position misses the mark and is ancillary to the focal issues regarding the proposed 2020 capital budget which are mainly the disproportionately large increase when compared to the recent past capital expenditures and the disparity between the budgeted amounts versus actual test year expenditures.

Q: DOES THE COMPANY'S CHARACTERIZATION ACCURATELY REFLECT THE DIVISION'S CONCERN AND POSITION?

A: No. The Division's testimony did say that "The proposed budget is out of line with past growth and has not been sufficiently justified." However, the budget detail is not the crux of the issue. The Division's concern is the large increase when compared to the recent past and the budget versus actual expenditures in test years. In short, the concern is that the proposed budget does not accurately reflect the costs the utility is likely to incur for the rate effective period.

Q: WHAT IS THE DIVISION'S CONCERN REGARDING THE 2020 CAPITAL EXPENDITURE COMPARED TO PAST YEARS?

A: The proposed amount represents a $44.7 million (19.2 percent) increase from 2019 levels. The proposed capital spending amount represents an increase of $69.7 million (33.5 percent) from the 2018 base year spending amount. A calculation of the average growth rate for the previous five years ending 2018 indicates that capital spending has grown at an average annual rate of 3.7 percent all inclusive. When this average growth rate of 3.7 percent is compared to the 19.2 percent and 33.5 percent it is clear that this proposed 2020 capital budget is extraordinary. The proposed capital spending for 2020 does not appear to be based on historical growth rates and represents a significant increase. The Division's concern is that the budget does not reflect the reality the utility will encounter in the coming years. The point of using a test year to calculate rates is to ascertain the level of revenue the utility will likely need in the rate effective period. (Utah Code §54-4-4(3))

We analyzed the capital budget for the past nine years. Following that trend for the test year, including the increase promised in the Merger agreement, results in a $24.659 million reduction in the rate base or a Revenue Requirement reduction of approximately $1.473 million.

Q: WHAT IS THE DIVISION'S CONCERN REGARDING THE 2020 CAPITAL EXPENDITURE BUDGET VS ACTUAL?

A: The Company's estimated capital spending in prior rate cases have been higher than its actual spending. In the last completed rate case, Docket No. 13-057-05, the Company indicated that the need for additional capital spending was the driving force behind the requested increase. In that case, the Company estimated that capital spending would be $195.1 million in 2013 and $188.5 million for the 2014 test year. Actual expenditures for 2013 were $177.3 million or $17.7 million lower than forecast. Actual spending for the

2014 test year was $161.5 million or $27 million lower than the amount used to set customer rates.

Q: WHAT EVIDENCE DID THE COMPANY PRESENT TO REFUTE YOUR POSITIONS COMPARING AVERAGE TO THE EXTRAORDINARILY HIGH CAPITAL BUDGET PROPOSAL?

A: It provided none.

Q: WHAT EVIDENCE DID THE COMPANY PRESENT TO REFUTE YOUR POSITIONS THAT IN TEST YEARS IT TENDS TO BE AWARDED MORE MONEY THAN IT ACTUALLY SPENDS?

A: It provided none.

Q: WHAT EVIDENCE DID THE COMPANY PRESENT TO REFUTE YOUR NOTE ABOUT THE BUDGET NOT BEING SUFFICIENTLY JUSTIFIED?

A: It provided exhibit 3.1R, which is a list of 434 line items the Company says comprise its 2020 capital budget, although it was a million dollars off the proposed total. The list of specific capital expenditure items was not provided with the initial filing. Providing significant additional information late in the procedural schedule does not allow parties sufficient time to evaluate the new information. Thus, the Division is not well-positioned to challenge specific dollars or specific projects. But this is the utility’s failing, not the Division’s.

Q: WHAT HAVE YOU BEEN ABLE TO CONCLUDE FROM THE LIST PROVIDED?

A: The Division issued a set of data requests with 65 detailed questions in an effort to fully understand this list and was unable to match the listed projects to the increase identified in meters and mains and to the overall budget amount. However, the responses were not received in time for the Division to perform an in-depth analysis, so I have reached no specific conclusions regarding that exhibit as of the filing of this testimony.

SUMMARY

Q: PLEASE SUMMARIZE YOUR TESTIMONY AND THE DIVISION'S RECOMMENDATIONS.

A: The Tracker budget should not be increased. The Tracker is still a pilot program that is functioning as planned and it is not requisite nor in the public interest to increase the budget other than by the regular use of the inflation Index that the parties agreed on. The Tracker provides benefits for both the Company and ratepayers. It allows the Company to timely recover costs of some (if not all) replacement projects between rate cases while controlling rate increases for ratepayers. These increases are allowed under the Tracker without the commensurate review of the Company's other expenses and revenues as is the practice in general rate cases.

The proposed capital budget is excessive compared to average growth rates should be reduced by at least $24.659 million (which includes the reduction of the $7.8 Tracker budget proposal mentioned above). This still represents an aggressive year-over-year increase but is closer to the Company's regular or more average historical growth rate and is more likely to be closer to its actual capital expenditures in the test year.

Q: DOES THAT CONCLUDE YOUR TESTIMONY?

A: Yes.