Witness OCS – 2S

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** **Surrebuttal Testimony of Donna Ramas For the Office of Consumer Services**

December 5, 2019

Table of Contents

Page

INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is Donna Ramas. I am a Certified Public Accountant licensed in the State of Michigan and Principal at Ramas Regulatory Consulting, LLC, with offices at 4654 Driftwood Drive, Commerce Township, Michigan 48382.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS DOCKET?

A. Yes. I submitted direct testimony on behalf of the Utah Office of Consumer Services ("OCS" or "Office") in this docket on October 17, 2019.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. I respond to the following issues addressed in the rebuttal testimony of DEU witness Jordan K. Stephenson: the 2020 capital budget and associated additions to plant in service; dismantling costs associated with the transponders being replaced by the Company; the lead-lag factors used in determining cash working capital; application of inflation factors to base year O&M expenses; Excess Deferred Income Tax (EDIT) update and amortization; expense accrual updates; and outside contractor costs. I also respond to the rebuttal testimony of DEU witness Alan Felsenthal in the area of pensions.

Q. AFTER REVIEWINGTHE REBUTTAL TESTIMONIES FILED BY DEU, ARE YOU REVISING ANY OF THE RECOMMENDATIONS PRESENTED IN YOUR DIRECT TESTIMONY?

A. Yes. Based on additional support provided by Mr. Stephenson in his rebuttal testimony and exhibits, coupled with additional information recently received in response to discovery, I am no longer recommending an adjustment to property tax expense.

Additionally, I agree the plant-related EDIT amortization should be revised based on updated information. In Mr. Stephenson's rebuttal testimony, at page 5, lines 122 – 123, he expresses the Company's agreement with UAE witness Kevin Higgin's reduction to the plant-related EDIT amortization amount. The actual amount of plant-related EDIT amortization under the ARAM amortization method was lower than what was previously projected by the Company and incorporated in both Tax Surcredit 3 and in DEU's initial filing. I agree that this revision to the plant-related EDIT amortization based on the more recent actual information is reasonable and appropriate.

In my direct testimony, and in the direct testimony of Mr. Higgins, we both recommended that customers receive the benefit of the amortization of the plant-related EDIT for the period January 1, 2019 through the rate effective date of this case. I recommended the extension of Tax Surcredit 3 and Mr. Higgin's recommended implementing a new Tax Surcredit 4. Company witness Stephenson proposes in his rebuttal testimony that Tax Surcredit 3 be modified and extended an additional twelve months to May 2021. He also proposes that beginning on June 1, 2020, the surcredit be reduced from $4,027,240 to $3,600,699. The reduction accounts for the overstatement of the 2018 plant-related EDIT amortization caused by the actual amortization being lower than anticipated. I agree that the proposal presented in Mr. Stephenson's rebuttal testimony to extend the tax surcredit twelve months and reduce the amount to $3,600,699 effective June 1, 2020 is reasonable and appropriate.

I am also recommending a new adjustment to depreciation expense caused by the Company's accounting for the dismantling costs associated with the replacement of the Elster transponders discussed in Mr. Stephenson's rebuttal testimony.

Q. IN YOUR DIRECT TESTIMONY, YOU PRESENTED THE OCS' RECOMMENDED CHANGE TO THE CURRENT LEVEL OF UTAH REVENUE REQUIREMENT. DO ANY OF THE MODIFICATIONS DISCUSSED ABOVE IMPACT THAT AMOUNT?

A. Yes. Removing the property tax expense adjustment recommended in my direct testimony, the revision to the plant-related EDIT amortization, and the new adjustment to depreciation expense all impact the revenue requirement presented in my direct testimony. My direct testimony recommended a $14,179,342 reduction in the current level of Utah revenue requirement based on CET allowed revenues prior to the removal of expenses in the test year associated with the LNG facility.[1] The revisions discussed above change the recommended reduction from $14,179,342 to $11,468,230 prior to the removal of the LNG facility outside service costs.

Q. WHAT CHANGES DID YOU MAKE TO THE REVENUE REQUIREMENT MODEL FILED WITH YOUR DIRECT TESTIMONY FOR THE MODIFICATIONS DISCUSSED ABOVE?

A. First, I turned off the property tax expense adjustment in the control panel. As such, the adjustment recommended in my direct testimony no longer impacts the revenue requirements as a result of this change. I also replaced the EDIT adjustment incorporated in my original rate case model with a revised adjustment that incorporates the impacts of the referenced update. Finally, I added the new depreciation adjustment associated with the replacement of the Elster transponders that will be discussed in more detail later in this testimony.

Q. HAVE YOU PREPARED ANY EXHIBITS IN SUPPORT OF YOUR SURREBUTTAL TESTIMONY?

A. Yes. I have prepared Exhibits OCS 2.1S through 2.7S, which are attached to this testimony. Exhibit OCS 2.1S presents the overall revenue

[1] The amount of expenses included in the test year for outside services used to assist the Company in its 2018 Application for Voluntary Resource Approval Decision was deemed confidential by the Company. As the impact of the removal on revenue requirement is provided in the confidential version of my direct testimony, Exhibit OCS 2D, at page 5, it is not being repeated herein.

requirement resulting from the revisions to my original recommendations presented in this testimony. Exhibit OCS 2.2S presents a summary of each of the adjustments to revenues, expense and rate base presented in my direct testimony and in this surrebuttal testimony, by adjustment. Exhibit OCS 2.3S through 2.6S present the revisions recommended in this testimony as well as other supportive information. Also included with this testimony is Exhibit OCS 2.7S, which consist of responses to data requests referenced in this testimony that were not previously provided in OCS Exhibit 2.16D with my direct testimony.

RATE BASE ADJUSTMENTS

Projected Plant In Service

Q. IN HIS REBUTTAL TESTIMONY, MR. STEPHENSON INDICATES THAT YOU AND DPU WITNESS ORTON RAISE GENERAL CONCERNS REGARDING THE 2020 CAPITAL EXPENDITURES BASED ON HIGH-LEVEL HISTORICAL EXPENDITURES AND THAT NEITHER OF YOU "RAISED ANY CONCERNS ABOUT THE INDIVIDUAL PROJECTS THAT MAKE UP THE 2020 CAPITAL BUDGET."[2] HE ALSO INDICATES THAT THE YOUR PROPOSED ADJUSTMENTS TO THE 2020 CAPITAL EXPENDITURES "DO NOT ASSESS ANY OF THE

---

[2] DEU Exhibit 3.0R (Rebuttal Testimony of Jordan K. Stephenson) at page 3, lines 57 – 61.

INDIVIDUAL PROJECTS" AND SHOULD BE DENIED.[3] DO YOU WISH TO COMMENT ON THIS ASSERTION?

A. Yes. It is not clear to me how the individual projects could have been reviewed prior to my direct testimony being filed on October 17, 2019 when the Company did not provide the breakdown of the budgeted amounts by individual projects until its November 14, 2019 rebuttal filing. As indicated in my direct testimony, the Company's initial filing contained very little detail regarding the projected 2020 capital expenditures. DEU's response to OCS Data Request 4.21, which asked for the 2020 capital expenditures budget "in the most detailed format available," indicated that the capital budget provided with the initial filing as part of the response to MDR B.04 was "…the most detailed 2020 budget currently available."[4] The response to OCS Data Request 4.21 was provided by DEU on September 6, 2019 and did not include an itemization of individual projects making up the 2020 capital budget. The itemization of the individual projects making up the 2020 capital budget of approximately $278.8 million was not provided until DEU Exhibit 3.1R was filed with the Company's rebuttal testimony on November 14, 2019.

While Mr. Stephenson complains that I did not raise concerns with the individual projections making up the 2020 capital budget, the

---

[3] *Id.* at page 3, lines 66 – 68.

[4] The information provided in the single page of support with the Company's initial filing for the 2020 capital expenditures in response to MDR B.04 and the response to OCS 4.21 are included OCS Exhibit 2.16D.

Company did not provide an itemization of those individual projects until well after my direct testimony was filed, despite the OCS asking for the 2020 capital expenditures budget in the most detailed format available when OCS Data Request 4.21 was submitted to the Company on August 23, 2019. In fact, the Company's response to OCS Data Request 10.02(b), submitted on November 25, 2019, indicated that at the time OCS Data Request 4.21 was issued it had "a preliminary list of projects for 2020 that had not yet been finalized and as such were not included in its response to the data request."

The response to OCS Data Request 10.02(b) also indicated that the responses to DPU Data Requests 10.3, 10.4 and 10.7 identified "some of the projects that were included on the preliminary list prior to finalization." While the Company did provide additional information on some of the forecasted 2020 capital cost areas and projects in response to DPU Data Requests 10.03, 10.04 and 10.07, each of which were provided on September 5, 2019, the amounts identified in those responses for many of the projects and categories differ from the amounts presented for the same projects and categories in the individual project listing contained in DEU Exhibit 3.1R. For example, the response to DPU Data Request 10.03 identified the 2020 projected capital expenditures for the Southern System Expansion project as $20.0 million, the response to DPU Data Request 10.07 identified the amount for the project as $21.0

million and the DEU Exhibit 3.1R identifies the 2020 capital budget for the Southern System Expansion project as $19.0 million.

Q. ARE THERE SIGNFICIANT VARIANCES IN THE INFORMATION THE COMPANY PREVIOUSLY PROVIDED FOR THE 2020 CAPITAL EXPENDITURES AND THE AMOUNTS PROVIDED WITH ITS REBUTTAL FILING?

A. Yes. DPU Data Request 7.04, which was responded to on September 3, 2019, asked the Company to provide the proposed 2020 capital expenditures by the categories shown in the Merger Integration Reports. In response, the Company provided a breakdown of its 2020 capital budget contained in its original filing of $277.7 million by function. The table below provides a side-by-side comparison of the breakdown by function of the 2020 capital budget amounts provided by the Company in response to DPU Data Request 7.04 on September 3, 2019 to the 2020 capital expenditure budget provided in DEU Exhibit 3.1R on November 15, 2019.

Class/Function	2020 Capital Budget per Response to DPU 7.04	2020 Capital Budget per DEU Exh. 3.1R	$ Change by Class /Function	% Change by Class /Function
22-Distribution M&R	$ 11,079,008	$ 23,060,182	$ 11,981,174	108%
23-Feeder Lines	92,445,867	124,158,000	31,712,133	34%
24-Distribution Compressors	250,000	-	(250,000)	-100%
25-Distribution Mains - New	10,440,650	14,600,000	4,159,350	40%
26-Distribution Services - New	9,169,440	10,700,000	1,530,560	17%
27-Distribution Meters - New	65,007,157	15,700,000	(49,307,157)	-76%
30-Land	-	-	-	0%
31-Offices, Buildings, Residences	2,610,109	1,684,575	(925,534)	-35%
32-Furniture & Office Equipment	600,000	73,322	(526,678)	-88%
33-Transportation Equipment	3,800,000	8,270,300	4,470,300	118%
36-Tools & Work Equipment	2,000,000	6,611,508	4,611,508	231%
42-Filling Stations & Plants	500,000	1,000,000	500,000	100%
43-Computer System Software	3,250,000	5,530,791	2,280,791	70%
44-Computer Equipment	1,300,000	206,284	(1,093,716)	-84%
52-Distribution Mains	55,000,000	37,308,747	(17,691,253)	-32%
53-Distribution Services	6,000,000	9,849,238	3,849,238	64%
54-Distribution Meters	8,400,000	11,629,483	3,229,483	38%
57-Infrastructure	850,000	2,455,624	1,605,624	189%
080 - Retirement Projects	1,000,000	-	(1,000,000)	-100%
85-UDOT Receivable	1,500,000	3,500,000	2,000,000	133%
86-Accounts Receivable	2,500,000	2,500,000	-	0%
Total	**$ 277,702,231**	**$ 278,838,054**		

As shown in the above table, the 2020 capital expenditures broken down by function has changed significantly between the amount provided previously in response to discovery and the amount presented in the Company's rebuttal filing. Given the extent of the differences, this leads one to question if the Company was targeting a specific dollar amount in the capital budgeting process for 2020 and modified the budgets to fit a specified dollar amount or range.

Q. COULD YOU PLEASE BRIEFLY SUMMARIZE THE RECOMMENDATION MADE IN YOUR DIRECT TESTIMONY WITH REGARDS TO DEU'S BUDGETED 2020 CAPITAL EXPENDITURES?

A. Yes. In my direct testimony, I indicated that the Company's filing included a substantial increase in the annual capital expenditures for 2020, going from $212.2 million actual capital expenditures in 2018 to $232.4 million budgeted in 2019 and $277.7 million forecasted for 2020.[5] It was my opinion that the Company did not provide a robust level of support for the substantial forecasted increase in capital expenditures. While I did not challenge the $20.2 million increase for 2019 as compared to 2018 actuals, I did challenge the substantial increase in 2020 forecasted capital expenditures due largely to the fact that the Company provided very little support for the 2020 forecasted capital expenditures.

Since the Company had not provided a reasonable level of support or justification for the forecasted 2020 capital expenditures, I recommended that the forecasted 2020 capital expenditures be reduced by $45.3 million to the budgeted 2019 capital expenditure level of $232,357,000. Since not all of the 2020 capital expenditures are projected by DEU to be placed into service during 2020, and the test year is based on average 2020 rate base, reducing the forecasted 2020 capital expenditures in DEU's rate case model by $45.3 million resulted in a $13,254,496 reduction to the 2020 future test year rate base.[6]

Q. TO WHAT DOES THE COMPANY ATTRIBUTE THE SIGNIFICANT INCREASE IN CAPTIAL EXPENDITURES FOR 2020?

---

[5] OCS Exhibit 2D (Direct Testimony of Donna Ramas) at p. 8, lines 153 – 161.
[6] *Id.* at page 11, lines 218 – 221 and Exhibit OCS 2.5D.

A. Mr. Stephenson indicates that the $45 million increase between the 2019 and 2020 capital budgets are due largely to a $10 million proposed increase in the Infrastructure Tracker, $14 million for a new gate station on the Kern River pipeline and $19 million for a Southern System expansion to the St. George area.

Q. DOES THE COMPANY'S REBUTTAL TESTIMONY AND THE ITEMIZATION OF THE 2020 CAPITAL BUDGET BY PROJECT CAUSE YOU TO CHANGE YOUR RECOMMENDATION?

A. No, it does not. It is my opinion that the Company has provided too little information much too late to support the substantial budgeted increase in capital expenditures contained in its filing. The burden of proof is on the Company to support its test year request. In DEU's initial filing, and in response to discovery issued in this proceeding by both the OCS and DPU prior to the filing of DEU's rebuttal testimony on November 14, 2019, the Company provided very little information in support of its forecasted 2020 capital expenditures. As background, and as pointed out in my direct testimony, the capital expenditures went from actual amounts of $210.7 million in 2017 and $212.2 million in 2018 to $232.4 million budgeted in 2019 and $277.7 million forecasted for 2020. While Mr. Stephenson discussed three areas explaining $43 million of increase between the 2019 budget and 2020 budget, the 2020 capital forecast contained in the Company's initial filing is $65.5 million higher than the actual 2018 capital expenditures and $67 million higher than the actual 2017 capital expenditures.

Additionally, as pointed out previously in this testimony, the costs that make up the significant 2020 capital expenditures contained in the Company's filing by function have changed significantly between the time the Company originally filed its testimony and responded to discovery addressing the 2020 forecasted capital expenditures in September 2019 and the November 14, 2019 rebuttal filing. For example, the table presented previously in this testimony demonstrates that the 2020 capital expenditures presented by the Company increased by $31.7 million for Feeder Lines, decreased by $49.3 million for Distribution Meters – New, increased by $4.47 million for Transportation Equipment and $4.6 million for Tools and Work Equipment, and declined by $17.7 million for Distribution mains. Given the Company's failure to provide a reasonable level of support for the significant projected increase in expenditures in a timely and useful manner, and the significant changes in the costs presented during this case, I continue to recommend the adjustment presented in my direct testimony.

Transponder Retirements – Accumulated Depreciation

Q. BEFORE DISCUSSING THE RETIREMENT AND REMOVAL OF THE ELSTER TRANSPONDERS, CAN YOU PLEASE FIRST DESCRIBE HOW PROCEEDS AND DISMANTLEMENT COSTS INCURRED AS

PART OF RETIRING ASSETS IMPACT ACCUMULATED DEPRECIATION AND RATE BASE?

A. Yes. As background and in general terms, when an asset is retired from a Company's books, both plant in service and accumulated depreciation are reduced by the original cost of the asset. As a general example, if an asset that originally cost $10 is retired from service, both plant in service and accumulated depreciation are reduced by $10. In my direct testimony, at lines 228 – 235, I discussed how proceeds and dismantling costs realized when an asset being retired is removed from service also impact the accumulated depreciation balance.

If dismantling costs are incurred when an asset is retired and removed from service, the dismantling costs are booked as a reduction to accumulated depreciation. Since accumulated depreciation reduces rate base, the dismantling costs effectively increase rate base. If proceeds are received as a result of the retired asset being sold, the proceeds are booked as an increase in the accumulated depreciation balance thereby reducing rate base.

When depreciation rates are set, projected proceeds and dismantling costs are some of the factors considered in determining the depreciation rate that is then applied to the plant balance over the depreciable life of the plant.

Q. COULD YOU PLEASE BRIEFLY SUMMARIZE THE RECOMMENDATION IN YOUR DIRECT TESTIMONY REGARDING

THE COMPANY'S ESTIMATE OF PROCEEDS AND DISMANTLEMENT COSTS USED IN FORECASTING THE 2020 TEST YEAR ACCUMULATED DEPRECIATION BALANCE?

A. Yes. I explained that the Company's method of estimating the amount of proceeds and dismantlement costs using historic three-year average ratios of proceeds to plant retirements and dismantling costs to plant retirements could be a reasonable approach in many circumstances. However, I pointed out that this approach, based on historic averages, was not appropriate in the current case unless adjusted due to issues caused by the Company's accounting for the early retirement and replacement of Elster transponders.

In my direct testimony, I recommended that the Company's calculation methodology used to forecast the 2019 and 2020 proceeds and dismantlement costs be revised to remove the impacts of the transponder retirements on both the historic three-year average ratios applied by the Company and on the forecasted 2019 and 2020 plant retirements to which the ratios were applied. This removed the overstatement of the forecasted 2019 and 2020 proceeds caused by the Company's accounting for the Elster transponders. The revisions made to the Company's proceeds and dismantling cost calculations were presented in Exhibit OCS 2.6D with my direct testimony, resulting in a recommended increase in the average 2020 test year accumulated depreciation balance of $3,608,652.

Q. DID THE COMPANY REBUT YOUR RECOMMENDATION?

A. Yes, it did. The Company's rebuttal, coupled with the Company's responses to several data requests directed to the rebuttal filing, caused me to realize that the Company's accounting for the removal of the Elster transponders and the resulting impacts on the Company's filing were even more problematic than I realized at the time my direct testimony was filed.

Q. PLEASE EXPLAIN.

A. At the time my direct testimony was filed, I was already aware of several problems with the Company's accounting for the retirement and replacement of the Elster transponders. Based on information provided in the recent depreciation docket, Docket No. 19-057-03, the Company replaced 261,643 Elster transponders during 2018. Due to issues caused by the Company's implementation of a new fixed asset accounting system during 2018, the Elster transponders replaced during 2018 were not retired on the Company's books during 2018. In response to OCS Data Request 4.24 in this docket, the Company indicated that the retirement of the Elster transponders that were replaced during 2018 will be booked in 2019. In reviewing the Company's filing, I confirmed that the impact of the retirements associated with the 2018 replacement of Elster transponders on plant in service and accumulated depreciation were included in the 2019 forecast period in the Company's rate case model. Additionally, as pointed out in my direct testimony at lines 260 – 274, I was aware that the Company recorded no dismantling costs to accumulated depreciation associated with the retirement and replacement of the Elster transponders on its books during the period they were being replaced.

Q. WHAT ADDITIONAL PROBLEMS WITH THE COMPANY'S ACCOUNTING FOR THE REMOVAL OF THE ELSTER TRANSPONDERS DID YOU BECOME AWARE OF AFTER REVIEWING DEU'S REBUTTAL TESTIMONY?

A. In his rebuttal testimony, at lines 81 – 85, Mr. Stephenson indicates that the Company has determined that "approximately 9.09% of the costs to replace transponders are related to dismantling the existing transponders" and that DEU "will record dismantling costs related to transponder replacements from 2016-2019 in 2019." At lines 96 – 97 of his rebuttal testimony, Mr. Stephenson references DEU Exhibit 3.2R and states that "…the Company will book $4.71 million of dismantling cost in 2019 related to the transponder replacement work." He indicates that, based on this information, DEU does not believe it is appropriate to adjust the accumulated depreciation balance related to transponder costs as DEU believes that "…its original approach of estimating system total proceeds and dismantling costs using a three-year average ratio to total system retirements is reasonable."[7]

When the 2016 to 2019 dismantling costs were being incurred by the Company, the actual costs would have been recorded somewhere on

[7] DEU Exhibit 3.0R (Rebuttal Testimony of Jordan K. Stephenson), page 5, lines 105 – 108.

the Company's books and records when incurred. When asked where the dismantling costs incurred from 2016 to 2018 was recorded on DEU's books in OCS Data Request 10.05, the Company indicated that they were booked to the 107 account, which is Construction Work in Progress. In response to OCS Data Request 10.07, the Company agreed that the dismantling costs were booked to Construction Work in Progress and Plant in Service accounts. As a result, the dismantling costs are included in the plant in service balances in the test year. The problems with the Company's accounting for the replacement of the Elster transponders has caused the plant in service balances to be overstated due to the inclusion of the costs of dismantling the transponders being replaced as part of the cost of the replacement transponders on the Company's books and records during 2016 through 2019.

Q. DOES THIS CAUSE A DOUBLE-COUNTING OF THE COSTS OF DISMANTLING THE ELSTER TRANSPONDERS IN THE COMPANY'S FILING?

A. Yes. As indicated above, DEU does not believe it is appropriate to adjust the accumulated depreciation balance related to transponder costs using the method I recommended. Rather, Mr. Stephenson states on lines 107 – 108 of his rebuttal testimony that: "The Company believes that its original approach of estimating system total proceeds and dismantling costs using a three-year average ratio to total system retirements is reasonable." Thus, it is the Company's view that the dismantlement costs associated with the removal of the Elster transponders are adequately covered in its dismantlement cost estimates contained in determining the forecasted 2020 accumulated depreciation balances.

However, the Company has acknowledged in response to OCS Data Requests 10.05 and 10.07 that the dismantling costs incurred from 2016 to 2019 are included in the plant in service balances. Mr. Stephenson's rebuttal testimony at lines 96 – 97 and DEU Exhibit 3.2R show that that Company has estimated the amount of dismantlement costs that were booked as part of the cost of the new replacement transponders for 2016 through 2019 was $4.71 million. Thus, the dismantling costs are included in the Company's filing both in the adjustment to accumulated depreciation for dismantling costs AND in plant in service as part of the balances included for the replacement transponders.

The Company acknowledges that there is a double-count. OCS Data Request 10.07(b) asks if the Company "…agrees that the amounts booked to plant in service for the new transponders should be reduced by the dismantling costs associated with removing the old transponders to avoid a double-counting of the costs in the Company's filing since the dismantling costs are being considered in the Company's dismantling cost factor in the filing?" The Company's response stated: "The Company agrees and anticipates making an adjustment to the 108 (Accumulated Depreciation) and the 101 (Plant in Service) balances."

Q. BASED ON THE ADDITIONAL INFORMATION PROVIDED BY THE COMPANY IN ITS REBUTTAL FILING AND IN RESPONSE TO SUBSEQUENT DATA REQUESTS, HOW DO YOU RECOMMEND THE DOUBLE-COUNTING OF THE ELSTER TRANSPONDER DISMANTLEMENT COSTS IN THE COMPANY'S FILING BE CORRECTED?

A. Just to be abundantly clear, the dismantling costs associated with removing the Elster transponders are included both in plant in service as part of the cost of the replacement transponders and as part of the Company's dismantlement adjustment used in determining the forecasted accumulated depreciation balance. The key is to ensure that these costs are not included twice in rate base in determining the revenue requirements.

The transponder retirement adjustment presented in my direct testimony and in Exhibit OCS 2.6D attached thereto would effectively remove the dismantling costs associated with transponders from accumulated depreciation, increasing accumulated depreciation and thereby reducing rate base by approximately $3.6 million. It is my opinion that adoption of this adjustment would be a reasonable means to ensure there is not a double-counting of the costs.

As an alternative, instead of adopting my recommended adjustment to the accumulated depreciation balance, the Commission could reduce plant in service by the $4.7 million of dismantlement costs estimated by

Mr. Stephenson as being included as part of the cost of the new transponders booked by the Company from 2016 through 2019. However, as part of that $4.7 million would have been depreciated by the Company between 2016 and the test year, the actual amount included in rate base in the Company's filing as part of the cost of the replacement transponders would be lower than the full $4.7 million due to the impacts of the depreciation of the replacement transponders on the accumulated depreciation balance. While the Company acknowledged in response to OCS Data Request 10.07 that it anticipated making an adjustment to both the plant in service and accumulated depreciation balances as a result of the double count, it did not provide the anticipated adjustment.

Q. ARE THERE ANY ADDITIONAL ADJUSTMENTS THAT NEED TO BE MADE AS A RESULT OF THE COMPANY INCORRECTLY BOOKING THE ELSTER TRANSPONDER DISMANTLING COSTS AS PART OF THE COST OF THE REPLACEMENT TRANSPONDERS?

A. Yes. The dismantling costs are included in the plant in service balance in Account 381.21 as part of the cost of the replacement transponders in the Company's filing. In the filing, the Company applied the depreciation rate for Account 381.21 of 3.53% to these costs. As the dismantling costs for the removal of the Elster transponders should not have been booked as part of the costs of the new transponders in plant in service, the depreciation expense associated with the dismantling costs included in the filing should be removed.

Q. WHAT ADJUSTMENT SHOULD BE MADE TO THE 2020 TEST YEAR DEPRECIATION EXPENSE TO REMOVE THE IMPACTS OF THE DISMANTLING COSTS?

A. Based on the $4.71 million of dismantling costs for the period 2016 through 2019 identified in Mr. Stephenson's rebuttal testimony, and the 3.53% depreciation rate applied to those costs in DEU's filing, depreciation expense should be reduced by $166,263 ($4.71 million x 3.53%). This adjustment is presented in Exhibit OCS 2.3S.

<u>Cash Working Capital</u>

Q. CAN YOU PLEASE SUMMARIZE THE ADJUSTMENTS TO THE COMPANY'S LEAD-LAG STUDY RECOMMENDED IN YOUR DIRECT TESTIMONY?

A. Yes. I recommended that: 1) the Federal and state income taxes be removed from the lead lag study; and 2) depreciation and deferred income taxes be removed from the lead lag study. The result of these revisions reduced the net lag days from the 7.358 days proposed in DEU's initial filing to -0.785 days. This resulted in a recommended cash working capital of ($1,473,764) on a Utah jurisdictional basis.

Q. WHAT ADJUSTMENTS TO THE LEAD-LAG STUDY WERE RECOMMENDED BY THE DPU?

A. DPU witness David Thomson recommended four adjustments to DEU's lead-lag study, which were summarized in DPU Exhibit 4.8DIR. These four adjustments included: 1) a correction to DEU's calculation to include the depreciation and deferred income tax amounts in the Total Expense lag amounts; 2) a correction to change the sign for the depreciation and deferred income tax lag amounts from negative to positive; 3) an adjustment to delete the pension plan amounts from the payroll and payroll overhead lag day calculations; and 4) removal of Federal and state income taxes from the lead-lag study. The result of the DPU recommended revisions reduced the net lag days from the 7.358 days proposed in DEU's initial filing to -0.828 days.

Q. DID THE COMPANY AGREE TO CHANGE THE LEAD-LAG DAYS IN ITS REBUTTAL FILING?

A. Yes. Mr. Stephenson agreed in his rebuttal testimony that the lead-lag days should be adjusted, stating that "The Company accepts the -0.898 factor proposed by Mr. Thomson." While the testimony references a factor of -0.898, the revised rate case model provided with Mr. Stephenson's rebuttal testimony as DEU Exhibit 3.10R incorporated a lead-lag factor of -0.828 days, consistent with DPU witness Thomson's recommendation. Mr. Stephenson's rebuttal testimony, at page 5, lines 117 – 118, indicates that the change reduces revenue requirement by $1.497 million. At lines 116 – 117, Mr. Stephenson states: "I believe this factor also addresses the concerns raised by Ms. Ramas as well."

Q. IS IT CORRECT THAT THE COMPANY'S ACCEPTANCE OF THE LEAD-LAG FACTOR PROPOSED BY DPU WITNESS THOMSON

ADDRESSES THE CONCERNS RAISED IN YOUR DIRECT TESTIMONY?

A. No, not entirely. It does address my recommendation that the Federal and state income taxes be removed from the lead lag study. However, Mr. Thomson's revisions to DEU's lead-lag study included two corrections to the depreciation and deferred income tax amounts incorporated by the Company in its study. Mr. Thomson's calculations include the depreciation and deferred income tax expenses, as corrected for errors made by DEU, in calculating the net lag days.

As discussed in my direct testimony, at lines 462 – 531, depreciation expense and deferred income tax expense should not be included in the calculation of the net lag days. Depreciation and deferred income taxes do not result in day-to-day cash outflow and are not representative of the Company's cash working capital needs. The Company's attempt to include depreciation expense in the cash working capital calculation is also inconsistent with long-standing Commission policy.

Q. WHAT NET LAG DAYS WOULD RESULT IF MR. THOMSON'S LEAD-LAG DAY CALCULATIONS ARE REVISED TO REMOVE THE DEPRECIATION EXPENSE AND DEFERRED INCOME TAX EXPENSE?

A. On OCS Exhibit 2.4S, I provide a side-by-side comparison of the net lag day calculation presented in DPU Exhibit 4.1DIR to the calculation as revised to remove the "Depreciation and DIT Lag" category. As shown on line 16 of OCS Exhibit 2.4S, the DPU recommended net lag days would go from -0.828 days to -0.905 days if the depreciation expense and deferred income tax expense are removed.

The DPU recommended net lag days are lower than the -.0785 days recommended in my testimony due to Mr. Thomson's recommended revision to the payroll & payroll overhead lag. However, whether or not depreciation and deferred income taxes are allowed to be included in determining cash working capital is an important policy decision that should not be ignored. If the Commission adopts Mr. Thomson's recommended lead-lag adjustments instead of my proposed revisions, then I strongly recommend that the depreciation and deferred income taxes be removed consistent with long-standing Commission policy. As indicated above, this would result in -0.905 lag days.

NET OPERATING INCOME

Remove Non-Labor O&M Expense Escalation

Q. IN YOUR DIRECT TESTIMONY, YOU RECOMMENDED THAT THE COMPANY'S ADJUSTMENT TO INFLATE THE BASE YEAR NON-LABOR O&M EXPENSES SHOULD BE REMOVED. DID THE COMPANY AGREE WITH YOUR RECOMMENDATION?

A. No, it did not. The Company did, however, indicate that the inflated O&M expenses included in its initial filing should be reduced by $600,000 for additional anticipated cost savings, resulting in a $601,333 reduction to revenue requirement.[8]

Q. HOW DOES THE $600,000 OF ADDITIONAL COST SAVINGS INCORPORATED IN DEU'S REBUTTAL FILING COMPARE TO YOUR RECOMMENDATION TO REMOVE THE INFLATION OF THE BASE YEAR NON-LABOR O&M EXPENSE?

A. As indicated in my direct testimony, removal of the inflation factors from DEU's filing reduced the adjusted 2020 test year non-labor O&M expenses by $2,598,950 prior to consideration of the impact of the inflation removal on other adjustments contained in DEU's filing and rate case model. Overall, when the impact on DEU's adjustments are considered, the removal of the non-labor O&M expense inflation factors from DEU's revenue requirement model resulted in a reduction to DEU's requested revenue requirements of $1,934,618. This revenue requirement impact is approximately $1.3 million greater than the impact of the additional $600,000 reduction to test year O&M expense reflected in DEU's rebuttal filing.

Q. AFTER REVIEWING THE REBUTTAL TESTIMONY FILED BY DEU, DO YOU CONTINUE TO RECOMMEND THAT THE NON-LABOR O&M INFLATION FACTORS BE REMOVED FROM THE RATE CASE MODEL?

---

[8] DEU Exhibit 3.0R (Rebuttal Testimony of Jordan K. Stephenson), page 9, lines 219 – 226.

A. Yes, I do. As indicated in my direct testimony, whether or not inflation should be applied to base year non-labor O&M expenses should be considered on a case-by-case basis based on the facts and circumstances in each rate case.

If the Commission does not adopt my recommendation that the non-labor O&M inflation factors be removed from the rate case model in this case, then I would agree that an adjustment should be made to reflect the additional $600,000 reduction to test year O&M expense presented in DEU's rebuttal filing. I am not advocating that both adjustments be made.

Q. DO YOU WISH TO ADDRESS ANY OF THE ASSERTIONS MADE BY DEU WITNESS STEPHENSON IN REBUTTING YOUR RECOMMENDATION THAT THE NON-LABOR O&M INFLATION BE REMOVED?

A. Yes, there are several statements made in Mr. Stephenson's rebuttal testimony on the inflation issue that I wish to address. First, Mr. Stephenson asserts that after the severance payments associated with the voluntary retirement program are removed, the actual expenses for the first six months of 2019 are 2.21% higher than the actual expenses for the first six months of 2018. He states that "The Company believes this serves as evidence that the expense forecast methodologies in this case are reasonable and properly capture anticipated labor expenses."[9] However, the expenses used in Mr. Stephenson's comparison include the

---

[9] *Id.* at page 8, lines 197 - 206

energy efficiency program expenses. Since the energy efficiency program expenses are not collected through the distribution non-gas rates, the costs are not included in the revenue requirements in this case.

The attachment provided with DEU's response to OCS Data Request 10.14 shows that when the energy efficiency program expenses are also removed from DEU's analysis, the O&M expenses incurred in the first six months of 2019 are actually 1.65% lower than the expenses for the first half of 2018. In other words, DEU's claimed 2.21% increase in O&M expenses is really a decrease of 1.65% when the energy efficiency program expenses are removed. If anything, the analysis presented by Mr. Stephenson, once corrected to remove the energy efficiency expenditures, further supports my recommendation that the inflation factors applied by DEU to the 2018 base year non-labor O&M expense be removed.

Q. IN ADDRESSING THE COMPARISONS MADE BY YOU AND MR. HIGGINS OF THE COMPANY'S 2020 BUDGET TO THE 2020 TEST PERIOD, MR. STEPHENSON REFERENCES A COST SAVINGS INITIATIVE. WHAT DOES MR. STEPHENSON SAY REGARDING THE COST SAVINGS INITIATIVE?

A. Mr. Stephen states: "When the 2020 budget was prepared in the third quarter of 2018, a cost savings initiative was being conducted by a third-party consulting firm." He also states: "At the time, the firm had presented estimates of large potential savings to Dominion Energy related to all subsidiaries nationwide" and that the "estimated cost savings were allocated down to each business unit's budgets."[10] While Mr. Stephenson indicates that the cost savings initiative was being conducted during the third quarter of 2018 when the 2020 budget was being prepared, this assertion may not be accurate. In response to OCS Data Request 10.17(b), the Company states that the third-party consulting firm did not perform the work on the cost savings initiative until 2019 and that no expenses were incurred by the Company during 2018 for the third-party cost savings initiative work. If the referenced third party consulting firm did not perform cost savings initiative work until 2019, it is not clear how the estimated savings from that initiative could have been included in DEU's 2020 budget that was prepared in the third quarter of 2018.

Q. DO YOU HAVE ANY OTHER CONCERNS WITH THE COMPANY'S REBUTTAL TESTIMONY ON THE INFLATION ISSUE?

A. Yes. My direct testimony indicated that the 2020 O&M budget provided by the Company with the master data responses, which were filed in July 2019, included O&M expenses of $142.4 million. My testimony also indicated that an updated 2020 budget provided by the Company included O&M expenses of $131.7 million.[11] This updated budget was provided by the Company in response to OCS Data Request 4.06[12] on September 6, 2019. In his rebuttal testimony, Mr. Stephenson indicates that the

---

[10] *Id.* at page 9, lines 207 - 213.
[11] OCS Exhibit 2D (Direct Testimony of Donna Ramas), page 30, lines 638 – 645.
[12] Response to OCS Data Request 4.06 previously provided in OCS Exhibit 2.16D.

Company has now prepared an updated 2020 budget during the fourth quarter of this year that includes $151.6 million in total O&M expense.

OCS Data Request 10.13 asked the Company to: "Please explain, in detail, what specific factors caused the budgeted 2020 O&M expense to increase by approximately $20 million between the 2020 budget provided in this case on September 6, 2019 and the 2020 budget referenced in the rebuttal filing." The Company responded as follows:

> The difference between the $131.7 million and the $151.6 million is approximately $20 million. About half of this difference is made up of higher insurance, corporate, salary, pension & benefits, contracted labor, IT related, and outside service costs. The other half is primarily from a refinement of expected O&M savings.

Given the reductions in O&M expense in recent years, the large swings in each of the versions of the 2020 budget provided by the Company in this case, and the actual reduction in O&M expenses for the first half of 2019 as compared to the first half of 2018 when the severance and energy efficiency costs are removed, I continue to recommend that inflation not be applied to the 2018 base year non-labor O&M expenses in this case.

<u>Remove Over-Accrual of Audit Fees</u>

Q. CAN YOU PLEASE BRIEFLY DESCRIBE THE ADJUSTMENT IN YOUR DIRECT TESTIMONY TO REMOVE AN OVER-ACCRUAL OF AUDIT FEES?

A. Yes. The external audit fees the Company accrued on its books during the base year included $673,367 for an estimate of allocation to DEU of the costs for the Dominion Energy, Inc. integrated audit. As explained on lines 972 – 984 of my direct testimony, it was subsequently decided that the fees for the Dominion Energy, Inc. integrated audit would not be charged to DEU and instead would only be charged to the various Dominion registrant companies. The Company indicated in response to discovery that the $673,367 would be credited back to DEU in September 2019. Since DEU is not being allocated the costs associated with the Dominion Energy, Inc. Integrated Audit, I recommended that the associated expenses be removed, reducing test year expenses by $673,367 ($650,308 Utah) if DEU's proposed inflation of base year costs is removed, or by $704,695 ($680,564 Utah) if the Commission agrees with DEU's application of the inflation factors.

Q. DID THE COMPANY AGREE THIS ADJUSTMENT SHOULD BE MADE?

A. Yes, the Company agreed that the $673,367 should be removed from the base year.[13] However, in addressing the issues, Mr. Stephenson stated that the "Company has reviewed other accrual entries that occurred in 2018 that were subsequently invoiced" and contends that "the 2018 accruals were understated by $369,031."[14] Thus, he reduces the adjustment to remove the costs associated with the Dominion Energy, Inc. integrated audit of $673,367 by the $369,031 amount he indicates the 2018 accruals were understated, resulting in a net reduction to O&M

---

[13] DEU Exhibit 3.0R (Rebuttal Testimony of Jordan K. Stephenson), p. 11.
[14] *Ibid.*

expense of $304,336 before inflation and $309,626 after the application of inflation and state allocation.

Q. DO YOU AGREE THAT THE COMPANY'S OFFSET TO YOUR ADJUSTMENT FOR THE UNDERSTATED ACCRUALS IS REASONABLE?

A. No, I do not. The accrual for the Dominion Energy, Inc. integrated audit charges that will not be passed on to DEU, which DEU agreed should be removed, was booked to O&M expenses during the test year. The costs that the Company identified as being under-accrued during the test year were itemized on DEU Exhibit 3.6R, which identified 34 different charges with a description provided for each charge. A review of DEU Exhibit 3.6R shows that the net under-accruals that DEU proposes to use to reduce my recommended O&M expense adjustment are for costs that would be capitalized by the Company and not charged to expense. In fact, the Company's response to OCS Data Request 10.19 indicates that all of the costs presented on DEU Exhibit 3.6R were capitalized and are not O&M expenses. It is not reasonable or appropriate to reduce the agreed upon O&M expense adjustment for costs that will not be passed on to DEU by Dominion Energy, Inc. by costs that are ultimately capitalized as plant in service by the Company. Thus, I do not agree with the Company's proposal to increase O&M expenses for the net capital-related under-accruals identified on DEU Exhibit 3.6R. In fact, DEU's response to OCS Data Request 10.20 agreed that the amounts presented on DEU Exhibit

3.6R are capital and should not be included in O&M expense. Similarly, DEU's response to OCS Data Request 10.21 agrees that the capitalized costs should be removed from Mr. Stephenson's adjustment. Thus, the appropriate adjustment is the amount presented in my direct testimony, reducing test year expenses in DEU's original filing by $$673,367 ($650,308 Utah) or $704,695 ($680,564 Utah) if inflation is included.

<u>EDIT Amortization Updates</u>

Q. COULD YOU PLEASE BRIEFLY DESCRIBE THE UPDATES MADE BY THE COMPANY TO ITS EDIT POSITION IN THE REBUTTAL FILING?

A. Yes. The Company agreed with Mr. Higgins' recommendation that the amortization of the plant-related EDIT be reduced by $826,000. This revision is based on a more recent actual plant-related EDIT amortization amount. The Company also agreed with a recommendation made by Mr. Higgins to revise rate base for a correction reflecting the 2018 EDIT amortization from January 2018 through June 2019. I am not opposing either of these revisions that were proposed by Mr. Higgins and agreed to by DEU.

The Company also changed its proposed amortization period for the non-plant related EDIT balances from the 30 year period contained in its original filing to 12 years. According to Mr. Stephenson's rebuttal testimony, at page 6, lines 29 – 131, the non-plant related EDIT balances are primarily associated with a pension asset that has a 12-year average remaining service period, and the Company believes that a 12-year amortization "is most appropriate."

Q. DO YOU AGREE THAT A 12-YEAR AMORTIZATION PERIOD IS THE MOST APPROPRIATE PERIOD OVER WHICH THE NON-PLANT RELATED EDIT BALANCES SHOULD BE AMORTIZED AND RETURNED TO RATEPAYERS?

A. No, I do not. Since the Company has proposed that the negative pension expense, or pension credit, be removed and excluded from O&M expenses in this case, it is not clear why it would be "most appropriate" in the Company's opinion to amortization of the non-plant related EDIT balances owed to customers over a period that ties to the pension service period. As explained in my direct testimony, the EDIT balances are amounts that ratepayers have already paid to DEU prior to December 31, 2017 for future income tax payments that will no longer be paid to the Federal government. Delaying the refund to ratepayers longer than necessary would exacerbate intergenerational equity issues.

As a reminder, the vast majority of the EDIT balance is plant-related and is being amortized to customers over a lengthy period in order to avoid violating the IRS normalization rules. The total EDIT balance as of December 31, 2017, inclusive of the associated tax gross-up, was $244,677,102 on a Utah basis, and 94% of that amount, or $230.1 million, pertains to plant-related EDIT that will be returned customers over many, many years. While the annual amortization of plant-related EDIT under the Average Rate Assumption Method (ARAM) varies from year to year and increases in later years as the book to tax depreciation timing differences reverse, using the annual amortization rate of $4,027,245 shown for the plant related-EDIT amortization on DEU Exhibit 3.3R would result in a refund period of over 57 years ($230,118,587 total / $4,027,245 amortization = 57.14 years). While the annual amortization of $4,027,245 will increase under the ARAM method in future years, it will still take many, many years before these amounts are fully returned to Utah ratepayers.

The non-plant related EDIT of $14,558,102 on a Utah jurisdictional basis, inclusive of the associated tax gross-up, represents only 6% of the total EDIT balance owed to customers. It is my opinion that it is both fair and reasonable to return the ratepayer funded non-plant related EDIT balance back to ratepayers as soon as possible. Thus, I continue to recommend a five-year amortization period for the non-plant related EDIT balance.

Q. IF THE COMMISSION DOES NOT AGREE WITH YOUR RECOMMENDED FIVE-YEAR AMORTIZATION PERIOD, IS THERE AN ALTERNATIVE AMORTIZATION PERIOD THAT YOU WOULD RECOMMEND FOR THE COMMISSION'S CONSIDERATION?

A. Yes. It is my understanding that rate cases are filed every three years by DEU under the current Infrastructure Tracker requirements. As such, it is my opinion that either a three-year or a six-year amortization period in alignment with the rate case cycles would also be reasonable.

Q. SINCE YOU ARE NOT OPPOSING THE REVISIONS TO THE PLANT-RELATED EDIT AMORTIZATION AND RATE BASE, HAVE YOU PREPARED A REVISED EDIT EXHIBIT?

A. Yes. Exhibit OCS 2.5S replaces Exhibit OCS 2.14D provided with my original testimony. While Exhibit OCS 2.5S continues to reflect my recommended five-year amortization for the non-plant related EDIT balance, it replaces the plant-related EDIT rate base balance and amortization with amounts contained in DEU Exhibit 3.3R. As shown on Exhibit OCS 2.5S, my recommended 5 year amortization of the non-plant related EDIT balances increases the amortization proposed in DEU's rebuttal filing by $1,698,492. It also increases rate base by $536,808 when compared to the amount contained in DEU's rebuttal filing.

Q. ARE THERE ANY ADDITIONAL ISSUES YOU WISH TO ADDRESS WITH REGARDS TO THE PLANT-RELATED EDIT AMORTIZATION?

A. Yes. I pointed out in my direct testimony that the actual amortization of the plant-related EDIT balance under the ARAM will vary annually. I recommended in my direct testimony that the difference between the annual amortization included in base rates as a result of this case and the actual annual amortization under the ARAM be deferred by the Company in a regulatory liability account to ensure that ratepayers receive the full amount of EDIT owed to them. The Company's rebuttal testimony was silent on this recommendation. To ensure that this issue does not "fall through the cracks" so to speak, I recommend that the Commission explicitly make this a requirement as part of its Order in this proceeding. In the next rate case, parties could then address the appropriate amount of amortization to include in base rates for the plant-related EDIT and associated regulatory liability.

<u>LNG Facility Costs</u>

Q. BOTH YOU AND UAE WITNESS KEVIN HIGGINS RECOMMENDED REMOVAL OF THE OUTSIDE CONTRACTOR COSTS CHARGED TO EXPENSE DURING THE 2018 BASE YEAR ASSOCIATED WITH THE 2018 LNG DOCKET, DOCKET NO. 18-057-03. DID THE COMPANY AGREE WITH THIS RECOMMENDATION?

A. No. Mr. Stephenson states that these are “all appropriate expenses related to approved activities in Utah” and that the Company “anticipates similar services will be required” going forward. He also indicates that there is “no reason to remove these costs from the test period.”[15]

Q. DO YOU AGREE?

A. No. The outside contractor costs incurred by the Company and charged to base year expenses for assistance in seeking approval of its decision to construct the LNG facility are not reflective of on-going regulatory costs that would be incurred on an annual basis by DEU. They are also not expenses that will be incurred in the 2020 test year. As explained at lines 1320 – 1323 of my direct testimony: “While regulatory costs are incurred

[15] DEU Exhibit 3.0R (Rebuttal Testimony of Jordan K. Stephenson), page 12, lines 307 – 309.

from year to year, it is not likely that dockets as extensive as seeking approval of a voluntary resource decision will occur for DEU on an annual, on-going basis." I continue to recommend that these costs be removed from the test year.

<u>Pension Expense and Net Pension Asset</u>

Q. COULD YOU PLEASE BRIEFLY SUMMARIZE THE POSITION PRESENTED IN YOUR DIRECT TESTIMONY REGARDING PENSION EXPENSE AND THE NET PENSION ASSET?

A. Yes. Pension costs and the prepaid pension asset were addressed in my direct testimony at page 35 line 751 to page 44 line 964. I still firmly stand by that testimony in its entirety. As a brief summary, I strongly recommend that the Commission continue to recognize pension costs in rates based on the long-standing accrual method of accounting. This results in test year pension expense of -$5,448,127. I also strongly recommend that the prepaid pension asset continue to be excluded from rate base. This is also consistent with long standing practice in Utah.

Q. DID THE COMPANY AGREE WITH YOUR RECOMMENDATION?

A. No. The rebuttal testimony of DEU witness Alan Felsenthal addressed pensions. Through Mr. Felsenthal's rebuttal testimony, DEU continued to recommend that the negative pension expense, or pension income, be excluded from the test year. As an alternative, Mr. Felsenthal recommended that both the negative pension expense be included as part of net operating income and the prepaid pension asset be included as a component of rate base.

Q. DID MR. FELSENTHAL'S REBUTTAL TESTIMONY CAUSE YOU TO CHANGE YOUR POSITION ON EITHER THE NEGATIVE PENSION EXPENSE OR THE NET PREPAID PENSION ASSET?

A. No, absolutely not.

Q. IS THERE ANYTHING IN MR. FELSENTHAL'S REBUTTAL TESTIMONY THAT YOU WISH TO ADDRESS?

A. Yes, there are several statements and assertions in Mr. Felsenthal's rebuttal testimony that I will address in this testimony. Silence on any specific assertions made in Mr. Felsenthal's rebuttal testimony should not be construed as agreement with his or DEU's position.

Q. IN HIS REBUTTAL TESTIMONY, MR. FELSENTHAL DISCUSSES SEVERAL FEDERAL ENERGY REGULATORY COMMISSION (FERC) CASES THAT ADDRESS PENSION COSTS. ARE THOSE CASES CONSISTENT WITH THE FACTS AND CIRCUMSTANCES IN THIS CASE?

A. No, they are not. In his rebuttal testimony, Mr. Felsenthal discusses a 1987 docket and a 1992 docket involving Williston Basin Interstate Pipeline Company. Based on his testimony, it appears that FERC disallowed the inclusion of positive pension expense in FERC authorized rates in periods in which the pension plan was fully funded and the company was not planning to make cash contributions to the pension trust.[16] He also discusses a FERC case involving El Paso Natural Gas Company.[17] In its October 17, 2013 Order in that case, FERC disallowed the inclusion of positive pension expense in rates in a period in which the company was not making contributions to the pension plan assets. These cases differ from the current case in which DEU forecasts negative pension expense in the test year, not positive pension expense.

Additionally, I am not aware of the Utah Public Service Commission making the amount of pension expense included in rates contingent on the cash contribution to the pension plan. To the best of my knowledge, the Utah Public Service Commission has based the amount of pension expense included in rates on the accrual method of accounting in rate cases that have occurred since the accrual basis of accounting was implemented for pensions for financial reporting purposes, not the cash basis or a mix of accrual and cash basis.

Q. ARE YOU AWARE OF ANY CASES IN WHICH FERC INCLUDED NEGATIVE PENSION EXPENSE AS A COMPONENT OF RATES?

A. Yes. FERC's March 10, 2008 Order in Docket No. 08-129-000 indicates that pension income has been included as non-cash reductions to expense for the Southern Companies and the pension income (negative pension expense) was included as a component of their OATT formula rates. This order is being provided as Exhibit OCS 2.6S. In FERC Docket

---

[16] DEU Exhibit 6.0R (Rebuttal Testimony of Alan Felsenthal) at lines 101 – 113.
[17] *Id.* at lines 114 – 121.

No. 08-129-000, Southern Company Services, Inc. was acting as agent for Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company and Savannah Electric and Power Company. Paragraph 11 of that order specifically states, in part:

> Southern Companies state that income earned on pension assets in their external trust was credited back to customers as non-cash reductions to Account No. 926, Employee Pension and Benefits. Further, Southern Companies assert that, as a reduction to an expense account, that amount reduced Southern Companies' cost of service to all customers, including tariff customers, by over $1 billion since 1987. …

Q. IN THAT CASE, DID FERC ALSO INCLUDE THE NET PREPAID PENSION ASSET AS A COMPONENT OF RATE BASE?

A. Only a portion of the net prepaid pension asset was allowed for inclusion in rates, with FERC excluding over two-thirds of the amount of prepaid pension asset that Southern Company, Inc. sought to include in rate base. Southern Company's OATT rates were converted to comprehensive formula rates effective May 1, 2003 as a result of a settlement. Beginning on May 1, 2003, the amount of positive or negative pension expense included in the OATT rate was trued-up annually to the actual expense for that year. FERC specifically found in paragraph 24 of its order that it was "…not just and reasonable for Southern Companies to include any amounts related to prepaid pension accumulated prior to May 2003 in rate base under Southern Companies' OATT." Thus, only the portion of the net prepaid pension asset that accumulated during the time that the amount of positive or negative pension expense included in base rates was trued-up annually to equal the amount recorded to expense was allowed to be included as a component of rate base.

Q. DOES MR. FELSENTHAL DISCUSS WHAT A PREPAID PENSION ASSET IS?

A. Yes. At lines 273 – 276 of his rebuttal testimony, Mr. Felsenthal describes the prepaid pension asset as follows:

> The prepaid pension asset is the difference between (1) cumulative pension amounts expensed for GAAP (and included as a component of test year expenses) and (2) contributions to the pension trust. To the extent that cumulative contributions are in excess of GAAP pension expense, a prepaid pension asset will exist.

Q. DO YOU AGREE WITH THIS DESCRIPTION OF WHAT A PREPAID PENSION ASSET IS?

A. Yes, with the exception of his inclusion of the phrase "and included as a component of test year expenses." The determination of the amount of prepaid pension asset (or accrued pension liability) is based on the amount charged to expense for book purposes under Generally Accepted Accounting Principles (GAAP), not on the amount included in test year expenses in any given rate case proceeding.

The total cumulative amount of cash contributions to the pension plan should equal the total cumulative amount of pension expense recorded on the Company's books over the life of the plan. During the life of the plan, either a prepaid pension asset or an accrued pension liability could result in any given year. The amount of prepaid pension asset would be the amount by which the total cash contributions that have been made to the pension plan exceed the cumulative total of the amount of pension expense that has been booked by the Company. However, in any periods for which the cumulative total of pension expense booked by the Company exceeded the cumulative amount of cash contributions made to the pension plan, the result would be an accrued pension liability.

Q. REPEATEDLY THROUGHOUT HIS TESTIMONY, MR. FELSENTHAL STATES THAT THE PREPAID PENSION ASSET WAS FUNDED BY INVESTORS.[18] DO YOU AGREE WITH THIS ASSERTION?

A. No, not entirely. As indicated above, the prepaid pension asset is the difference between the cumulative amount of cash contributions to the pension plan and the cumulative amount of pension expense recorded on the Company’s books under GAAP. DEU Exhibit 3.02 identified the prepaid pension asset as $112.5 million in the 2018 Base Year in this case.

Clearly the $75 million contributed to Questar Corporation’s defined-benefit pension plan by Dominion Energy, Inc., as a Dominion Energy, Inc. shareholders’ cost, under merger commitment 11 in Docket No. 16-057-01 contributed to the $112.5 million prepaid pension asset. However, the $112.5 million balance as of the Base Year is the culmination of the difference between the total cash contributions to the pension plan and the GAAP pension expense over the entire life of the

---

[18] DEU Exhibit 6.0R (Rebuttal Testimony of Alan Felsenthal) at lines 87-88, 160-168, 173, 208, 346-348, 376-380, 389-393, and 577-578.

pension plan. The degree to which that difference was funded by shareholders or ratepayers is not known.

Q. PLEASE EXPLAIN.

A. The amount of pension expense included in rates charged to DEU's ratepayers is not trued-up on an annual basis. Rates are not reset annually for DEU and there is no mechanism to defer or true-up the amount of pension expense incorporated in rates to the amount of pension expense booked by the Company each year under GAAP. Thus, it cannot be determined that the prepaid pension asset was funded by shareholders in its entirety. If the amount recovered from ratepayers had been trued-up annually over the entire life of the pension plan to date, then DEU could affirmatively demonstrate that the $112.5 million prepaid pension asset had been funded by investors of the Company and by Dominion Energy, Inc. shareholders when making the contribution agreed to under merger commitment 11. This is not the case.

As previously pointed out in this testimony, FERC allowed only the portion of a prepaid pension asset that accumulated over the period in which the amount of pension expense included in rates was trued-up annually to the amount of booked pension expense in rate base in FERC Docket 08-129-000.

Q. IN HIS REBUTTAL TESTIMONY, AT LINES 352 – 380, MR. FELSENTHAL PROVIDES "A SIMIPLIFIED EXAMPLE" THAT HE CONTENDS DEMONSTRATES THAT THE PREPAID PENSION ASSET

IS FUNDED ENTIRELY BY INVESTORS. DOES HIS "SIMPLIFIED EXAMPLE" PROVE HIS ASSERTION?

A. No, it does not. He indicates that the $100 of GAAP pension expense in his example has been included in revenue requirements for ratemaking purposes at lines 364 – 365 of his rebuttal testimony. His example has one assume that the amount of pension expense being included in revenue requirements for ratemaking purposes equals the amount of pension expense recorded by the Company on its books. This is not a valid assumption.

Q. IN RECENT YEARS, HOW HAS THE AMOUNT OF PENSION EXPENSE RECORDED ON THE COMPANY'S BOOKS COMPARED TO THE AMOUNT INCORPORATED IN BASE RATES CHARGED TO CUSTOMERS?

A. At lines 175 – 177 of his rebuttal testimony, Mr. Felsenthal states that the Commission approved $8.18 million of pension expense in the last rate case, Docket No. 13-057-05. DEU provided the pension expense booked in 2014 through 2018 and the budgeted amount for 2019 in DEU Exhibit 3.11. The table below provides a comparison of the amount of pension expense Mr. Felsenthal indicates was included in rates from the last rate case to the actual amount of pension expense for DEU.

	Pension Expense included in Rates	Actual Booked Pension Expense	Difference
2014	$ 8,180,000	$ 4,685,000	$ 3,495,000
2015	$ 8,180,000	$ 5,471,000	$ 2,709,000
2016	$ 8,180,000	$ 3,315,000	$ 4,865,000
2017	$ 8,180,000	$ (3,497,000)	$ 11,677,000
2018	$ 8,180,000	$ (2,929,000)	$ 11,109,000
2019 Forecast	$ 8,180,000	$ (4,614,000)	$ 12,794,000
Total Cumulative Difference - 2014 to 2019			$ 46,649,000

As shown in the above table, from 2014 through 2019, the amount of pension expense included in base rates has exceeded the actual amount of booked pension expense (and budgeted amount for 2019) by approximately $46.6 million.[19]

Q. IS THE COMPANY ABLE TO PROVIDE THE INFORMATION NEEDED TO DETERMINE THE PORTION OF THE PREPAID PENSION ASSET THAT WAS FUNDED BY INVESTORS?

A. No. In order to determine the amount funded by investors compared to the amount funded by ratepayers, one would need to know the following amounts for each year from the inception of the plan to date: the amount of cash contributions to the pension plan, the amount of pension expense booked by the Company, and the amount of pension expense included in rates. In response to OCS data request 11.03, the Company indicated that it is “not certain which specific year the accrual method of accounting began” and that “it is assumed that it began in 1987 with the passage of

[19] Rates from Docket No. 13-057-05 took effect March 1, 2014. The cumulative amount assumes a January 1, 2014 implementation date.

SFAS 87." In response to OCS data request 11.04, the Company stated that "it is unclear when the Company first included pension costs in rates in its filing based on the accrual method of accounting in Utah." When asked in OCS Data Request 11.05 for the amount of cash contributions to the pension plan assets and the amount of booked pension expense for each year from inception of the accrual basis of accounting to date, the Company objected to the question. It did provide information for the period 1998 through 2019, but not information from the inception of the plan. When asked in OCS Data Request 11.06 for the amount of pension expense requested in rates and the amount included in rates from implementation of accrual accounting to date, the Company objected and was only able to provide amounts from 2008 forward. Thus, it is not possible to determine the portion of the net prepaid pension asset that was funded by ratepayers and the portion that was funded by shareholders.

Q. HAS THE COMPANY EVER RECORDED AN ACCRUED PENSION LIABILITY ON ITS BOOKS, AND IF SO, WAS THAT LIABILITY REFLECTED AS A REDUCTION TO RATE BASE IN A PAST RATE CASE?

A. I do not know if an accrued pension liability has been recorded previously by DEU. However, if an accrued pension liability previously existed on the Company's books, it was not reflected as an offset to reduce rate base. OCS Data Request 11.17 asked the Company to provide for each year, from the date the accrual basis of accounting was implemented for pension costs to date, the amount of prepaid pension asset or accrued pension liability on the Company's books as of December 31st of each respective year. The response merely referenced OCS Data Request 11.05, which did not provide the requested information. Thus, the information needed to respond to this question was not provided by DEU. The response to OCS Data Request 11.21 does show that there was an accrued liability for post-retirement benefits other than pensions on DEU's books during the base year and projected for the test year in this case.

Q. DEU CONTINUES TO RECOMMEND EXCLUSION OF THE NEGATIVE PENSION EXPENSE FROM REVENUE REQUIREMENTS IN THIS CASE. WHAT ALTERNATIVE DOES MR. FELSENTHAL PROVIDE TO THIS PRIMARY POSITION?

A. Mr. Felsenthal presents inclusion of both the negative pension expense in cost of service and the prepaid pension asset in rate base as an alternative so that investors would "receive a fair return on their funds" if the negative pension expense is included.[20]

Q. DO YOU AGREE THAT INCLUSION OF THE NEGATIVE PENSION EXPENSE WITH INCLUSION OF THE PREPAID PENSION ASSET IN RATE BASE IS REASONABLE AND APPROPRIATE?

A. As addressed in my direct testimony, the negative pension expense should be included in determining the revenue requirements of DEU.

---

[20] DEU Exhibit 6.0R (Rebuttal Testimony of Alan Felsenthal), lines 573 – 578.

However, I do not agree that the prepaid pension asset should be included as a component of rate base. The Company is unable to demonstrate that the entire $112.5 million balance was funded by its investors, and the historic information does not exist to determine the portion funded by ratepayers instead of shareholders. Additionally, it is my opinion that it would be grossly unfair to ratepayers to require them to pay a return on any portion of the prepaid pension asset that is caused by the $75 million contribution by Dominion Energy, Inc. shareholders under merger commitment 11, which was touted as a merger benefit to ratepayers.

Q. WHY IS IT YOUR OPINION THAT THIS WOULD BE GROSSLY UNFAIR TO RATEPAYERS?

A. As addressed in my direct testimony, the testimony filed by the Joint Applicants in the merger proceeding, Docket No. 16-057-01, presented the $75 million contribution by Dominion Energy, Inc.'s shareholders as resulting in a benefit to ratepayers that would result in a reduction to pension expense. In explaining how the pension contribution would provide quantifiable benefits to customers, the Joint Applicants' calculation did not include a return on the contribution as an offset to the pension expense reduction caused by the contribution. It would be unfair to ratepayers to remove these asserted benefits through the removal of the negative pension expense in this case. It would be even more unfair to include the impacts of that voluntary contribution to the pension fund by

Dominion Energy, Inc.'s shareholders in rate base through inclusion of the impact of that contribution on the prepaid pension asset.

Q. IN HIS REBUTTAL TESTIMONY, MR. FELSENTHAL QUANTIFIES THE BENEFIT THAT CUSTOMERS RECEIVE BY THE PREPAID PENSION ASSET, STATING THAT IF BOTH THE NEGATIVE PENSION EXPENSE IS INCLUDED IN COST OF SERVICE AND THE PREPAID PENSION ASSET IS INCLUDED IN RATE BASE, "CUSTOMERS WILL RECEIVE A NET BENEFIT OF $1.1 MILLION."[21] IS THIS ACCURATE?

A. No, it is not. When quantifying the purported net benefit at lines 540 – 563 of his rebuttal testimony, Mr. Felsenthal indicates that applying an expected return of 8.75% to the prepaid pension asset of $112.5 million would result in a $9.8 million reduction to pension costs. He then compares that $9.8 million reduction to pension costs to the $8.7 million impact on revenue requirement that would result from including the net prepaid pension asset in rate base, resulting in his purported $1.1 million net benefit. However, not all of the pension costs are included in pension expense. A substantial portion of the pension costs are capitalized and not charged to expense.

In DEU's filing, 54% of the forecasted 2020 test year pension costs are anticipated to impact expenses. Thus, of the $9.8 million reduction to pension costs asserted by Mr. Felsenthal as resulting from the $112.5M of prepaid pension asset, only $5.3 million ($9.8M x 54%) would impact

---

[21] *Id.* at lines 540 – 563.

pension expense. If the $5.3 million reduction to pension expense is considered, the purported net benefit presented in Mr. Felsenthal's calculations would become a net detriment of $3.4 million.[22]

Q. DOES THIS COMPLETE YOUR PREFILED SURREBUTTAL TESTIMONY?

A. Yes.

[22] Calculated as $5.4 million - $8.7 million.