BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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

December 13, 2019

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

Q. ARE YOU THE SAME JAMES DANIEL THAT PROVIDED PHASE II DIRECT TESTIMONY ON BEHALF OF THE OFFICE OF CONSUMER SERVICES ("OCS")?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond to certain claims and proposals made by the intervenors and the Division of Public Utilities ("DPU") witnesses in Phase II of this proceeding. In particular, I address issues raised in the Phase II direct testimony of American Natural Gas Council ("ANGC") witness Bruce Oliver, Federal Executive Agencies ("FEA") witness Brian Collins, US Magnesium, LLC ("USMag") witness Roger Swenson, Utah Association of Energy Users ("UAE") witness Kevin Higgins, and DPU witness Howard Lubow.

Allocation of Feeder Mains, Compressor Stations and Measuring & Regulation Stations

Q. PLEASE DESCRIBE HOW DEU ALLOCATES THE COSTS ASSOCIATED WITH FEEDER MAINS, COMPRESSOR STATIONS, AND MEASURING & REGULATION STATIONS.

A. DEU allocates costs related to feeder mains, compressor stations measuring & regulation stations using an allocation factor based on 60% of the design-day allocation factor and 40% of the throughput allocation factor. According to DEU's

response to DPU data request 1.11, the 60%/40% weighing is what the Company typically proposes in rate cases. A copy of DEU's response to DPU 1.11 data request in this docket is included in Exhibit OCS-4.1R.

Q. DID DEU PROVIDE ANY OTHER EXPLANATION OR SUPPORT FOR THE 60%/40% WEIGHTING FACTORS IN THEIR TESTIMONY?

A. No. Apparently since DEU was not changing what it has done in previous rate cases, the Company did not believe it was necessary to explain the basis for the 60%/40% weighting factors. In a previous DEU rate case,[1] the Company provided the following explanation and support for the 60%/40% weighing factors:

> These facilities fulfill a two-part function. They are designed to meet the peak requirements of firm customers, and they are used 365 days of the year to move gas to all customers, both firm and interruptible. The allocation of these costs does not lend itself to a single definitive solution. On the one hand it has been argued that firm customers should pay the entire cost in recognition of the underlying design demand function of these facilities. On the other hand it has been argued that customers should have responsibility for these facilities in proportion to actual use of the facilities. It is generally agreed that it would be unreasonable to allocate 100% on Peak Responsibility, just as it would be unreasonable to allocate 100% on Commodity Throughput.
>
> The cost-of-service task force that resulted from the 2002 general rate case looked at studies based on alternative weightings between peak and commodity of 75/25, 60/40, and 50/50. No consensus was reached as to the most appropriate weighting. However, the 60/40 weighting more closely matches the results of the COS that the Company has proposed over time.

A copy of DEU's response to DPU 3.25 data request in Docket No. 13-057-05 is included in Exhibit OCS-4.1R.

[1] The Company's response to data request DPU No. 3.25 in Docket No. 13-057-05.

Q. DID OTHER PARTIES PROPOSE DIFFERENT WEIGHTING PERCENTAGES FOR THIS ALLOCATION FACTOR?

A. Yes. I will address each of the proposed weighting percentages in the following testimony. However, I first want to explain the significance of the weighting factors. In comparison to the design day allocation factor, the throughput allocation factor will allocate a higher percentage of costs to customer classes with larger, high load factor customers. Therefore, the higher the percent weighting factor for the throughput allocation factor, the higher the costs that are allocated to customer classes with high load factors. For example, in this case the throughput allocation factor for the TS class is 32.8% while the design day allocation factor is only 14.6%. Obviously, a higher weighting of the throughput allocation factor will allocate more costs to the TS class.

Q. PLEASE DESCRIBE ANGC'S AND UAE'S PROPOSED WEIGHTING PERCENTAGES.

A. Both ANGC and UAE propose 68% design day and 32% throughput weighting factors for this allocation factor. The throughput weighting factor of 32% is equal to DEU's annual system load factor of 32%. UAE witness Kevin Higgins claims his use of the system load factor as the throughput weighting percentage "is clearly prescribed" by the National Association of Regulatory Utility Commissioners ("NARUC") Gas Distribution Rate Design Manual ("NARUC Manual").

Q. DOES THE NARUC MANUAL PRESCRIBE THAT DEU'S THROUGHPUT WEIGHTING FACTOR MUST BE EQUAL TO ITS ANNUAL SYSTEM LOAD FACTOR?

A. No. Mr. Higgins incorrectly assumes that this DEU allocation factor is based on an Average and Peak ("A&P") allocation methodology. It is my understanding that this DEU allocation factor is simply an allocation factor that DEU developed, and has been using for a long time, to reasonably allocate feeder mains, compressor stations, and measuring & regulation stations costs. It was not intended to be, nor has it been represented as, an A&P allocation factor.

Q. DOES THE NARUC MANUAL RECOGNIZE THAT A LARGE VARIETY OF ALLOCATION FACTOR METHODOLOGIES HAVE BEEN ACCEPTED AND USED FOR ALLOCATING DEMAND COSTS?

A. Yes. Page 28 of the NARUC Manual discusses these and states that "there is a wide variety of alternative formulas" for allocating demand costs. Also, on page 29, the NARUC Manual recognizes that:

> The most commonly used demand allocations for natural gas distribution utilities are the coincident demand method, the non-coincident peak demand method, the average and peak method, <u>or some modification or combination of the three.</u> (underlining added)

If DEU's allocation factor is determined to be an A&P allocation factor, then it is simply a "modification" of that methodology, as recognized by the NARUC Manual.

Q. IS THERE ANOTHER PROBLEM WITH UAE'S AND ANGC'S PROPOSAL TO USE THE A&P ALLOCATION METHODOLOGY?

A. Yes. These parties want to use the A&P methodology to support using a lower weighting percentage for the throughput component. However, they fail to use the correct peak demands for the "peak" allocation factor used for the A&P allocation methodology. As discussed in the NARUC Manual, the A&P methodology uses

class coincident peak demands at the time of the test year system peak to determine the class peak component. However, UAE and ANGC use estimated class design day demands rather than test year coincident peak demands for that purpose.

Q. PLEASE DESCRIBE FEA'S PROPOSED WEIGHTING PERCENTAGES.

A. FEA witness Brain Collins rejects the use of the throughput allocation factor for purposes of allocating feeder mains, pressure stations, and measuring & regulating stations. In other words, he applies zero weighting on the throughput allocation factor and 100% weighting on the design day demand allocation factor. Mr. Collins supports his proposal by claiming that distribution systems are designed to meet the design day demand. As discussed in my direct testimony, a problem with the use of design day demands is that it does not assign any costs to interruptible customers, which is contrary to a previous Commission order.

Q. DOES FEA WITNESS MR. COLLINS ALSO RELY ON THE NARUC MANUAL TO SUPPORT HIS PROPOSAL TO NOT USE THE THROUGHPUT ALLOCATION FACTOR?

A. Yes, Mr. Collins makes several references to the NARUC Manual and claims that it supports his proposal to apply zero weighting to the throughput allocation factor and to only use the design day demand allocation factor. As I have previously discussed, however, the NARUC Manual also recognizes the use of throughput or average usage when allocating distribution system costs.

Q. DOES FEA'S PROPOSAL TO APPLY A ZERO WEIGHTING FACTOR TO THE THROUGHPUT ALLOCATION FACTOR CAUSE A DRASTIC SHIFT IN COST ALLOCATION WHEN COMPARED TO PRIOR DEU RATE CASES?

A. Yes. FEA takes service under DEU's TS rate schedule. Using FEA's proposed cost of service will result in a revenue decrease of $2,242,664, or 7.84%, for the TS rate class as compared to DEU's proposed revenue increase of $12,285,096, or 42.40%. Most of this change is due to the zero weighting factor FEA applies to the throughput allocation factor.

Q. PLEASE DESCRIBE DPU'S PROPOSED WEIGHTING PERCENTAGES.

A. DPU witness Howard Lubow proposes a 50% weighting for both the design day demand allocation factor and the throughput allocation factor. He provides two reasons for increasing DEU's 40% weighting for the throughput allocation factor to 50%. First, he claims the 50%/50% weighting is often used by other utilities. Second, he states that DEU's use of a design day demand allocation factor rather than a peak day demand allocation factor over-allocates costs to low load factor customers. His assertion is that increasing the weighting to 50% will help off-set this over-allocation.[2]

Q. BASED ON THE TESTIMONY FILED ON THIS ALLOCATION ISSUE, WHAT IS YOUR RECOMMENDATION?

A. In my direct testimony, I did not take issue with DEU's proposed 60%/40% weighting. The Company has used those weighting percentages in prior rate cases. In a previous DEU case, the Company provided support for its 60%/40%

[2] On pages 5 through 7 of his direct testimony, Mr. Lubow discusses the problems with DEU's use of the design day demand allocation factor.

weighting factors. However, the DPU makes a good point that the 40% weighting for the throughput allocation factor should be increased to 50% in order to off-set some of the problems with using the design day demand allocation factor. I support the DPU's 50% weighting factor.

Revenue Distribution and Gradualism

Q. PLEASE DESCRIBE DEU'S PROPOSED REVENUE DISTRIBUTION TO THE CUSTOMER CLASSES.

A. DEU has proposed to set all customers class revenue levels equal to their allocated cost of service, except for the Transportation By-Pass Firm Service ("TBF") class. The TBF rate is a discounted rate. DEU assigns the revenue shortfall from the TBF rate discount to all other classes. As a result, the TBF class pays less that their cost of service while the other customer classes pay above their cost of service. Despite a large proposed increase of 45.6% for the Transportation Service ("TS") class, DEU is not proposing any gradualism.

Q. DID OTHER PARTIES PROPOSE DIFFERENT REVENUE REQUIREMENT DISTRIBUTIONS AND/OR THE APPLICATION OF GRADUALISM?

A. Yes. I will discuss the pros and cons with each of these revenue distribution proposals in the following rebuttal testimony.

Q. PLEASE DESCRIBE FEA'S PROPOSED REVENUE DISTRIBUTION.

A. As previously discussed, FEA is proposing a drastic change in the allocation of distribution plant costs. This results in a drastic shift in the cost responsibility of customer classes in comparison to previous DEU rate cases. An example of one of these drastic changes is to the cost of service allocated to the TBF class. Under

FEA's revised COSS, the TBF class would receive a base rate revenue increase of 351.18%. In order to temper this TBF increase, FEA witness Mr. Collins proposes to apply gradualism by limiting any class's percent revenue increase to 1.5 times the system average revenue increase of 4.95%, or by 7.42%. This resulted in a huge TBF revenue shortfall of $5,686,011, which had to be recovered from the other customer classes.

Given this huge TBF revenue shortfall plus other drastic cost shifts from FEA's revised COSS, the FEA also proposed an extreme revenue distribution. FEA proposes to assign 99%, or $18,992,658, of DEU's total revenue increase of $19,249,740 to the GS class. The TBF and NGV classes would receive modest revenue increases while the remaining classes would receive no increase. This extreme revenue distribution highlights the problems with FEA's revised COSS. Both FEA's proposed revenue distribution and gradualism proposals should be rejected.

Q. PLEASE DESCRIBE UAE'S PROPOSED REVENUE DISTRIBUTION.

A. UAE witness Kevin Higgins supports moving class revenue levels to full cost of service. However, under both DEU's COSS and UAE's adjusted COSS, the TS and TNF rate classes would receive significant rate increases. Therefore, Mr. Higgins proposes gradualism to phase-in these large rate increases with three annual rate adjustments.[3] The first year increase (decrease) would be 25% of the total amount necessary to move to full cost of service. Steps 2 and three would

[3] See Table KCH-4 and KCH-5 on pages 13 and 14 of the direct testimony of UAE witness Kevin Higgins.

be equal dollar increases (decreases) necessary to achieve full cost of service in year 3.

Q. DO YOU SUPPORT UAE'S GRADUALISM PROPOSAL?

A. Yes, with some modifications. UAE's proposal achieves full cost of service 24 months after Step 1 becomes effective. At the same time, it phases in the large impact on the TS class. While this proposal has merit, I believe the first step should be more than 25% of the total increase. I would recommend three equal step increases. Also, as previously discussed, the cost of service amounts should not be based on UAE's adjusted COSS with UAE's 68%/32% weighting factor.

Q. PLEASE DESCRIBE USMAG'S GRADUALISM PROPOSAL.

A. USMag recommends limiting the increase for the TS rate class to 25% of DEU's proposed increase for the first year and then an additional increase after the first year that is equal to 50% of DEU's proposed increase.[4]

Q. DO YOU HAVE ANY PROBLEMS WITH US USMAG'S GRADUALISM PROPOSAL?

A. Yes. I do not believe USMag's proposal makes enough movement towards resolving inter-class subsidy problems. First, the first year is too low. Second, the proposal would leave in place a portion of the large inter-class subsidies for an indefinite period. Given these problems, USMag's gradualism proposal should be rejected.

Q. PLEASE DESCRIBE DPU'S PROPOSED REVENUE DISTRIBUTION?

[4] USMag's gradualism proposal would only apply if the Commission decides not to change the TS rate design to address assumed intra-class rate subsidies in this case.

A. DPU witness Douglas Wheelwright provides the DPU's guiding principles for rate design, including gradualism. DPU witness Howard Lubow provides specific recommendations regarding cost allocation, revenue distribution and rate design. Based on DPU's adjusted COSS, the TS and TBF customer classes would receive substantial rate increases of 37.1% and 204.4%, respectively. Mr. Lubow proposes applying gradualism in this case by limiting the percent increase to each of these two classes to 35%.

Q. DO YOU HAVE ANY CONCERNS WITH DPU'S PROPOSED REVENUE DISTRIBUTION?

A. I do not have any problems with DPU's revised COSS. However, I believe the DPU's gradualism proposal will still result in a substantial rate increase to the TS class. In my direct testimony, I did not propose any gradualism adjustment for the revenue distribution. After reviewing the various revenue distribution proposals, I am agreeable with applying some level of gradualism in this case as long as there is a limit to the period that subsidies remain in place. As previously discussed, I believe my modified version of UAE's 3-step revenue distribution and gradualism application accomplishes that objective.

General Service Rate Design

Q. DO ANY INTERVENORS OR THE DPU SUPPORT DEU'S PROPOSED GS RATE RE-DESIGN?

A. No. ANGC witness Bruce Oliver states that DEU provides no evidence to support DEU's GS rate design proposals. DPU witness Howard Lubow recommends deferring the consideration of changes to the GS rate design until DEU's next rate

case. The other intervenors take no position on the proposed GS rate design changes.

Q. DO YOU HAVE ANY CONCERNS WITH ANGC AND DPU TESTIMONY ON GS RATE DESIGN?

A. No. Their testimony generally supports my direct testimony that DEU has not supported their proposed GS rate re-design and that consideration of any rate design changes should be done in DEU's next rate case.

Q. DO ANY INTERVENORS OR THE DPU PROPOSE SPLITTING THE GS CUSTOMER CLASS INTO TWO OR MORE CLASSES?

A. Yes. ANGC witness Bruce Oliver's direct testimony states that DEU should consider splitting the GS rate class into "a number of separate rate classes." DPU witness Howard Lubow recommends that consideration of splitting the GS rate class into two or more rate classes should be done in DEU's next rate case.

Q. DO YOU HAVE ANY CONCERNS WITH THEIR TESTIMONY ON SPLITTING THE GS RATE CLASS?

A. Yes. The one concern that I have is that it has not yet been shown that splitting the GS rate class into two or more classes is beneficial. While I do not have a problem with reviewing that option in DEU's next rate case, it should not be pre-determined that the GS rate class should be split into smaller classes. I do not believe sufficient evidence has been presented in this case to reach such a determination.

Transportation Service Rate Design

Q. PLEASE DESCRIBE DEU'S PROPOSED TS RATE DESIGN.

A. As previously mentioned, DEU is proposing to move the TS rate class to full cost of service recovery. Since this will result in a huge rate increase that is expected to cause customers to migrate from the TS class, DEU is proposing not to change the TS customer class make-up or current rate design in this case. However, DEU is proposing to add an annual usage threshold of 35,000 Dth to qualify for transportation service going forward.[5]

Q. DO ANY OF THE INTERVENORS OR THE DPU OBJECT TO DEU'S TS RATE PROPOSAL?

A. Yes. One of the objectives of DEU's rate design proposal is to prevent smaller customers from migrating from the GS rate class to the TS rate class. Most parties object to this stated intent of DEU. ANGC proposes splitting the TS class into two classes, with one class for smaller customers using less than 35,000 Dth per year.[6] UAE proposes maintaining one TS rate class with no maximum annual usage requirement. The DPU agrees with the 35,000 Dth annual usage threshold but would move those current TS customers that use less than 35,000 Dth per year into a separate transportation service customer class. USMag recommends that dividing the TS rate class into small and large customer transportation rate classes should be considered in DEU's next rate case.

Q. IS THERE CONFLICTING TESTIMONY AS TO WHICH SUB-CLASSES WITHIN THE TS RATE CLASS ARE BEING SUBSIDIZED?

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[5] Under DEU's proposal, existing TS customers that use less than 35,000 Dth per year would be allowed to continue to take service under the TS rate schedule. However, DEU expects that these customers will migrate to the GS rate schedule due to the large proposed TS rate increase.

[6] ANGC recommends that this TS rate class split be considered no later than DEU's next rate case.

A. Yes. While some parties accept DEU's claim that the smaller TS customers are being subsidized by the larger TS customers, both ANGC and UAE have presented testimony that it is the large TS customers that are being subsidized and that question DEU's claim.[7]

Q. GIVEN THE DIFFERING CLAIMS AND POSITIONS REGARDING THE INTRA-CLASS SUBSIDIES WITHIN THE TS RATE CLASS, WHAT DO YOU RECOMMEND THAT THE COMMISSION DO?

A. In addition to the differing claims and positions, customer migrations are also a concern when determining how to best treat the TS class. I believe additional data and analysis is needed prior to reaching a conclusion regarding TS rate class changes.

Q. SHOULD THE COMMISSION ORDER FURTHER ANALYSIS OF THE TS RATE CLASS IN INTERIM STUDIES AFTER THIS CASE?

A. No. In the past, such interim studies have not been successful in reaching a resolution on costs allocation and rate design issues. I also do not believe the Commission should wait to decide this issue in DEU's next rate case.

Q. WHAT IS YOUR RECOMMENDATION REGARDING A TIMELY RESOLUTION OF THE TS CLASS MAKE-UP AND RATE DESIGN ISSUES?

A. I believe UAE witness Kevin Higgins' proposal could work. Mr. Higgins recommends a three-step annual rate adjustment to bring the TS rate levels to full cost of service. He also recommends that the Commission extend this Docket during the phase-in period for the purpose of further analysis of the TS rate issues.

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[7] See page 26, line 521, through page 29, line 590, of ANGC witness Bruce Oliver's direct testimony. Also, see page 16, lines 302 and 303, of UAE witness Kevin Higgin's direct testimony.

This should allow for a timely resolution of these issues and subsidies prior to the third step rate adjustment. However, the Commission would need to provide guidelines and timelines on what needs to be accomplished while this docket remains open. For example, DEU would need to provide cost of service studies ("COSS") that split the TS class into specific smaller transportation classes, and provide the billing determinants necessary to design rates for the smaller classes.

If the Commission accepts this procedure for addressing the TS rate class subsidy issue, one policy decision will need to be made now. That is, whether smaller customers should be allowed to qualify for transportation service. As recommended in my direct testimony, DEU should be required to propose a transportation service rate schedule for smaller customers in their next rate case. Under UAE's proposal, this new transportation service rate schedule could be implemented sooner.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

P.S.C.U. Docket No. 19-057-02
DPU Data Request No. 1.11
Requested by Division of Public Utilities
Date of DEU Response August 5, 2019

DPU 1.11: Aside from differences in sampling, have any other changes been made to the COS study methodology compared to the last case settled in Docket No. 13-057-05? If so, please explain what changes have occurred and the basis for each change.

Answer: The peak/throughput allocator proposed in this docket used a 60/40 weighting. This is the weighting typically proposed by the Company. In the 2013 general rate case, the parties settled and agreed to a weighting of 67/33.

Prepared by: Austin Summers, Regulatory Affairs Manager, Dominion Energy

P.S.C.U. Docket No. 13-057-05
Data Request No. 3.25
Requested by Division of Public Utilities
Date of QGC Response August 22, 2013

DPU 3.25 Please explain why feeder mains are allocated 60% of peak load and 40% on throughput.

Answer: These facilities fulfill a two-part function. They are designed to meet the peak requirements of firm customers, and they are used 365 days of the year to move gas to all customers, both firm and interruptible. The allocation of these costs does not lend itself to a single definitive solution. On the one hand it has been argued that firm customers should pay the entire cost in recognition of the underlying design demand function of these facilities. On the other hand it has been argued that customers should have responsibility for these facilities in proportion to actual use of the facilities. It is generally agreed that it would be unreasonable to allocate 100% on Peak Responsibility, just as it would be unreasonable to allocate 100% on Commodity Throughput.

The cost-of-service task force that resulted from the 2002 general rate case looked at studies based on alternative weightings between peak and commodity of 75/25, 60/40, and 50/50. No consensus was reached as to the most appropriate weighting. However, the 60/40 weighting more closely matches the results of the COS that the Company has proposed over time.

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