BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Dominion Energy Utah to Increase Distribution Rates and Charges and Make Tariff Modifications	Docket No. 19-057-02

REBUTTAL TESTIMONY OF ANGC WITNESS
BRUCE R. OLIVER

ANGC EXHIBIT 2R

Phase 2

TESTIMONY ON CLASS COST OF SERVICE
AND RATE STRUCTURE ISSUES

December 13, 2019

Testimony on Behalf of

American Natural Gas Council

/s/*Bruce R. Oliver*

REBUTTAL TESTIMONY OF BRUCE R. OLIVER
ON CLASS COST OF SERVICE AND RATE STRUCTURE ISSUES
UPSC Docket No. 19-057-02, Phase II

TABLE OF CONTENTS

REBUTTAL TESTIMONY OF BRUCE R. OLIVER
ON CLASS COST OF SERVICE AND RATE STRUCTURE ISSUES
UPSC Docket No. 19-057-02, Phase II

REBUTTAL EXHIBITS AND ATTACHMENTS

ANGC Exhibit 2.01R: Cost of Service Summary and Allocations to Rate Classes

*Page 1 - DEU's Response to **UAE** Data Request 2.01, Attachment 5, COS Summary*

*Page 2 from DEU's Response to **USM** Data Request 2.01, Attachment 5, COS Summary)*

ANGC Exhibit 2.02R: TS Class RORs and Revenue Deficiencies by Usage Category

Page 1 – TS Subclass Rate of Return

Page 2 – TS Subclass Revenue Deficiencies

ANGC Exhibit 2.03R: Cost of Service Summary and Allocations to Rate Classes
(From DEU's Response to UAE Data Request 2.01, Attachment 5, with Revised Weighting of Allocator 230)

ANGC Exhibit 2.04R: Rate of Return and Revenue Deficiencies by Rate Class
With and Without Revision to Allocation Factor 230 Weighting of Design Day and Annual Throughput

ANGC Exhibit 2.05R: ANGC Alternative Thee-Step Revenue Increase Phase-In Scenarios

Page 1 – ANGC Proposed Three-Step Phase-in of Revenue Increase at DEU Proposed Revenue Increase with 68/32 Weighting of Allocation Factor 230

*Page 2 - – ANGC Proposed Three-Step Phase-in of Revenue Increase at a **Zero** Revenue Increase with 68/32 Weighting of Allocation Factor 230*

REBUTTAL TESTIMONY OF BRUCE R. OLIVER
ON CLASS COST OF SERVICE AND RATE STRUCTURE ISSUES
UPSC Docket No. 19-057-02, Phase II

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Bruce R. Oliver. My business address is 7103 Laketree Drive Fairfax Station, Virginia, 22039.

Q. ARE YOU THE SAME BRUCE R. OLIVER WHO HAS PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN PHASES I AND II OF THIS PROCEEDING ON BEHALF OF ANGC?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR PHASE II REBUTTAL TESTIMONY?

A. This testimony responds to the Phase II Direct Testimonies of witnesses for DPU, OCS, FEA, USM and UAE relating to cost of service allocations, revenue increase distribution, and rate design issues.

Q. WERE THIS TESTIMONY AND ACCOMPANYING EXHIBITS PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION AND CONTROL?

A. Yes, they were.

II. SUMMARY

Q. WHAT IS YOUR OVERALL ASSESSMENT OF THE COST OF SERVICE AND RATE DESIGN TESTIMONY FILED BY THE DIVISION AND OTHER PARTIES TO THIS PROCEEDING ON NOVEMBER 14, 2019?

A. Although multiple parties requested DEU to prepare cost of service analyses to examine the Company's costs of service for TSS (Transportation Small) and TSL (Transportation Large) customers separately, only ANGC has addressed those results in its direct testimony. Most parties have simply accepted DEU's **inaccurate** representation that smaller TS customers are not covering their costs of service and therefore measures are needed to limit further migration of smaller customers to TS. As I further document and explain herein, TS customers that use less than 35,000 Dth per year are **NOT** the source of DEU's under-recovery of costs from the TS class. Although there is evidence that DEU is substantially under-recovering costs from the TS class, the Company's data request responses (particularly DEU's response to UAE Data Request 2.01, Attachment 5) clearly indicate that TS customers using less than 35,000 Dth per year are providing the Company a significantly above system average rate of return (i.e., approximately a **9.0%** return). DEU's under-recovery of costs from Rate

Schedule TS customers is primarily, if not exclusively attributable to the Company's underpricing of its service to large TS customers.[1]

Clearly there is a need for differentiated rate treatment for large and small TS customers. However, DEU's proposed minimum annual volume requirements for Rate Schedule TS and restrictions on further migration of smaller non-residential customers to TS do not address the problem and are unnecessary, inappropriate, and not cost-justified. In fact, the available evidence indicates that the current Rate Schedule TS is better designed for smaller TS customers than for high volume TS customers.[2]

A. Summary of Rebuttal Findings

Q. PLEASE SUMMARIZE THE KEY FINDINGS OF THIS REBUTTAL TESTIMONY REGARDING DEU'S CLASS COST OF SERVICE ANALYSES AND RATE DESIGN PROPOSALS?

A. The key findings of this Rebuttal Testimony are as follow:

---

[1] These findings are consistent with DEU Witness Summer's observation in his Direct Testimony (page 11, lines 285-286) that a TBF customer moved to the TS class. However, his conclusion based on that observation was askew. The evidence presented herein shows that the referenced transfer of a customer from TBF to TS is the result of the large subsidies being provided **high volume** TS customers, not a subsidization of service to TS customers using less than 35,000 Dth per year.

[2] The phrase "*better designed for smaller TS customers*" is used to indicate that the rate of return achieved by DEU from TS customers using less than 35,000 Dth per year is closer to the system average return that the rate of return for TS customers using more than 35,000 Dth per year. This observation runs directly counter to the Company's representation that the TS class was designed for larger volume customers and does not provide a full recovery of costs from smaller TS customers. Moreover, this use of the phrase "*better designed for smaller TS customers*" is not intended to suggest that the Company's current over-collection of costs from smaller TS customers is reasonable or should be continued. Rather, the available evidence shows that a reduction of charges for Smaller TS customers is appropriate and justified.

i. Class Costs of Service

- Cost of service results should not be clouded by non-cost-based considerations. After cost responsibilities by customer class are assessed, the Commission is then free to exercise reasonable discretion in the determination of class revenue requirements. However, the cost of service benchmark used as a guide in the determination of class revenue requirements and rate designs should be free of non-cost-based considerations.

- The design of distribution system facilities is driven by anticipated future customer demands on the facilities being planned. Distribution system design is not a function of actual customer demands in any given year.

- With respect to the Company's Design Day/Throughput allocations, DPU Witness Lubow ignores cost-causative considerations and simply seeks to replace one arbitrary weighting of Design Day and Annual Throughput with a different weighting that is more favorable to lower load factor customers for non-cost-based reasons.

- Recognition of Design Day demands in the allocation of costs for IHP mains would better reflect cost causation for DEU.

- For both cost allocation and rate design purposes, DEU should be required to divide its current GS and TS classes into two or more classes in its next rate filing.[3]

ii. Revenue Increase Distribution

- Gradualism in the adjustment of class revenue requirements is essential. In the context of this case, no increase for any customer class should exceed 1.5 times the system average increase or 20% whichever is greater.[4]

- The recommendation of UAE Witness Higgins for a three-year phase-in of rate increases for the TS and TBF classes may be reasonable if:

[3] DEU's cost of service model already has the capability to examine costs separately for Residential customers in the GS class and for Non-Residential GS customers, as well as for Small and Large TS customers (i.e., TSS and TLS customers). Issues associated with interclass and intra-class rate subsidies could be more readily resolved if DEU further segmented its largest existing rate classes.

[4] The 20% limit suggested reflects a judgmental determination based on the magnitude of individual class revenue deficiencies suggested by DEU's cost of service analyses and the Company's overall revenue increase request. If either DEU's cost of service allocations are revised or the Company's overall revenue increase request is reduced, the suggested 20% limit may also warrant reconsideration.

(1) The TS class is divided into two classes for large and small TS customers (i.e., TSL and TSS customers) based on a usage cutoff of 35,000 Dth per year and the proposed phase-in is only applied to TSL customers;

(2) The increases required to obtain full cost-base rate levels for TBF and TSL customers are properly adjusted for any reductions in the Company's requested rate of return and/or its overall revenue increase; and

(3) The calculated class revenue deficiencies for the TBF and TSL classes are adjusted to reflect Commission-adopted changes in the Company's class cost of service results.

iii. <u>Rate Design</u>

- Gradualism and the avoidance of rate shock should be key considerations for the Commission in its review of DEU's rate proposals in this proceeding. DEU's efforts to inform TS customers that it would seek to move to cost-based rates do not dismiss the need for gradualism and rate continuity in this docket.

- DEU's COS analyses for subgroups of TS customers show that the Company's under-recovery of costs from the TS class is primarily associated with **larger TS** customers. Thus, smaller TS customers and the migration of customers from sales service to TS are **not** the source of DEU's TS class revenue recovery concerns.

- Sufficient record exists in this proceeding to justify the establishment of separate rate classes for TS Small ("TSS") and for TS Large ("TSL") customers.

- The existing GS rate class has produced significant intra-class equity issues, and multiple parties support separation of DEU's current GS class into two more rate classes.

B. Summary of Rebuttal Recommendations

Q. WHAT ADDITIONAL RECOMMENDATIONS DO YOU OFFER FOR THE COMMISSION WITH RESPECT TO THE MATTERS ADDRESSED HEREIN?

A. On the basis of the matters addressed herein, the following additional recommendations are offered for the Commission's consideration:

1. The Commission should reject calls for a moratorium on transfers of customers using less than 35,000 Dth per year to the TS class.

2. The Commission should establish separate rate classes in this proceeding for TS Small ("TSS") customers and for TS Large ("TSL") customers.

3. The Commission should ensure that the principles of gradualism and rate continuity are applied in the adjustment of rates and charges for all rate classes.

4. The Commission should find that TS customers who use less than 35,000 Dth per year are NOT the source of DEU's TS class cost recovery concerns.

5. The Commission should direct DEU to use its annual system load factor (i.e., 32%) to weight the Design Day and Throughput components of its Allocation Factor 230.

III. RESPONSE TO OTHER PARTIES

A. Response to DPU Witness Wheelwright

Q. WITNESS WHEELWRIGHT PRESENTS THE DIVISION'S LIST OF "GUIDING PRINCIPLES FOR COST OF SERVICE AND RATE DESIGN. DO YOU AGREE WITH THOSE "GUIDING PRINCIPLES?

A. In general, I do.

I certainly believe that **gradualism** should be exercised in the determination of class revenue requirements and the design of charges for **all classes** of customers. As I indicated in my Phase II Direct Testimony, customers often make energy investment and energy purchase decisions trusting that rates approved by the Commission were deemed just and reasonable and that the Commission's ratemaking policies will exhibit reasonable continuity from case-to-case. In that context, large changes in rate design, including large changes in the magnitudes of charges within a rate schedule from one case to the next are inappropriate and can produce significant economic dislocations for customers who may are subjected to the impacts of those changes.

Witnesses for multiple parties in this proceeding have addressed the need for greater exercise of gradualism and the avoidance of rate shock in the adjustment of class revenue requirements and charges for individual rate components, particularly with respect to rates for the Company's TS and TBF

rate classifications.[5] The Commission is strongly urged to heed their concerns and ensure that the bill impacts of the Company's proposals for those rate classes are moderated.

The understandability of rates is also important. However, **simplicity** in the design of rates must be balanced with efforts to design rates that reasonably track individual customers' cost responsibilities. Where a class of customers is reasonably homogeneous in terms of the service requirements, the development and use of a simple rate structure may be appropriate. However, where a rate class includes considerable diversity among the usage patterns of customers within the class (i.e., as in the current GS class) a simple rate structure may not reasonably and appropriately apportion cost responsibilities among customers within the class.

Rates may also be used to provide pricing signals to customers, but the proper use of rates to provide price signals often involves a more complex set of considerations than many rate analysts take time to address. Moreover, the use of rates to convey price signals must be balanced against rate equity considerations. Importantly, the presentations of DEU and DPU in this proceeding are devoid of either a clear statement of the price signals that should be conveyed to customers in each rate class and offer no assessment of the extent to which either current or proposed rates are consistent with intended price signals.

[5] In addition to my own Phase II Direct Testimony and that of DPU Witness Wheelwright, USM Witness Swenson emphasizes that TS rate changes should be implemented to eliminate rate shock and ensure fairness. (Swenson Phase II Direct Testimony, page 1, lines 11-12). Similarly, FEA Witness Collins testifies that where movement to cost of service would cause rate shock gradualism can be used to mitigate rate impacts. (Collins Phase II Direct Testimony, page 5, lines 4-7).

Furthermore, no party has presented an assessment of DEU's marginal costs of distribution service. The appropriateness of using rates for gas distribution services to encourage energy conservation must also be questioned as the linkage between energy conservation efforts and the Company's incurrence of distribution system costs is, at best, weak. If the Commission wishes to provide conservation incentives for customers who purchase sales service from DEU, that can be accomplished through the use of inverted block rates for DEU's gas service charges, but it is not appropriate within unbundled charges for gas distribution services. In the current gas supply market, that is now characterized by comparatively abundant gas supplies and low and relatively stable natural gas commodity prices, the need for, and appropriateness of, energy conservation incentives must be questioned.

With respect to rate structure, I agree with DPU Witness Wheelwright that three-part rate structures that include customer, energy, and demand components help to apportion costs fairly among customers within a rate class. Yet, at present only the TS and TBF classes have separate demand charges. None of DEU's sales service classes currently have demand charges. The same principles that support DEU's application of demand charges to transportation service customers apply equally to distribution service rates for non-residential sales service rate classifications.[6] I also submit, contrary to Witness

[6] In concept, demand charges could also help to better apportion cost responsibilities for residential customers, but it is generally perceived that residential customers would not understand such charges. Thus, for residential and maybe very small commercial customers, simplicity and understandability of

Wheelwright's position, that experience in other jurisdictions has demonstrated that the incurrence of costs for demand meters is not a necessary requirement for a gas utility to recover a portion of its revenues on a demand basis. Rather, charges can be applied to those computed measures of demand for the purpose of billing demand related costs. For example, each customer's average daily demand can be computed for the peak month or the peak season, and a demand charge can be billed on the basis of that measure of demand in each subsequent month to recover demand-related costs.

Q. WITNESS WHEELWRIGHT CITES CORRECT PRICE SIGNALS AS ONE OF DPU'S GUIDING PRINCIPLES. IS THERE ANY EVIDENCE IN THIS PROCEEDING THAT EITHER DEU'S PRESENT OR PROPOSED RATES PROVIDE CORRECT PRICE SIGNALS TO CUSTOMERS?

A. No. The record of this proceeding is devoid of discussion of the relationship between DEU's current rates and/or its proposed rates and any representation of what would constitute appropriate signals for DEU's gas distribution services. Rather, nearly all of the evidence suggests that neither DEU's present rates nor its proposed rates are designed to convey specific price signals to customers. Thus, while correct price signals may be an appropriate rate design consideration, the record of this proceeding lacks any evidence from either DEU or the

charges for those customers may override efforts to collect revenues in a manner that better tracks individual customer cost responsibilities.

Division that the provision regarding what they believe a correct price signals should convey to customers.

Q. WITNESS WHEELWRIGHT TESTIFIES THAT THE PRIMARY DRIVER OF DEU'S $19.2 MILLION RATE INCREASE REQUEST IN THIS PROCEEDING IS ANTICIPATED CAPITAL EXPENDITURES FOR MAINTAINING, UPGRADING, AND REPLACING THE COMPANY'S AGING INFRASTRUCTURE, AS WELL AS THE COSTS OF SERVING NEW CUSTOMERS. DO YOU AGREE?

A. No, I do not. As demonstrated through my Direct Testimony in Phase I of this proceeding, the **primary driver** of the Company's $19.2 million rate increase request in this proceeding is the Company's requested 10.5% return on equity (ROE). Downward adjustment of the Company's requested ROE and overall cost of capital to more reasonable levels, significantly lowers DEU's revenue increase request. Capital additions are always an important consideration in the determination of a utility's revenue requirement, but in this case the primary driver of the Company's requested revenue increase is its requested ROE. From a cost of service and rate design perspective, this is important since it directly impacts the magnitude of the Company's computed revenue deficiencies by customer class and subgroup.

B. Response to DPU Witness Lubow

Q. AT PAGE 9 OF HIS DIRECT TESTIMONY, DPU WITNESS LUBOW SUGGESTS THAT "*THE COMPANY PROPOSES NO CHANGES IN THE TS RATE DESIGN ASIDE FROM IMPOSING A PERCENT INCREASE ACROSS THE CURRENT RATE STRUCTURE AND BILLING DETERMINANTS*."[7] IS THAT AN ACCURATE REPRESENTATION?[8]

A. No, it is not. Although it appears Witness Lubow has relied on the testimony of Witness Summers, Witness Summers' testimony is inaccurate. DEU's proposed changes in the TS rate schedule impact three separate components of that rate with adjustments of **different magnitudes** and **different directions**, all of which constitute rate changes of substantially greater magnitude than the Company's requested overall percentage increase.

DEU Exhibit 4.14 shows that the Company's rate design proposals for TS customers would **increase the TS Demand Charge** by **over 100%**. It would also **increase** the **volumetric charge** applicable to each of the four TS monthly usage rate blocks by **62.4%**. Yet, the **Basic Service Fees** are **held constant** and the TS **Administrative Charge** is **lowered by 33%**. The substantial, if not

[7] Relying on the Direct Testimony of DEU Witness Summers, FEA Witness Collins makes a similar incorrect representation at page 3, lines 23-24, of his Phase II Direct Testimony that the Company proposes no changes in its TS class rate design. Although DEU does not propose to change its block structure for volumetric charges, the Company's changes to volumetric, demand, and administrative charges are significant.

[8] FEA Witness Collins makes a similar representation.

dramatic, nature of the changes DEU proposes in its TS rate design should be obvious to even the most casual observer.

Thus, Witness Summers' statement that, "*DEU simply proposes that the TS class, as a whole, be 'percentaged increased' to pay the full cost rates,"* constitutes a substantial misrepresentation of the Company's proposed TS rate changes.

Q. DPU WITNESS LUBOW RECOMMENDS THAT THE TS CLASS BE SPLIT AT 35,000 DTH OF ANNUAL USE AND THAT THE COMMISSION SHOULD FREEZE THE NON-CONFORMING CUSTOMERS. HOW DO YOU RESPOND?

A. Witness Lubow's position is presented without reference to any substantive support for his position. He cites no evidence to support the appropriateness of splitting the TS class at 35,000 Dth per year, and no analytic support for his claim that customers using less than 35,000 Dth per year are "*non-conforming customers*."[9] Moreover, that representation is particularly troublesome in the context of the Company's response to DPU Data Request 11.01.

In that data request DPU specifically asked the Company to "*prepare a version of the Cost of Service study in which the Transportation Service ("TS") rate group is separated into two distinct subsets of customer classes*." DPU's request further specified that: **TS Subset 1** should include customers that **meet** a

[9] The Direct Testimony of DPU Witness Lubow, lines 313-314.

minimum use requirement of 120,000 Dth per year; and **TS Subset 2** should include customers that **do not meet** a 120,000 Dth per year minimum usage threshold. In Attachment 5 to its response to DPU Data Request 11.01,[10] DEU provided the requested analysis showing separately rates of return and revenue deficiencies for TSL (i.e., Subset 1) customers for TSS (Subset 2) customers. Apparently, DPU Witness Lubow either never reviewed the Company's response to DPU Data Request 11.01 or chose to ignore its results.

As explained in my Direct Testimony, and document in AGNC Exhibit 2.02, Attachment 5 to DPU Data Request 11.01 response indicates that the TS Small (TSS) customers provided the Company with **a 6.24%** rate of return at present rates, while the TS Large (TSL) customers provide the Company with a rate of return at present rates of only **0.59%**. That attachment also indicates TSL customers (i.e., customers using more than a 120,000 Dth per year minimum usage requirement) accounted for a revenue deficiency of $10.9 million or 88.9% of the overall revenue deficiency for the TS class. These results clearly depict the TSL subgroup the "*non-conforming"* component of the overall TS class. Thus, if a freeze should be placed on any portion of the TS class, it should be a freeze on the larger TSL customer subgroup.

Q. THE ANALYSIS PRESENTED IN RESPONSE TO DPU DATA REQUEST 11.01 IS EXAMINES COSTS OF SERVICE FOR TS CUSTOMERS ABOVE AND

[10] See ANGC Exhibit 2.01 which accompanied my Direct Testimony in this Phase II proceeding.

BELOW A 120,000 DTH THRESHOLD. CAN THAT BE RELIED UPON TO CONCLUDE THAT CUSTOMERS BELOW THE PROPOSED 35,000 DTH USAGE LEVEL ARE NECESSARILY CONFORMING CUSTOMERS?

A. No, it only shows results for customers above and below the referenced 120,000 Dth usage cut-off. However, DEU's response to UAE Data Request 2.01 presents a similar analysis based on a 35,000 Dth per year demarcation for large and small TS customers.[11]

Q. WHAT DO THE COST OF SERVICE RESULTS IN DEU'S RESPONSE TO UAE DATA REQUEST 2.01 SHOW?

A. DEU's response to UAE Data Request 2.01 finds that, when a 35,000 Dth per year threshold is used to separate TS Small (TSS) customers from TS Large (TSL) customers, the TSS subclass provides a **9.11%** rate of return at present rates, while the TS Large (TSL) subclass is found to have a rate of return at present rates of **0.75%**. Those COS results also indicate that the TSS subclass has a negative revenue deficiency (i.e., it is over-recovering its allocated costs of service) at present rates. On the other hand, the TSL subclass is under-recovering its allocated costs of service by **$13.1 million**. These results, which are directly relevant to the 35,000 minimum use requirement that DEU proposes

[11] See the "COS SUM" worksheet in Attachment 5, to DEU's response to UAE Data Request 2.01, and **ANGC Exhibit 2.02R** (attached to this testimony) which has been extracted from that worksheet. Unfortunately, I was unaware of this response to UAE Data Request 2.01 at the time I prepared my Direct Testimony for this Phase II proceeding.

and DPU Witness Lubow supports, clearly indicate that smaller TS customers are **NOT** the source of DEU's TS class cost recovery concerns.

Q. DO YOU ACCEPT 35,000 DTH PER YEAR AS A REASONABLE USAGE THRESHOLD FOR SEGREGATING LARGE AND SMALL TS CUSTOMERS?

A. Not necessarily. My Direct Testimony demonstrates that DEU's choice of 35,000 Dth as the basis of its proposed minimum annual usage requirement is, at best, arbitrary and the analyses upon which DEU has relied to propose that minimum usage threshold is premised are not well developed. Other groupings of TS customers may better identify customers with similar levels of usage and similar cost responsibilities. However, from a cost of service perspective, DEU's response to UAE Data Request 2.01 shows a substantial difference between the Company's computed rates of return for TS customers using less than 35,000 Dth per year and for TS customers using greater than 35,000 Dth per year.

Q. WHAT CHANGES IN RATE DESIGN FOR GS CUSTOMERS ARE RECOMMENDED BY DPU WITNESS LUBOW?

A. Witness Lubow recommends that **no changes** in the current rate structure, including rate blocks, be made for Rate GS in this proceeding.

Q. DO YOU FIND WITNESS LUBOW'S RATE DESIGN RECOMMENDATION FOR RATE GS REASONABLE AND APPROPRIATE?

A. No. Witness Summers for DEU recognizes that larger GS customers are presently subsidizing smaller GS customers. Yet, DPU Witness Lubow offers his GS rate design recommendation without offering any explicit discussion of those Company-identified subsidies or making any effort at this time to address those inequities in this case. Rather, Witness Lubow's answer is to defer efforts to reform DEU's GS rates until DEU's next rate case. For larger GS customers who will have to continue to contribute to those subsidies until DEU's next rate case, without any viable rate alternative,[12] that is not an equitable solution.

Q. WHAT IS THE MAGNITUDE OF THE RATE INCREASE THAT DPU WITNESS LUBOW RECOMMENDS FOR TS CUSTOMERS IN THIS PROCEEDING?

A. Witness Lubow recommends a **35% increase** for both TS and TBF customers. That would raise the revenue requirement for the TS class by **$10.1 million** and increase the TBF revenue requirement by **$559,131**.

Q. DOES WITNESS LUBOW EXPLAIN HOW HE RECONCILES THOSE COMPARATIVELY LARGE PERCENTAGE INCREASES FOR TS AND TBF CUSTOMERS WITH THE DIVISION'S GUIDING PRINCIPLES?

[12] As noted above, DPU Witness Lubow advocates that the existing option for GS customers to transfer to Rate TS should be eliminated by "freezing" the availability of TS service for existing sales service customers who use less than 35,000 Dth annually.

A. No. Although DPU Witness Wheelwright cites "***gradualism***" as one of the **Division's "*guiding principles***," Witness Lubow offers no recognition of that "***guiding principle***" when presenting his recommended revenue increases for TS and TBS customers. I recognize that DEU's cost of service analyses suggest that large adjustments to the revenue requirements for those classes may be required, but even accepting ***arguendo*** DEU's COS results, adjustment for revenue deficiencies that have been allowed to grow over a number of years do not justify turning a blind-eye to gradualism considerations.

Q. AM I CORRECT THAT BOTH YOU AND DPU WITNESS LUBOW RECOMMEND THAT THE GS CLASS BE DIVIDED INTO TWO OR MORE NEW RATE CLASSES IN THE COMPANY'S NEXT RATE CASE?

A. Yes. It appears that our recommendations on this matter are similar. However, we may differ on how rates for non-residential GS customers should be segmented. Witness Lubow suggests a segregation of Residential GS customers from Commercial GS customers[13] and then possibly a further separation of GS commercial customers into **large** and **small** rate classifications. Alternatively, I suggest that, as a first cut, GS commercial customers may be appropriately divided into heating and non-heating subclasses and then possibly further divided by size or other characteristics.

[13] This may be more appropriately identified as a non-residential customer classification since it includes governmental, institutional, and smaller industrial customers, as well as commercial customers.

Q. IS WITNESS LUBOW'S OFFER OF SUPPORT FOR DEU'S PROPOSED TARIFF CHANGES REASONABLE AND APPROPRIATE?

A. Most of the tariff changes proposed by the Company are non-controversial, mostly representing grammatical and punctuation corrections, format changes, changes to referenced tariff provisions, and the removal of outdated provisions. However, DEU's proposed addition of a minimum usage requirement for TS customers represents a substantive change which will directly impact both existing and potential new TS customers. Witness Lubow offers no supporting discussion of that important change or any supporting rationale for that change. This is particularly critical given the COS results I discuss in this testimony and in my Phase II Direct Testimony which indicate that DEU's own COS analyses demonstrate that the smaller TS customers are not the source of DEU's TS class cost recovery concerns.

C. Response to OCS Witness Daniel

Q. DO YOU AGREE WITH OCS WITNESS DANIEL'S RECOMMENDATION THAT DEU SHOULD DIVIDE ITS CURRENT GS CLASS INTO TWO OR MORE RATE CLASSES IN ITS NEXT GENERAL RATE FILING?

A. Yes. I also suggest that to ensure the proper development of rates for such new rate classifications, a process should be established now for determining the structure of the classes for which DEU will be expected to allocate costs and

design rates in its next rate proceeding. The parties should be given an opportunity to work together to define the classes to be used. If the parties cannot reach agreement within a reasonable period of time on the structure and definition of new rate classes that would replace the current GS class, the Commission should establish another phase of this proceeding to resolve issues associated with the restructuring of the GS class well in advance of the Company's next rate filing. By doing so, the Commission can facilitate the implementation of new rate classes in that case. It can also avoid the potential for confusion that could result from the array of different restructuring proposals for the current GS class in the next case that could result if restructuring of the GS class is not resolved prior to the Company's next rate case.

Q. SHOULD THE COMMISSION ACCEPT OCS WITNESS DANIEL'S RECOMMENDATION THAT DEU'S RATE DESIGN CHANGES FOR RATE GS SHOULD BE REJECTED DUE TO ANTICIPATED CUSTOMER MIGRATION AND ITS IMPACTS ON GS CLASS COMPOSITION?

A. No. His argument is a "red herring." Regardless of the Commission's determinations on matters that may affect migration among customer classes,[14] anticipated levels of customer migration do not impact the overall composition of the GS class to the extent that potential customer migration represents a

[14] The migration of customers from the GS class to the TS class will be affected by this Commission's determinations regarding DEU's proposed changes in Rate TS component charges and the Company's proposed implementation of a minimum usage requirement for TS customers. If the Company's proposals are approved.

sufficient impediment to GS class rate development for that to be a driving consideration in the Commission's consideration of DEU's proposed rate design changes. This position is not intended to reflect support for DEU's GS rate design proposals. Rather, it offers recognition of other important factors that should be weighed by the Commission in its evaluation of rate design proposals for the current GS class.

Moreover, the Company's anticipated migration in 2020 is small in terms of both numbers of customers and Dth relative to the overall size of the GS class. The Attachment to DEU's response to ANGC Data Request 1.04 indicates that the Company expects **110 customers** to migrate from GS to TS service, and that migration would lower GS class annual throughput by **837,883 Dth**.[15] Those changes represent only **0.01%** of the total number of GS customers and less than **0.8%** of total annual gas use for GS class. These comparatively small impacts on the numbers of customers and annual throughput for the GS class do not significantly impede efforts to adjust charges for the GS class in this proceeding and should not be accepted by the Commission as justification for Witness Daniel's deferral of all rate design adjustments to rates for GS customers until the Company's next rate case.

[15] The Commission should also note that DEU's estimates of migration do not appear to consider either: (1) the impacts of the Company's proposed restrictions on migration to the TS class by customers using less than 35,000 Dth per year; or (2) any price elasticity response to the large percentage increases DEU proposes in TS demand and throughput charges. Thus, if the Company's proposals for rate schedule TS are approved, (an action I do not recommend), the impacts of customer migration on the composition of the GS class may be substantially less than DEU has projected.

D. Response to UAE Witness Higgins

Q. DO YOU SUPPORT UAE WITNESS HIGGINS' PROPOSED WEIGHTING OF DEU'S ALLOCATION FACTOR 230 BASED ON THE SYSTEM LOAD FACTOR?

A. Yes, I made a similar recommendation in my Phase II Direct Testimony. Thus, we appear to be in agreement that the weighting of design day and annual throughput requirements in Factor 230 should be based on the Company's annual system load factor. **ANGC Exhibit 2.03R** provides summary COS results with a load factor weighting of Design Day and Annual Throughput requirements.

Q. UAE WITNESS HIGGINS SUGGESTS THAT A MORTORIUM ON NEW MIGRATION TO TS BY CUSTOMERS USING LESS THAN 35,000 DTH PER YEAR MAY BE APPROPRIATE. DO YOU AGREE?

A. No. His recommendation with respect to a moratorium on transfers of customers using less than 35,000 Dth per year is **unfounded**. UAE Witness Higgins states, "*I see no convincing evidence that small TS customers are creating an intra-class subsidy problem*."[16] I further note that, although Witness Higgins offers no explicit reference to the Company's response to UAE Data Request 2.01, that response, as previously discussed herein, indicates that TS customers using below 35,000 Dth per year (i.e., TSS customers) are providing an **above system**

[16] The Direct Testimony of UAE Witness Higgins, page 16, lines 302-303.

average rate of return. It also indicates the current revenue deficiency for the overall TS class is the result of the Company's substantial **under-recovery** of costs **for TSL customers** (i.e., TS customers using greater than 35,000 Dth per year). When TSS customers are found to provide a greater than system average rate of return (i.e., an over-recovery of their allocated costs of service), there is no reason for implementing a ***moratorium*** to limit further transfers to TS by customers who use less than 35,000 Dth per year.

Q. IS A MORATORIUM ON TRANSFERS OF CUSTOMERS USING LESS THAN 35,000 DTH PER YEAR EITHER NECESSITATED OR JUSTIFIED BY WITNESS HIGGINS' PROPOSED THREE-STEP PHASE-IN TO FULL COST-BASED RATES FOR THE TS CLASS?

A. No. Witness Higgins also provides no compelling case for linking his proposed "*three-step phase-in to full cost of service rates for TS*" to a ***moratorium*** on transfers of customers below 35,000 Dth per year to TS. Based on the cost of service results presented in DEU's response to UAE Data Request 2.01, Attachment 5, an argument can be made that, if there is a need for a moratorium on customer migration, it should be applied to larger TS customers for which the Company's under-recovery of costs is particularly acute.

Q. ARE YOU SUPPORTIVE OF WITNESS HIGGINS' THREE-STEP PHASE-IN TO FULL COST-BASED RATES FOR RATE TS?

A. Only in part. A phase-in of a large percentage increase could mitigate rate shock for affected customers and provide a measure of gradualism in the adjustment of rates. However, I cannot support his approach to the adjustment of volumetric charges for TS customers. Witness Higgins' proposal to proportionately increase the rate for each block of the TS volumetric charges in Step 1 fails to address the very different rates of return for TSS and TSL customers. With TSS customers already providing an over-recovery of their allocated costs and TSL customers substantially under-recovering their allocated costs, Witness Higgins' proposal for a proportionate increase to each volumetric rate block must be rejected.

In addition, the cost of service analysis presented in DEU's response to UAE Data Request 2.01 clearly indicates that small TS customers that use less than 35,000 Dth per year are providing the Company a greater than system average rate of return, while large TS customers that use greater than 35,000 Dth per year provide the Company with a substantially below average rate of return. In the context of those results, TS customers using less than 35,000 Dth per year should be exempted from any revenue increase in this proceeding, and Witness Higgins' proposed three-step phase-in of the revenue increase should be limited to TBF and Large TS customers in an effort to address the significant revenue deficiencies associated with those customer groups.

Q. HOW WOULD A CHANGE IN THE WEIGHTING OF THE DESIGN DAY AND THROUGHPUT COMPONENTS OF DEU'S ALLOCATOR 230 ALTER THE

RELATIVE RATES OF RETURN FOR SMALL TS (TSS) CUSTOMERS AND LARGE TS (TSL) CUSTOMERS?

A. The TSS rate of return remains well above the system average rate of return and the TSL rate of return remains substantially below the system average. As shown in the following table, the change in the weighting of DEU's allocator 230 that both Witness Higgins and I support would have only a minor impact on the rate of return for TSS customers (i.e., customers using less than 35,000 Dth per year). Although the change in Allocation Factor 230 would improve the rate for return for TSL customers, that improvement still leaves the TSL rate of return nearly 600 basis points below the system average rate of return. In dollar terms, however, the recommended change in Allocation Factor 230 lowers the computed revenue deficiency for TSL customers by nearly 18% or approximately $2.3 million (i.e., from $13.1 million to $10.8 million).

Table 1R
Impact of Change in Design Day/Throughput Weighting
For DEU Allocator 230 on TS Subclass **Rates of Return**[17]

	DEU's COSS As Filed 60/40 Split	DEU COSS Revised 68/32 Split
TSS *(< 35,000 Dth)*	9.11%	8.99%
TSL *(> 35,000 Dth)*	0.75%	1.49%
Total TS Class	2.74%	3.41%
System Average	6.93%	6.93%

[17] **ANGC Exhibit 2.04R**, attached hereto, shows comparable results for all rate classes along with comparative revenue deficiencies by rate class.

Q. UAE WITNESS HIGGINS ALSO SUGGESTS THAT "*IT MAY BE REASONABLE TO RESTRUCTURE THE RATE INCREASE IN THE VOLUMETRIC CHARGES IN STEPS 2 AND 3* [OF HIS PROPOSED THREE-STEP PHASE-IN OF THE TS RATE INCREASE] *TO SPREAD THE OVERALL RATE INCREASE MORE PROPORTIONATELY THROUGHOUT THE CLASS*."[18] DO YOU SUPPORT THAT UAE RECOMMENDATION?

A. No, I do not. As explained above, the COS analysis, that UAE requested the Company to prepare for TS customers above and below 35,000 Dth per year,[19] does not support his position. DEU's COS analysis for TSS and TSL customers indicates that any revenue increase for the TS class should be borne by Large TS customers using more than 35,000 Dth per year. His suggestion that the rate increase should be spread "*more proportionately throughout the TS class*" is **inconsistent** with the Company's cost of service results for the TSS and TSL subclasses when the dividing line for those classes is set at 35,000 Dth per year.

Q. IS THERE A MORE APPROPRIATE ALTERNATIVE FOR ADJUSTING CHARGES FOR TS CUSTOMERS?

A. Yes, I believe there is. As previously discussed, the cost of service evidence provided by DEU in Attachment 5 to its response to UAE Data Request 2.01, highlights a significant difference in the performance of TSS customers (i.e., less than 35,000 Dth per year) and TSL customers (i.e., customer using more than

[18] The Direct Testimony of UAE Witness Higgins, page 15, lines 275-278.
[19] See the "COS Sum" worksheet in Attachment 5, to DEU's response to UAE Data Request 2.01.

35,000 Dth per year). Based on those results, the Commission should find comfort in dividing the current TS class into two rate classes (i.e., a TSS class and a TSL class). The **TSS class**, having an above system average rate of return, would be treated as the Company proposes to treat other over-earning classes and would receive no rate increase.[20] The **TSL class** would, at least initially, maintain its full current block structure for volumetric charges and the three-step phase-in to full cost rates, discussed by Witness Higgins, would be applied to the new TSL class with proportionate increases to all volumetric block charges.

Q. HAVE YOU COMPUTED REVENUE INCREASES BY CLASS UNDER YOUR PROPOSAL FOR A THREE-STEP PHASE-IN OF REVENUE ADJUSTMENTS?

A. Yes. **ANGC Exhibit 2.05R** provides revenue adjustments by class for each step of a three-step phase-in under two scenarios. **ANGC Exhibit 2.05R, page 1**, shows revenue adjustments by class based on the Company's full $19.2 million revenue increase request in this proceeding. **ANGC Exhibit 2.05R, page 2**, provides a similar analysis showing class revenue adjustments under a three-step phase-in assuming the Company's approved overall revenue increase is zero. Increases are phased-in for both TSL and TBF customer classes. Revenue deficiency amounts not recovered in the first step adjustments for the

[20] An overall rate decrease may be justified for TSS customers at the Company's full revenue request in this proceeding. However, the establishment of a separate rate class for TSS customers is an important first step, and any reduction of the TSS revenue requirement could be conditioned on a reduction in the Company's overall revenue increase request.

TSL and TBF classes are initially recovered from the GS class,[21] but those amounts are offset by increases to the TSL and TBF classes and decreases for the GS class in the second and third step revenue adjustments. Since the IS and TSS classes have significantly above system average rates of return at present rates, those classes receive revenue reductions. However, as explained above, the first step adjustment for TSS customers is zero, and the cost-based reduction for that class is implemented through the second and third step revenue adjustments.

A cap of 20% was placed on the increase that could be applied to any class of service in each step of the revenue adjustment phase-in. That cap greatly constrains the ability of the Company to move toward fully cost-based rate levels for the TBF class. Also, both revenue adjustment phase-in scenarios would impose increases of roughly 17% in each step for TSL customers. Although those 17% increases are below the 20% cap on increases, the Commission may wish to consider a more gradual revenue adjustment process for TSL customers.

Q. DO YOU RECOMMEND ANY ADJUSTMENTS TO THE RATE DESIGN FOR TSS CUSTOMERS?

[21] Consideration was given to spreading the under-recoveries of full cost revenue requirements for the TSL class to the FS and NGV classes, as well as the GS class. However, the amounts that would be distributed to those classes would be quite small and were judged not sufficient to warrant the added complexity.

A. Yes. Contrary to the testimony of DEU Witness Summers, we know that TSS customers have performed well under the current TS rate. Thus, I recommend continuing the current TS rates and charges for TSS customers with three minor adjustments. The three adjustments I would recommend for the TSS rate design are: (1) elimination of the current TS tail block rate for usage over 198,000 Dth; (2) re-define the third volumetric block to be applicable to all TSS usage in excess of 2,000 Dth per month; and (3) substantially reduce or eliminate the Administrative Charge for all TSS and TSL. This approach to the adjustment of TSS charges should provide the Commission with substantial confidence that the new TSS class will continue to perform reasonably.

E. Response to USM Witness Swenson

Q. WHAT POSITION DOES USM WITNESS SWENSON TAKE WITH RESPECT TO ADJUSTMENT OF RATE FOR THE TS CLASS?

A. Witness Swenson agrees that "*rates should track cost of service in a reasonable manner for all customers*."[22] In that context, he does not oppose efforts to move the TS class to cost-based rates. However, he submits that, if a rate increase in TS rates is approved by the Commission, the approved increase should be implemented in a manner that eliminates rate shock and ensures fairness.[23]

[22] The Phase II Direct Testimony of USM Witness Swenson, page 1, lines 16-17.
[23] Ibid., page 1, lines 11-12.

635 **Q. DOES WITNESS SWENSON SUGGEST THAT DEU HAS PROVIDED**
636 **ADEQUATE NOTICE OF ITS PROPOSED INCREASE IN THIS CASE?**

637 A. No. His testimony highlights large differences between the impacts of the rate
638 increases that DEU proposed for TS customers in its 2016 rate case and the rate
639 increases TS customers would experience under the Company's proposals in
640 this case. In fact, Witness Swenson testifies that he was "very surprised" by the
641 rate increases for TS customers that DEU is proposing in this case.

642

643 **Q. WHAT IS THE MAGNITUDE OF THE RATE INCREASE FOR TS CUSTOMERS**
644 **THAT WITNESS SWENSON CITES?**

645 A. At page 5, lines 81-84, of his Direct Testimony, Witness Swenson provides a
646 chart that shows DEU's proposed movement to full cost of service rates would
647 **raise all** of the **TS volumetric charges** by **62.408%**. Witness Swenson also
648 suggests that high-volume TS customers like USMag "… *would be hard hit by*
649 *DEU's proposal in this docket.*"[24] He also states, "[The Company's] *proposed*
650 *rate design would result in an extraordinary increase in rates to USMag and*
651 *stands in stark contrast to all of the information DEU provided regarding*
652 *expected rate increases based on the 2016 rate case*…"[25]

653

[24] Ibid., page 1, lines 12-13.
[25] Ibid., page 6, lines 88-90.

Q. DOES WITNESS SWENSON'S DISCUSSION OF DEU'S PROPOSED RATES FOR TS CUSTOMERS ADDRESS ALL OF THE CHANGES THE COMPANY SEEKS IN THOSE RATES?

A. No. He only discusses the **62.4% increase** that DEU proposes for each of the TS volumetric rate blocks. The Company also proposes a **101% increase** in the TS Demand Charge and a 33% decrease in the Administrative Charge for TS customers. But, neither of those changes is referenced by Witness Swenson. From ANGC's perspective, the demand charge increase is particularly important because it has a greater impact on the bills of smaller, lower load factor, TS customers than on larger volume, higher load factor, customers within the TS class. Although Witness Swenson brings focus to the volumetric charge increases for TS customers, the Company's proposed increase in the TS Demand Charge equates to 44% of the total TS class revenue increase and falls disproportionately on smaller customers. The revenue impact of DEU's proposed Demand Charge increase is more than 3.5 times greater than the magnitude of the proposed Administrative Charge reductions.

I accept that the Company's proposed TS rates can be expected to have significant adverse impacts on large volume customers such as USMag, but I submit that smaller TS customers are also likely to experience very large percentage increases. Smaller customers can be expected to receive the full impact of the 62.4% volumetric rate increase as well a disproportionate share of the 101% TS Demand Charge increase.

In addition, many smaller customers currently in the TS class will not meet DEU's proposed 35,000 Dth minimum annual usage requirement, and that could impose even greater rate increases on those customers if they continue to take service under the TS rate schedule. The only alternative for most of those customers is to return to GS class where they will pay still higher distribution rates to subsidize smaller GS customers and pay DEU more for the gas they consume than they would have paid to a competitive gas supplier. Thus, many smaller current TS customers will face a "lose-lose" situation despite the fact that they are already paying more than their allocated costs of service.

Q. WOULD A UNIFORM PERCENTAGE INCREASE FOR ALL TS CUSTOMERS BE MORE EQUITABLE?

A. No. Given that the cost of service analyses prepared by DEU for this proceeding show small TS customers providing a greater than system average rate of return and larger TS customers providing below average rates of return, a uniform percentage increase for all TS customers would not represent an equitable result.

Q. WHAT DOES WITNESS SWENSON SEE AS THE CAUSE OF THE LARGE INCREASE DEU PROPOSES FOR HIGH VOLUME TS CUSTOMERS?

A. From Witness Swenson's perspective, USMag's problem with the Company's TS rate design proposal results from unaddressed intra-class subsidies which DEU

does not propose to address until its next base rate filing in three years. In support of those concerns Witness Swenson cites a highly inaccurate and misleading portion of the Direct Testimony of DEU Witness Summers in which Witness Summers states:

> *The Company's proposed rate design will solve the inter-class subsidies. While it will not resolve the intra-class subsidies, it will move the Company towards that result. The Company performed an extensive rate design analysis that showed many small TS customers are receiving service in a rate class not designed for them. Their usage is not high enough to cover the fixed costs associated with TS service; costs that are easily paid for by larger TS customers. The movement of these small customers into the TS class has created very large inter-class and intra-class subsidies that need to be addressed.*

This statement misrepresents the true cause of DEU's TS class revenue deficiency which is the Company's underpricing of service to large volume customers. As I have previously explained herein, multiple cost of service analyses performed by DEU for this proceeding demonstrate that the Company's TS revenue deficiency is primarily, if not exclusively, associated with larger TS customers, while smaller TS customers (i.e., TS customers using less than 35,000 Dth per year) are paying more than their full costs of service.[26]

[26] See ANGC Exhibits 2.01R, 2.02R and 2.03R, as well as cost of service summaries that show separate cost allocation results to TSS and TSL customers in the "COS Sum" worksheets found in DEU's responses to:

(1) UAE Data Request 2.01, Attachment 5,
(2) DPU Data Request 11.01, Attachment 5; and
(3) USM Data Request 2.01, Attachment 5.

Q. HOW DOES WITNESS SWENSON PROPOSE TO ADDRESS TS RATE ISSUES IN THIS CASE?

A. Witness Swenson suggests an approach that has three key elements:

i. An emphasis on the need for gradualism in the Company's adjustment of rates for TS customers;

ii. More timely efforts to address intra-class rate subsidies; and

iii. A break up of the TS class into a small customer TS class and a large customer TS class.

In concept, I support each of these elements of his proposed approach to TS rate design. However, I find no need to defer the creation of separate classes for large and small TS customers. There is more than adequate evidence in the record of this proceeding to justify creation of separate rate classes for TS Large and TS Small customers. Moreover, there is no reason to believe that further delay in addressing this long-standing question will produce a better result for any party.

F. Response to FEA Witness Collins

Q. WHAT IS FEA WITNESS COLLINS' POSITION REGARDING THE DESIGN OF RATES FOR THE TS CLASS?

A. Witness Collins states: "*According to the testimony of Mr. Summers, DEU does not propose any changes in the rate design for the TS class."*[27] He also indicates that his "*revenue allocation proposal results in no changes to the current rates of the TS class at the Company's fully requested revenue requirement*." Thus, Witness Collins recommends no change in the TS class rate design, unless DEU's overall revenue requirement is reduced. If DEU's overall revenue requirement is reduced, Witness Collins would propose that all elements of the TS rate design should be reduced by the same percentage.

Q. IS WITNESS COLLINS' PROPOSAL FOR THE ADJUSTMENT OF TS RATES REASONABLE?

A. No. I find it inappropriate for a number of reasons.

First, as I have previously discussed as part of my response to DPU Witness Lubow, the referenced portion of the testimony of DEU Witness Summers is at best misleading.[28] Although DEU does not propose to change the volumetric block structure for TS customers, the Company seeks very large percentage changes in the relative magnitudes of its Demand, Throughput, and Administrative charges. It also seeks to introduce a new Minimum Annual Usage Requirement which could have very significant rate impacts for large numbers of existing TS customers who use less than the proposed Minimum Annual Usage Requirement.

[27] The Phase II Direct Testimony of FEA Witness Collins, page 24, lines 18-19.
[28] See Section B of this Rebuttal to Other Parties and Footnote 3 included in my response to Witness Lubow.

Second, while Witness Collins' cost allocations are quite favorable for the TS class, I do not support the notion that Interruptible customers should be exempted from all responsibility for the costs of mains because they are not on the system during peak times. A portion of the Company's mains plays an essential role in the delivery of gas to interruptible customers throughout the year, and that must be recognized in the Company's allocation of mains. If all customers used gas at perfectly uniform rates throughout the year, the sizing of mains would need to directly reflect Interruptible customer requirements. However, few customers, if any, take gas volumes from the system on a perfectly uniform basis throughout all the days of a year, even if days of service interruption are exempted from consideration. To the extent that individual customers' load factors deviate from a perfect 100% load factor the sizing must be increased. Moreover, the Company's distribution mains must be sized **at the time they are constructed** to meet a customer's full **potential** demand requirements in each of the **localized** main segments through which the customer is served. A Peak and Average (or Design Day/Thoughput) allocation weighted by the system load factor provides an appropriately balanced weighting of design day and throughput considerations. Interruptible customers should share in the throughput component of a Design Day/Throughput allocation (e.g., DEU's Allocation Factor 230), but they should have no responsibility for design day peak demand requirements.

Third, without reliance of cost allocations that determine customers' cost responsibilities for large diameter mains and feeder mains **solely** on a design day basis, Witness Collins' proposed distribution of the Company's requested revenue increase among rate classes cannot be justified, and adjustment of all charges for the TS class by a uniform percentage cannot be supported.

Fourth, Witness Collins' proposal to apply a uniform percentage increase to all elements of the TS class rate design ignores the substantial reduction in the Administrative Charge that DEU proposes. My Direct Testimony does not accept the accuracy and appropriateness of the Administrative Cost analysis presented in DEU Exhibit 4.12, and my criticisms of that analysis would further reduce the costs that DEU would recover through its TS Administrative Charge. Thus, Witness Collins' overly simplistic approach to the adjustment of TS charges would eliminate the substantial Administrative Charge reduction DEU has proposed when a further downward adjustment to the Company's proposed Administrative Charge is justifiable on the basis of the Company's costs.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes. It does.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Direct Testimony of Bruce R. Oliver for the American Natural Gas Council in Phase 2 of Docket No. 19-057-02 was served by email this 13th day of December 2019 on the following:

QUESTAR GAS COMPANY	
Jenniffer Nelson Clark	jenniffer.clark@dominionenergy.com
Cameron Sabin	cameron.sabin@stoel.com
Kelly Mendenhall	kelly.mendenhall@dominionenergy.com
Austin Summers	austin.summers@dominionenergy.com
Ginger Johnson	ginger.johnson@dominionenergy.com
DIVISION OF PUBLIC UTILITIES	
Chris Parker	chrisparker@utah.gov
William Powell	wpowell@utah.gov
Patricia Schmid	pschmid@agutah.gov
Justin Jetter	jjetter@agutah.gov
OFFICE OF CONSUMER SERVICES	
Michele Beck	mbeck@utah.gov
Steven Snarr	stevensnarr@agutah.gov
Robert Moore	rmoore@agutah.gov
NUCOR STEEL-UTAH	
Damon E. Xenopoulos	dex@smxblaw.com
Jeremy R. Cook	jcook@cohnekinghorn.com
UAE/US MAG	
Gary A. Dodge	gdodge@hjdlaw.com
Phillip J. Russell	prussell@hjdlaw.com
Roger Swenson	Roger.Swenson@prodigy.net
FEA	
Maj. Scott L. Kirk	scott.kirk.2@us.af.mil
Capt. Robert J. Friedman	robert.friedman.5@us.af.mil
Thomas A. Jernigan	thomas.jernigan.3@us.af.mil
TSgt Arnold Braxton	arnold.braxton@us.af.mil
Ebony M. Payton	ebony.payton.ctr@us.af.mil
	ULFSC.Tyndall@us.af.mil

/s/Stephen F. Mecham