Witness OCS – 1D

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Dominion Energy Utah for Authority to Change its Depreciation Rates	))))))	**Docket No. 19-057-03** **Direct Testimony of Donna Ramas For the Office of Consumer Services**

DIRECT TESTIMONY

OF

Donna Ramas

FOR THE OFFICE OF CONSUMER SERVICES

May 21, 2019

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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 PREPARED A SUMMARY OF YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. I have attached Appendix I, which is a summary of my regulatory experience and qualifications.

Q. ON WHOSE BEHALF ARE YOU APPEARING?

A. I was asked by the Utah Office of Consumer Services (OCS) to review the Application filed by Dominion Energy Utah (DEU or Company) seeking authority to change its depreciation rates, with a focus on the impact of the requested changes on the revenue requirements of DEU. Accordingly, I am appearing on behalf of the OCS.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony focuses on the depreciation rate requested by DEU for Account 381.21 – Meters – Transponders. DEU is seeking to increase the depreciation rate applied to this account from 6.67% to 8.23%. The increase in the depreciation rate to be applied to transponders is based largely on a proposal to reduce the estimated service life used in the depreciation calculation from 15 years to 13 years. I recommend that the

depreciation rate to be applied to this account be no greater than 6.48% based on an estimated service life of the underlying assets of no less than 17 years.

Q. COULD YOU PLEASE BRIEFLY SUMMARIZE THE REASON WHY YOU ARE RECOMMENDING A DEPRECIATION RATE OF NO MORE THAN 6.48% FOR ACCOUNT 381.21 – METERS – TRANSPONDERS?

A. Yes. The Company requests that the proposed new depreciation rates at issue in this case be reflected in its accounting system beginning on the tariff rate effective date resulting from its next general rate case proceeding, which DEU currently anticipates will be on or near March 1, 2020. It is my opinion that an estimated average service life of at least 17 years, or possibly even longer, will be more reflective of the life of the transponders that will be used and useful in providing service to DEU's customers at the time the new depreciation rates proposed in this case take effect. My testimony provides background information on the transponders and addresses why an estimated service life of 17 years or longer for transponders is reasonable and appropriate.

Q. ARE YOU ADDRESSING THE DEPRECIATION STUDY IN ITS ENTIRETY AND WHETHER THE DEPRECIATION RATES REQUESTED BY DEU, BASED ON THE DEPRECIATION STUDY, ARE REASONABLE?

A. No. My recommendations are focused on the appropriate depreciation rate to apply to Account 381.21 – Meters – Transponders. I am not taking

a position on the appropriateness of the remaining depreciation rates proposed by DEU in its application.

Q. HAVE YOU PROVIDED ANY EXHIBITS WITH YOUR TESTIMONY?

A. Yes. For ease of reference, Exhibit OCS 1.1D consists of DEU data responses referenced in this testimony. This includes the responses to OCS Data Requests 2.01, 2.02, 2.04, 2.05 and 2.06. Also included in Exhibit OCS 1.1D is the response to DPU 1.10 and select pages from DPU 1.10 Attachment 3[1].

IMPACT OF COMPANY PROPOSED CHANGE

Q. DOES THE COMPANY'S PROPOSED CHANGE IN THE ESTIMATED SERVICE LIFE OF TRANSPONDERS HAVE A SUBSTANTIAL IMPACT ON DEPRECIATION EXPENSE?

A. Yes. The direct testimony of DEU witness Jordan K. Stephenson indicates that the overall impact of the Company's proposed depreciation rates increases the annual depreciation accrual, or depreciation expense, by $9,079,901.[2] Mr. Stephenson's testimony identifies the decrease in the service life used for transponders from 15 years to 13 years as one of the major changes causing an overall increase in depreciation expense.[3] The depreciation study prepared by Gannett Fleming (hereinafter referred to as "depreciation study"), filed as DEU Exhibit 1.2, similarly describes

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[1] Since DPU 1.10 Attachment 3 consists of multiple pages, only the first page and the page addressing transponders is being provided in the exhibit.
[2] DEU Exhibit 1.0, lines 42 – 45.
[3] DEU Exhibit 1.0, lines 57 – 61.

the decrease in the service life for Account 381.21 – Meters – Transponders as a significant change.[4]

The depreciation study was calculated based on December 31, 2017 gas plant balances. DEU Exhibit 1.3, at page 1, shows the balance in Account 381.21 – Meters – Transponders as $81,807,796 at December 31, 2017. At the currently authorized depreciation rate for Account 381.21 of 6.67% the resulting depreciation expense would be $5,456,580[5] ($81,807,796 x 6.67%). At DEU's proposed depreciation rate for the account of 8.23%, the annual depreciation expense would be $6,732,782 ($81,807,796 x 8.23%). Thus, the Company's proposal to reduce the estimated service life of transponders from 15 years to 13 years and increase the resulting depreciation rate from 6.67% to 8.23% would increase the annual depreciation expense, based on December 31, 2017 transponder plant balances, by $1,276,202 ($6,732,782 - $5,456,580).

TRANSPONDER REPLACEMENT PROGRAM AND TRANSPONDER LIVES

Q. WHAT IS DRIVING THE PROPOSED CHANGE IN THE ESTIMATED SERVICE LIFE FOR TRANSPONDERS?

A. The Company experienced multiple problems with transponders manufactured by Elster, causing the Company to decide to undergo a replacement program, replacing the Elster transponders with transponders

[4] DEU Exhibit 1.2, p. iv.
[5] This excludes the impact of the existing reserve variance amortization being applied to the account.

manufactured by Itron. The Elster transponders are being replaced earlier than the estimated service lives anticipated in the prior depreciation study. The depreciation study submitted by the Company in this case was conducted based on 2017 accounting data. As of December 31, 2017, the Company was in the midst of the transponder replacement program resulting in the service life of the transponders proposed by the Company being based on both the remaining Elster transponders not yet replaced during the study period and the new replacement transponders. The shortened life of the remaining Elster transponders has a significant impact on the depreciation rate proposed by the Company in this case.

Q. CAN YOU PLEASE ELABORATE ON THE TRANSPONDER REPLACEMENT PROGRAM AND THE SERVICE LIVES OF THE TRANSPONDERS?

A. Yes. The transponders are discussed at several places in the depreciation study. From 2015 to present, DEU has been replacing transponders manufactured by Elster with transponders manufactured by Itron. This is described in the depreciation study as a “major transponder replacement program” with over one million transponders manufactured by Elster being replaced. The depreciation study, at page iv, describes the reason for the major replacement program as follows:

> … The Elster transponders have been problematic in recent years with an unusually high percentage of meter misreads or no reads. After a couple of failed attempts to read the meter automatically via the transponder, the Company typically will perform a manual read of the problematic meter or will estimate the consumption based on historic consumption patterns if the existing transponder has failed

> to perform properly. The reduction in service life from 15 years to 13 years is based primarily on company plans to replace a significant portion of their transponders that comprise their network. Approximately 600,000 of the 1,000,000 transponders will be replaced during the years 2018 and 2019. 400,000 transponders were replaced during years 2015-2017.

Similarly, the depreciation study, at pages III-5 and III-6 states that there has been an increasing level of transponder failures causing nearly 10% of customer consumption data to need to be obtained through manual meter reads or estimates. Page III-6 of the depreciation study indicates as follows regarding the expected service life of the problematic Elster transponders that are being replaced, and the replacement transponders manufactured by Itron:

> … The Elster transponders are expected to have a 10 to 11-year service life while the Itron transponders are expected to have an average service life of approximately 15 to 20 years. The survivor curve estimate for Account 381.21 is 13-S3. The previous estimate was the Iowa 15-S4. The service life estimated for Account 381.21, Meters – Transponders is largely based on the service life expectation of the battery powering the transponder. A 17 to 20-year battery life is expected for the newer transponders based on statements issued by the manufacturer, i.e., Itron. The actual overall average service life is expected to be slightly less than the 17-20 years due to retirement caused by equipment failure, storm damage, third-party damage, etc."

Given the anticipated 17 to 20 year battery life for the new transponders identified in the depreciation study, the 600,000 Elster transponders not yet replaced during the time of the study clearly had a significant impact on the selection of a 13 year overall average service life for Account 381.21 – Meters – Transponders.

Q. OVER WHAT TIMEFRAME ARE THE PROBLEMATIC ELSTER TRANSPONDERS BEING REPLACED?

A. The transponder replacement program began in November 2015.[6] The table below shows the number of Elster transponders replaced from 2015 through February 2019[7]:

Period	Elster Units Replaced
2015	19,908
2016	100,523
2017	239,601
2018	261,643
Jan-19	16,547
Feb-19	16,808
Total	655,030

Based on the above table, 360,032 Elster transponders were replaced by December 31, 2017, with another 294,998 replaced from January 1, 2018 through February 2019. There were 318,952 Elster transponders remaining in service as of March 2019.[8]

The depreciation study indicates that the transponder replacement program is scheduled to be complete in either 2019[9] or early 2020,[10] depending upon the section of the depreciation study referenced. However, the response to OCS Data Request 2.02 indicates that the Company plans to replace 18,000 to 26,000 Elster transponders per

[6] DEU Exhibit 1.2, p. iii.
[7] Response to OCS Data Request 2.01
[8] Response to OCS Data Request 2.02
[9] DEU Exhibit 1.2, p. iv.
[10] DEU Exhibit 1.2, p.III-6.

month until completion of the replacement program, with an estimated completion date in the third quarter of 2020.

RECOMMENDATION

Q. WHEN IS IT CURRENTLY ANTICIPATED THAT THE DEPRECIATION RATES RESULTING FROM THIS CASE WILL BECOME EFFECTIVE?

A. DEU requests that the proposed new depreciation rates at issue in this case be reflected in its accounting system beginning on the rate effective date of new base rates resulting from its next general rate case proceeding. The Company has indicated that it anticipates filing its next general rate case application on or about July 1, 2019 with an anticipated rate effective date on or near March 1, 2020. Thus, depending upon the timing of the filing of DEU's next rate case, the effective date of the new depreciation rates would be March 1, 2020 or after.

Q. HOW LONG WILL THE NEW DEPRECIATION RATES RESULTING FROM THIS CASE BE IN EFFECT?

A. In a Settlement Stipulation filed in Docket No. 07-057-13 the parties agreed that the Company will perform a new depreciation study every five years. Given the agreed to five year timeframe between depreciation studies, it is likely that the new depreciation rates resulting from this case will be in effect for a number of years.

Q. DO YOU AGREE THAT THE ESTIMATED AVERAGE SERVICE LIFE USED IN DETERMINING THE DEPRECIATION RATES FOR ACCOUNT

381.21 – METERS – TRANSPONDERS SHOULD FACTOR IN THE IMPACTS OF THE PROBLEMATIC ELSTER TRANSPONDERS?

A. No, I do not. During the time period used in the depreciation study, the Company was in the midst of the transponder replacement program with over 600,000 of the problematic transponders remaining to be replaced. The over 600,000 transponders awaiting replacement had a significant impact on the estimated average service life of the assets in Account 381.21 – Meters – Transponders. Clearly, the anticipated average service life of transponders in service during the 2017 accounting period used in the depreciation study, consisting of over 600,000 of the problematic Elster transponders and some of the new Itron transponders, is not reflective of the anticipated average service life of the replacement transponders.

By the time the new depreciation rates from this case take effect, there will be very few, if any, of the Elster transponders remaining in service. DEU currently estimates that between 10,000 and 100,000 Elster transponders will remain in service as of March 2020.[11] Any remaining Elster transponders, if any, should be fully replaced fairly soon after the new depreciation rate effective date. With new depreciation studies being conducted on five-year intervals, it is clearly not reasonable or appropriate to include the impacts of the problematic Elster transponders in determining the appropriate depreciation rate to apply to the transponders

[11] DEU Response to OCS Data Request 2.06.

that will be used and useful in providing service to customers during the period the depreciation rates are in effect.

Q. WHAT IS THE ANTICIPATED SERVICE LIFE OF THE REPLACEMENT TRANSPONDERS?

A. The depreciation study, at page III-6, indicates a 17 to 20 year battery life is expected for the new transponders and that service life expectations are based largely on the battery powering the transponder. On the same page, the depreciation study states that the "…Itron transponders are expected to have an average service life of approximately 15 to 20 years" and that "The actual overall service life is likely to be slightly less than 17-20 years due to retirement caused by equipment failure, storm damage, third-party damage, etc." The notes taken during the meeting between Gannett Fleming staff and Company management, which were provided in response to DPU Data Request 1.10, Attachment 3, state, "new ITRON transponders are expected to last 20 yrs."

Q. WHAT ESTIMATED AVERAGE SERVICE LIFE DO YOU RECOMMEND FOR USE IN CALCULATING THE APPROPRIATE DEPRECIATION RATE FOR ACCOUNT 381.21 – METERS – TRANSPONDERS?

A. I recommend an average service life of no less than 17 years be used. A 17 year life would be more reflective of the anticipated average service life of the transponders that will be used and useful in providing service to customers when the depreciation rates become effective than the 13 year service life used in the depreciation study.

Q. WHAT DEPRECIATION RATE DO YOU RECOMMEND FOR ACCOUNT 381.21?

A. To ensure consistent and proper calculation of the depreciation rate, I asked the OCS to issue OCS Data Request 2.05, to DEU, asking that the Company "…provide what the depreciation rate would be for Account 381.21 Meters – Transponders if recalculated based on the original cost at December 31, 2019 utilizing: a) actual amounts for 2018; b) the Company's current best estimate of the amounts for 2019; and c) an assumed transponder life of 17 years." The question also stated: "In other words, please provide an updated version of page IX-16 to be based on actual and projected balances as of December 31, 2019 and based on a 17 year estimated life instead of the 13 year life included in the current calculation." This would result in most of the Elster transponders being excluded from the calculation and in an estimated average service life of 17 years for the transponders. The Company responded as follows:

> The calculated remaining life depreciation rate using a 17-S3 survivor curve, 0% net salvage, and the projected 12/31/2019 plant and reserve balances, is 6.48%. Support of the projected plant and reserve balances is included in OCS Data Request No. 2.04 Attachment 1. The detailed depreciation calculation is provided in OCS Data Request No. 2.05 Attachment 1.

The response was prepared by John F. Siedmayer, CDP of Gannett Fleming. Based on this response, I am recommending a depreciation rate for Account 381.21 – Meters – Transponders of 6.48% based on an estimated average service life of 17 years.

Q. WHAT IS THE IMPACT OF THE 6.48% RECOMMENDED DEPRECIATION RATES?

A. As previously indicated in this testimony, the Company's proposed depreciation rate for Account 381.21 of 8.23% applied to the December 31, 2017 balance in the account of $81,807,796 results in depreciation expense of $6,732,782. Application of my recommended depreciation rate of 6.48% to the December 31, 2017 account balance would result in annual depreciation expense of $5,301,145 ($81,807,796 x 6.48%). Thus, based on the December 31, 2017 balance in Account 381.21, the resulting depreciation expense would be $1,431,637 lower as a result of replacing the Company's proposed 8.23% depreciation rate with a rate of 6.48%. The actual impact on the depreciation expense included in rates charged to customers will be dependent on the Commission authorized plant in service balance for Account 381.21 in the upcoming rate case.

Q. DOES THIS COMPLETE YOUR PREFILED DIRECT TESTIMONY?

A. Yes.