Redacted

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF DOMINION ENERGY UTAH TO EXTEND SERVICE TO EUREKA, UTAH AND IN THE MATTER OF THE APPLICATION OF DOMINION ENERGY UTAH FOR APPROVAL TO IMPLEMENT A GSE RATE TO PROVIDE SERVICE LINES TO CUSTOMERS IN EUREKA, UTAH	)	**DOCKET NO. 19-057-31 AND 32** **Exhibit No. DPU 1.0 DIR** **Direct Testimony of Eric Orton**

FOR THE DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH

Direct Testimony of

Eric Orton

March 18, 2020

Redacted

CONTENTS

INTRODUCTION

Q. PLEASE STATE YOUR NAME.

A: Eric Orton

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

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

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

A: I will address the Division's position in both docketed applications filed by Dominion Energy Utah (DEU or the Company) on December 2, 2019. First for Docket No.19-057-31 which addresses the proposed expansion of a high-pressure feeder line and main lines to and in Eureka. Then, Docket No.19-057-32 addresses the proposed GSE rate designed to cover a loan which would be set up to help offset the DNG costs for these potential Eureka customers.

This testimony purposefully addresses a limited number of issues and silence on any issue should not be interpreted as support, neutrality, or opposition to that issue.

1) THE APPROPRIATNESS OF THE EUREKA EXPANSION APPLICATION

Q: WHAT AREAS WILL YOU BE ADDRESSING IN YOUR TESTIMONY CONCERNING DOCKET NO. 19-057-31?

A: I will address the Division's position in Docket No.19-057-31 regarding the proposed expansion of service to Eureka through an interconnection with Dominion Energy Questar Pipeline (DEQP) and construction of a high-pressure feeder line and main lines in and to Eureka. Specifically, I will address the following areas:

1. The adequacy of the application (19-057-31) under the relevant statutes listed in the Company's application.

2. The Certificate of Public Convenience and Necessity (CPCN) request. The Company states that it "is in the process"[1] of obtaining the necessary rights and permits it will need to serve Eureka. It also needs the Commission's approval to serve there.
3. Shortcomings in the Eureka expansion project, as proposed:
4. The proposed use of a tracker cost recovery mechanism

Q: PLEASE SUMMARIZE THE DIVISION'S POSITIONS ON THESE FOUR MAIN AREAS.

A: Certainly.

1. The Adequacy of the Application. The application is sufficient to generally meet the specified Utah Code provisions.
2. The granting of a CPCN for the Eureka area. Eureka is not contiguous to the Company's system and therefore the Company would require Commission permission to serve.
3. The shortcomings of the Eureka project:
   a. The Company's team that made the recommendation to serve Eureka first left insufficient evidence of its work.
   b. The Company provided the information to the potential Eureka customers of the expected benefits of its service, but did not provided a clear delineation of the expected costs.
   c. The Company's optimism in estimating the number of connections may exaggerate the revenue estimations.
   d. The Company provided insufficient information regarding the possible safety hazards resulting from providing service to Eureka.
   e. The plant project estimation does not provide enough substantial evidence to justify the interstate pipeline interconnection choice of DEQP, which the Company made.

[1] Application paragraph 10.

4. The Company's declaration that it will not proceed with this project, unless it gets recovery of its investment in a Rural Expansion Rate Adjustment Tracker.

Q: PLEASE SUMMARIZE THE DIVISION'S POSITION.

A: Approving this application may be in the public interest if the deficiencies identified in my testimony are rectified and boundaries set for costs before the project proceeds.

Q: PLEASE SUMMARIZE THE COMPANY'S REQUEST IN DOCKET 19-057-31.

A: DEU asked the Commission: "pursuant to Utah Code Ann. § 54-17-401 et seq. and §54-4-25, and Utah Admin. Code R746- 440-1 et seq.," for approval of its request to grant "the Company a Certificate of Public Convenience and Necessity to serve Eureka and surrounding areas;" and "the resource decision to construct mains as described." Also, it requested permission for "the Company to recover the costs associated with the Rural Expansion Facilities utilizing a Rural Expansion Tracker as described more fully herein; and approve the tariff changes set forth herein."[2] In other words, it wants Commission approval to construct facilities to serve the Eureka area and get cost recovery for that investment in the format outlined in the proposed tariff sheets.

2) THE ADEQUACY OF THE APPLICATION

Q: DID THE COMPANY'S APPLICATION IN DOCKET NO. 19-057-31 SEEK A QUALIFYING RURAL GAS INFRASTUCTURE DEVELOPMENT PROJECT WITH RESPECT TO THE RELEVANT STATUTES?

A: Yes. The Division's opinion is that the extension of service to Eureka fits within the statutory definition of a rural gas infrastructure development. A determination of whether the project meets the public interest standard remains necessary for approval and the Company has not yet met its burden of proof.

[2] Application opening paragraph.

3) THE NECESSITY OF OBTAINING A CPCN

Q: IS IT THE DIVISION'S POSITION THAT THE COMPANY NEEDS A CPCN TO SERVE THIS AREA?

A: Yes. Eureka is not contiguous to the Company's service territory. DPU Exhibit 1.01 shows that the closest Company facility is 17.2 miles from Eureka. The Company cannot serve Eureka without one.[3]

Q: DOES THE DIVISION SUPPORT THE COMPANY'S REQUEST FOR A CPCN?

A: The Division is not opposed to the Company being granted a CPCN for Eureka town. This area is not contiguous to the Company's system (see DPU Exhibit 1.02) so it would require Commission permission to serve there.[4]

4) THE SHORTCOMINGS IN THE PROCEEDURE

a) Lack of Evidence of the Recommending Team's Decision-Making Process.

Q: PLEASE DESCRIBE THE COMPANY'S PROCESS FOR SELECTING EUREKA.

A: Company witness Austin C. Summers' testimony identifies its process.[5] Among other things, it states that a team was assembled and "That team determined that for each community, the Company would need to compile information and obtain information from the candidate communities in order to conduct its analysis and to make a recommendation about which projects would be best."[6]

Q: DID THE RESULTS OF THIS TEAM'S WORK SPECIFY EUREKA WAS THE BEST OPTION FOR THE FIRST EXPANSION PROJECT?

A: The Division has not seen data to validate the position that the team made that decision. The Division asked the Company for all "notes, resolutions, decisions,

[3] Slide 2 of the Company's slide deck presented at the Technical Conference January 21, 2020.
[4] See attached DPU DR 1.06 and 2.17.
[5] Summers Direct Testimony beginning at line 119.
[6] Summers Direct Testimony beginning at line 135.

copies of correspondences and reply correspondences etc., from the team meetings spoken of." Attached as DPU Exhibit 1.03 is a copy of DPU DR response 1.07 where the Company stated that the team produced no available work product – that everything was verbal.

According to the Company, this team was assembled "to discuss the best approach for selecting communities to receive natural gas service under the new statute. That team determined that for each community, the Company would need to compile information and obtain information from the candidate communities in order to conduct its analysis and to make a recommendation about which projects would be best."[7] The lack of any notes, minutes, conclusions, recommendations, or correspondence of any kind as a result of this 'analysis' suggests that there is an insufficient record to show that extending service to Eureka "would be the best."[8] If the Company compiled information, performed analysis and obtained information concerning the candidate communities, why is there no corresponding information responding to the Division's data request?

b) Lack of Clarity in Providing Real Cost/Benefit Estimates to Residents

Q: IS THERE EVIDENDCE THAT THE RESIDENTS OF EUREKA WERE GIVEN COMPLETE INFORMATION REGARDING THE BENEFITS AND COSTS OF POTENTIALLY OBTAINING SERVICE FROM THE COMPANY?

A: No. The potential costs were apparently not discussed in any detail with residents that would allow a reasonable person to make an informed decision about whether to sign up for the Company's natural gas service. Attached as DPU Exhibits 1.04 and 1.05 is a copy of responses to Office of Consumer Services (OCS) DR to 1.06 and 1.09

[7] Summers Direct Testimony beginning on line 135.
[8] Summers Direct Testimony beginning on line 139.

Q: WOULD THIS COST INFORMATION BE IMPORTANT TO THE RESIDENTS OF EUREKA, POTENTIALLY INFLUENCING THEIR DECISIONS TO SIGN UP FOR NATURAL GAS SERVICE?

A: Yes. A certain percentage of Eureka residents are low income customers. It is not unreasonable to assume that the potential cost for a resident to convert to natural gas may be a deal-breaker to many in Eureka. Attached as DPU Exhibit 1.06 is the response to DPU DR 2.13 showing estimated appliance costs. The estimated costs of adding these appliances may substantially offset any commodity savings of switching to natural gas or at least would extend the payback time. It may also give pause to those who have committed to sign up for the Company's service and cause them to reconsider since these undisclosed costs may run into several thousand dollars.

In addition to the costs of appliances, there may be costs associated with installing such as code required duct work (as many now heat with wood) as well as the cost of running new piping and removal and disposal of any current heat source. Also, as the HVAC/Plumbing contractor pool in Eureka is limited, additional costs may well include travel time for contractors outside Eureka. The combined cost of connecting to the natural gas distribution system and upgrading appliances and/or mechanical systems, may be cost prohibitive, particularly with the median income in Eureka just over $46,000 (almost $10,000 lower than the rest of Utah[9]). The Company should have shown both sides of the cost/benefit equation.[10] Attached are DPU Exhibits 1.07 and 1.08, which are the responses to DPU DR 1.01 and 1.02 which demonstrates this lack of pertinent information.

[9] Summers Direct Testimony at lines 353-354.
[10] January 21, 2020 Technical Conference slide 8.

c) Lack of Pragmatism in Estimating the Number of New Customers.

Q: IS THE COMPANY DEMONSTRATING A REASONED APPROACH IN PROJECTING HOW MANY POTENTIAL CUSTOMER CONNECTIONS ARE TO BE EXPECTED IN EUREKA?

A: The Company seems optimistic when it states that nearly all (92%) of the potential 360 customers will sign up.[11] The Division understands the Company's optimism and shares the hope, but the evidence provided by the Company supports a more conservative estimate. The reality may be closer to 92% of the 206 who expressed interest in the Company's service or mathematically, 190. However, upon investigating the Company's attachment to its response to DPU DR 2.01, once the duplicates were removed, the more accurate representation of interest appears to be 180 potential customers. Nonetheless for our comparisons the Division will use the higher number of 190.

Q: IF ALL THOSE WHO EXPRESSED INTEREST ACTUALLY SIGNED UP FOR THE COMPANY'S SERVICE WHAT EFFECT WOULD THAT HAVE ON THE COMPANY'S EXPECTED ANNUAL REVENUE?

A: The Company states that if all its expected Eureka customers sign up for its service it would expect an annual revenue of $106,942.[12] However, using the estimate of 190 just mentioned, the expected annual revenue may more likely be $56,441[13] or about 53% of the Company's estimated number.

Q: SINCE THE REST OF THE GS CLASS WOULD HAVE TO MAKE UP THE DIFFERENCE, WHAT EFFECT DOES THIS HAVE ON THE CURRENT CUSTOMERS OF THE COMPANY?

A: The dollar amount for each customer is likely to be insignificant, if unnoticeable. However, it is important the Commission have an accurate view of the proposal

[11] Summers Direct Testimony at lines 215 and 399.
[12] Summers Direct Testimony on line 400.
[13] Summers Direct Testimony line 398 ($297.06) multiplied by 190 rather than 360.

and its likely effects. While the rate impact of a single project on individual GS customers may be small, the system wide costs of each additional small incremental subsidy provided by GS customers puts upward pressure on rates.

d) Lack of Verification of Safety Concerns to the Residents Prior to Initiation of Service

Q: IS THE CONVERSION TO NATURAL GAS FROM OTHER HEAT SOURCES WITHOUT RISK?

A: No. The Division is concerned about the possible safety hazard that this sort of change may instigate for the residents of Eureka who have never had the benefits of a pressurized city-wide distribution system bringing a combustible product into their homes. The switch-over process is not simply unplugging one appliance and plugging in another as it is with electricity. For some it may involve installing ventilation as well as piping and disposing of their current heat source, which may still be a combustible product (propane lines, tanks and appliances). Potential customers in Eureka should be fully informed of the process and the safety implications and responsibility for safe conversions prior to agreeing to sign up to be a new customer. This includes paying particular attention to ensuring that the potential self-installers are doing it safely, and the risks of leaving current propane piping or propane tanks in place without purging and removing existing gas.

e) The Lack of Evidence Justifying the Proposed Interconnection Plant.

Q: HOW MUCH DOES THE COMPANY ESTIMATE IT WILL COST TO SERVE THE EUREKA CUSTOMERS?

A: According to Mr. Gill's confidential testimony,[14] more than $20 million.

Q: ARE THOSE COSTS SUBSTIANTIATED BY CLEAR EVIDENCE?

A: The Feeder Line pipe comes from a proposed connection with DEQP. The Division asked for details of the cost estimates to compare the bids from Kern

[14] Gill Direct Testimony line 77 plus line 110.

River Gas Transmission Company (KRGT) and Dominion Energy Questar Pipeline (DEQP). Attached as Confidential DPU Exhibit 1.09 is the Company's confidential response to DPU DR 1.13. As can be seen from the attached exhibit, it cannot be determined that the bid criteria given to KRGT was the same as the one given to DEQP. Therefore, the Division cannot yet support cost recovery associated with the Company's choice of what company to interconnect its pipeline with.

Q: IS THE BID FROM DEQP FIRM?

A: No. The Company stated, "if the Commission approves the Application in this docket, the Company will enter into an agreement with DEQP by which the Company will pay DEQP to conduct more detailed Engineering work in order to provide a more detailed estimate, as is the practice with interstate pipelines." Attached as DPU Exhibit 1.09 is the Company's response to DPU DR 1.13 (refer to exhibit 2 of that response).

Q: WHAT ELSE DOES THE DIVISION FIND TROUBLING WHEN IT COMES TO THE INTERCONNECT BIDDING PROCEDURE?

A: The Division compared confidential exhibits 2.06, 2.07 and 2.08, and noted that there were five cost items that we expected to be the same or similar dollar amount across all three exhibits, which were not. Attached is DPU Exhibit 1.10 is the Company's response to DPU DR 1.14 where we asked for a reconciliation of the numbers between the three exhibits. We were referred to slide 18 of the Company's January 21, 2020 slide deck, which is attached as DPU Exhibit 1.11.

Q: DID THAT SLIDE PROVIDE THE REQUESTED INFORMATION?

A: No. That slide didn't provide the reconciliation desired so the Division asked a follow-up data request seeking back-up documentation specifically addressing these five cost items, namely; Questar Labor, Labor Overhead and Expenses, Line Pipe, Gate Station, and Contingency. Attached as DPU Exhibit 1.12 is the

Company's response to DPU DR 2.10 which basically states that the Company has the expertise and experience to derive the estimates, but no back-up documentation for the numbers were provided.

Q: DO THE INTERCONNECTION BID DOCUMENTS PROVIDE SUFFICIENT EVIDENCE THAT THE DECISION TO USE DEQP WAS BEST FOR CURRENT OR FUTURE POTENTIAL RATEPAYERS?

A: In comparing the amount of the bid from KRGT in its filed Exhibit 1.10 to the amount the Company included in its Confidential Exhibit 2.07 (representing KRGT's bid) we can see that the amount the Company included as the bid from KRGT for the Gate Station is substantially higher than the actual amount of KRGT's bid. That resulted in an increased cost estimation by, [redacted]. We do not know the justification for these two changes and as such, there is not sufficient evidence for the Division to support the decision the Company made to interconnect with DEQP.

Q: WHAT CONCERNS DO YOU HAVE WITH THE REFERENCE TO THE COMPANY'S RELATIONSHIP WITH KRGT?

A: The response from DEQP opines on the relationship with KRGT and the Company. See attached DPU Exhibit 1.13 and 1.14, which are the Company's responses to DPU DR 2.06 and 2.07. It is not clear why the relationship with the supplier is a part of the result. If the relationship meaningfully affects the result, there should be some clear indication of why that might outweigh other considerations in a solicitation.

5) THE USE OF A TRACKER COST RECOVERY MECHANISM

Q: HOW DOES THE COMPANY PROPOSE TO RECOVER ITS HIGH PRESSURE AND MAINS INVESTMENT?

A: It proposes to recover these costs using a tracker mechanism similar to the Infrastructure Rate Adjustment Tracker already in place. This cost recovery method is used today to rapidly and systematically repay the Company for prudent investment used to replace aging large diameter high-pressure and intermediate high-pressure feeder lines. The Company wants to recover the costs for rural expansion in the same manner stating: "Absent a tracker, the Company would have to wait three years before it received recovery for this investment or decide to delay the project until a rate case year to reduce regulatory lag."[15]

Q: WHAT ARE THE COMPANY'S REASONS FOR REQUESTING COST RECOVERY USING A TRACKER MECHANISM?

A: The Company states that it "recognizes that the costs of the Rural Expansion Facilities are significant and is concerned about regulatory lag that may occur if cost recovery is delayed." The Company also reports that "Mayor Castleton has also indicated that extension of natural gas service to Eureka will result in immediate safety, reliability, and cost savings to residents, as well as economic development and growth opportunities."[16]

Q: DID THE COMPANY PROVIDE PROPOSED TARIFF LANGUAGE FOR THE TRACKER?

---

[15] Summers Direct Testimony on line 265, and Gill Direct Testimony on lines 139-144.
[16] Application paragraph 15.

A: Yes. It has "proposed language to be included in its Utah Natural Gas Tariff No. 500 (Tariff) to enable the Company to utilize the proposed Tracker for this purpose."[17]

Q: WHAT IF THE COMPANY'S REQUEST FOR COST RECOVERY USING A TRACKER IS DENIED?

A: The Company answered that question with this if/then statement, "Should the Commission decline to include all of the Rural Expansion Facilities in a Rural Expansion Rate Adjustment Tracker, the Company would anticipate delaying construction of the Rural Expansion Facilities until completion of construction would coincide with the Company's next general rate case."[18]

Q: HOW MUCH REGULATORY LAG WOULD THE COMPANY EXPERIENCE IF IT STARTED THE PROJECT AS ANTICIPATED?

A: The Company's calculated lag timeframe is detailed in Mr. Summers testimony where he states, "It is anticipated that this project will be completed by the end of 2021. Absent a tracker, the Company would have to wait three years before it received recovery for this investment or decide to delay the project until a rate case year to reduce regulatory lag."[19] However, according to the Gantt chart attached to the Company's response to DPU DR 1.11 included here as DPU Exhibit 1.15 the IHP Regulator station won't be complete until eight months prior to the anticipated filing of the next general rate case (GRC), which is the earliest gas could start flowing. There is no provision preventing the earlier filing of a GRC.

Q: WHEN DOES THE COMPANY EXPECT TO FILE ITS NEXT GRC?

---

[17] DEU Exhibit 1.09.
[18] Application paragraph 17.
[19] Summers Direct Testimony beginning at line 264.

A: July, 2022. However, this is not mandatory. The Company may file a GRC today or any day in the future. It is not required to wait to file. It may request to recover the prudent costs incurred at its pleasure.

Q: IF THE COMPANY WAITED TO BEGIN CONSTRUCTION SO THAT THE "COMPLETION OF CONSTRUCTION WOULD COINCIDE WITH THE COMPANY'S NEXT GENERAL RATE CASE"[20] APPROXIMATLY WHEN WOULD IT NEED TO BEGIN CONSTRUCTION?

A: Again, according to the Gantt chart the Company will begin to identify the property it needs this June and construction is expected to start mid-January. So, the entire construction process is expected to take almost exactly eight months. Therefore, if the Company wants to include these costs into the next GRC, the facilities would need to be used and useful in the test year. Since the next rate case is expected to be filed July 1, 2022 that means that the most likely test year would be calendar year 2021. The Company's current schedule will make the facilities in place just a month and a half before the end of the test year. Use of a different test year might affect this.

Q: THE COMPANY ALSO STATED THAT IT NEEDED TO USE A TRACKER MECHANISM BECAUSE, IN ITS OPINION, THE EUREKA EXPANSION PROJECT DIDN'T REASONABLY FIT INTO THE MAJOR PLANT ADDITION (MPA) STATUTE. DOES THE DIVISION AGREE?

A: No. The Division sees no viable reason that this project would not reasonably fall under the MPA statute Utah Code Section 54-7-13.4(1)(c). It does fit. It is large enough to exceed 1% of the Rate Base as specified in the Company's last GRC. In that filing the Company asked for a rate base of $1,793,538,742[21]. One percent

[20] Application Paragraph 17.
[21] 19-057-02 Exhibit 3.02 line 51.

of that rate base is $17,935,387. The total estimated cost for this Eureka project is more than that.

Q: WHAT REASONING DOES THE COMPANY GIVE FOR NOT USING THE MPA STATUTE FOR THIS PROJECT?

A: It states that this project doesn't fit because it may have more expansion projects in the future.[22]

Q: DOES THIS MEAN THAT IT CANNOT USE THE MPA STATUTE NOW IN THIS APPLICATION?

A: No. The Division can see no real obstacle if the Company wanted to use the MPA.

Q: DOES THE DIVISION BELIEVE THAT THE COMPANY SHOULD HAVE FILED THIS APPLICATION UNDER THE MPA STATUTE RATHER THAN THE PROPOSAL TO USE A TRACKER FOR COST RECOVERY?

A: Not necessarily. The Division does not support the Company's reasoning for not using the MPA. However, a tracker mechanism adequately works for the Company to recover its costs of used and useful prudent investment. It would be the same in this instance.

Q: PLEASE SUMMARIZE THE DIVISION'S POSITION WITH RESPECT TO THE COMPANY'S PROPOSAL FOR EUREKA COST RECOVERY USING A TRACKER.

A: If the proposed project is approved, the Division is not opposed to the use of a tracker mechanism for the Company to recover its costs of used and useful prudent investment. As in the Infrastructure Tracker, once gas is flowing the

[22] Summers Direct Testimony lines 253 through 258.

Company can petition for recovery of the prudent costs associated with its investment.

Q: PLEASE SUMMARIZE THE DIVISIONS POSITION WITH RESPECT TO THE 19-057-31 DOCKET.

A: The Division believes that the application adequately qualifies under the stated statutes as listed in the Company's application. Also, that a CPCN could be granted contingent upon the listed shortcomings being satisfactorily addressed.

6) THE APPROPRIATENESS OF THE SERVICE LINE COST RECOVERY GSE RATE

Q: PLEASE SUMMARIZE THE COMPANY'S REQUEST IN DOCKET 19-057-32.

A: It seeks permission from the Commission to charge the Eureka customers two times the DNG rate compared to the DNG rate charged to other GS customers for a period of either 20 years or until $1 million is returned to the Company, whichever occurs first.

Q: WAS THE RURAL EXPANSION RATE LEFT OFF THE TARIFF SHEETS?

A: Yes. In the Company's response to the OCS DR 1.12 attached as DPU Exhibit 1.16 it acknowledges that the expansion rate was inadvertently left off the tariff sheets. That is an oversight the Company acknowledges and Division expects the Company to correct.

Q: WHAT INTEREST RATE DOES THE COMPANY PROPOSE TO CHARGE THE EUREKA CUSTOMERS?

A: The Company is proposing to charge the current pretax rate of return of 9.33% on the outstanding balance.[23]

Q: WHAT INTEREST RATE DO OTHER CUSTOMERS OF THE COMPANY PAY?

---

[23] Summers Direct Testimony at line 197.

A: In Docket No. 17-057-T01, the Commission approved the rate and method for calculating the appropriate carrying charge for Dominion Energy Utah accounts 182.3, 182.4, 191.1, 191.8, 191.9 and 235.1. The Company is allowed to charge 3.88 %[24] effective April 1, 2020. The approved rate is reviewed annually and is set in order to simplify the calculation and have a uniform carrying charge for all balances. The requested rate for this Docket is significantly higher than the rate allowed on balances for other Dominion programs.[25]

Q: DID THE DIVISION PERFORM AN ANALYSIS COMPARING THE DIFFERENT INTEREST RATES?

A: Yes. The comparisons are attached at DPU Exhibit 1.17.

Q: WHAT DOES THIS ANALYSIS SHOW?

A: That at the proposed interest rate the Eureka customers would end up paying the Company $971,862 in interest and that the balance would be paid off in twenty years. If, however, the carrying charge rate (3.88%) is used as the interest rate, then the Eureka customers would end up paying the Company $195,402 and would have the loan paid off in just over 10 years.

Q: COULD THE COMPANY INVEST MONEY IN PLANT AND RECEIVE THE HIGHER INTEREST RATE?

A: Yes. It has the choice to use its capital resources as is sees best. However, this $1 million is not investment in plant, rather it is essentially a loan[26] to the customers in Eureka and as such is more closely related to a carrying charge as in docket 20-057-T01. Charging the Company's "current pre-tax rate of return"[27] is overcharging these customers in Eureka who may already find it difficult to pay for the Company's proposed

---

[24] See Docket 20-057-T01.
[25] See Docket 20-057-T01.
[26] Summers Direct Testimony at line 221.
[27] Summers Direct Testimony at line 198.

services. Adding this cost may be defeating the stated purpose.[28] Additionally, this higher interest fee only exacerbates the financial burden many Eureka customers may have.

Q: WHAT CUSTOMER COUNT DOES THE COMPANY USE?

A: Three hundred sixty. Every potential customer is included as a customer.

Q: DID THE DIVISION PERFORM AN ANALYSIS COMPARING THE DIFFERENT CUSTOMER PROJECTIONS?

A: Yes. The comparisons are attached at DPU Exhibit 1.18.

Q: WHAT DOES THIS COMPARISON ANALYSIS SHOW?

A: That the Company expects every eligible customer in and around Eureka to sign up for its service. An optional estimation may be more in line with 190 as discussed previously. If that projection is more accurate, instead of the customers having a zero balance at the end of 20 years, they would have a $2,080,732 balance remaining of the original $1,000,000 and would end up paying $2,246,334 in interest.

Additionally, with a more realistic 53% of the customers signing up for service, the projected annual revenue decreases from $77,907 to $41,291. This demonstrates the decreased likelihood of Eureka customers contributing their share of capital costs.

Q: WHAT CUSTOMER ESTIMATION IS MOST LIKELY REPRESENTATIVE, GIVEN THE INFORMATION PROVIDED IN THE APPLICATION AND ACCOMPANING TESTIMONY?

A: The lower customer count is likely to be closer to reality than the higher estimate the Company offered. These exhibits represent three versions of DEU Exhibit

[28] Summers Direct Testimony lines 45-60.

1.06: the original, the one with 53% of the customers signing up for service, one with an interest rate of 3.88% and one with both 53% signing up and being charged 3.88%. These are, perhaps, more realistic from the evidence presented by the Company. Attached are the combined results of this analysis as DPU Exhibit 1.19. As this exhibit shows, the Eureka customers would pay $437,634 in interest and there would be a remaining balance of $271,762, for the rest of the Company's customers to pick-up, which may be more equitable to all parties.

SUMMARY

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

A: The Division supports the extension of natural gas service to rural communities in principle, if there is sufficient evidence to support the extension and costs are justified and reasonable. HB 422 does not negate the burden of proof of just and prudent rates based on substantial evidence. This is the first time this statute has been used and it should be done with full information and rational assumptions.

In this case, the Division recommends that the Company be granted a CPCN to serve Eureka and that the application be approved, if and only if, it fulfills the caveats that, before dirt is moved, sufficient evidence be provided that:

- A clear record be established as to the criteria used for comparison with other possible community expansion projects;
- The potential customers be given accurate cost estimation for natural gas appliances and their installation costs by a licensed professional;
- The Company provide an annual report to the Commission showing the actual number of new customer service lines installed;
- The Eureka residents be clearly cautioned regarding potential hazards of replacing their heating system;

- The Company not be allowed to recover more than, [redacted] without bringing to the Commission clear, justifiable evidence showing the necessity to exceed this limit; and
- The proposed rate the Company be allowed to charge to Eureka customers for the Service Line loan and projected customer sign-ups be reduced as stated above.

As a result of the above-mentioned inadequacies in the documentation, the Division cannot yet say the proposal is in the public interest. If the above remedies are taken, the Division could support extending service to Eureka as a prudent decision, just, reasonable and adequate.

CONCLUSION

Q: DOES THAT CONCLUDE YOUR TESTIMONY?

A: Yes.