BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

INVESTIGATION OF REVENUE REQUIREMENT IMPACTS OF THE NEW FEDERAL TAX LEGISLATION TITLED: “AN ACT TO PROVIDE FOR RECONCILIATION PURSUANT TO TITLES II AND V OF THE CONCURRENT RESOLUTION OF THE BUDGET FOR FISCAL YEAR 2018”	Docket No. 17-057-26

DIRECT TESTIMONY OF KELLY B MENDENHALL

FOR DOMINION ENERGY UTAH

January 31, 2018

DEU Exhibit 1.0

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Kelly B Mendenhall. My business address is 333 South State Street, Salt Lake City, Utah.

Q. By whom are you employed and what is your position?

A. I am employed by Dominion Energy Utah (DEU or Company) as the Director of Regulatory and Pricing. I am responsible for state regulatory matters in Utah and Wyoming. My qualifications are included as DEU Exhibit 1.1.

Q. Attached to your written testimony are DEU Exhibits 1.1 through 1.5. Were these prepared by you or under your direction?

A. Yes.

Q. What is the purpose of your testimony in this Docket?

A. On December 22, 2017 the President of the United States signed into law the An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution of the Budget for Fiscal Year 2018 (2018 Tax Reconciliation Act). I will discuss the impacts of the 2018 Tax Reconciliation Act on the Company's revenue requirement.

II. DISCUSSION OF THE 2018 TAX RECONCILIATION ACT

Q. How do changes in the 2018 Tax Reconciliation Act impact the revenue requirement of Dominion Energy Utah?

A. As part of the 2018 Tax Reconciliation Act, federal income tax rates decreased from 35% to 21%, effective January 1, 2018. This will result in a reduced income tax expense for DEU. The reduction in the income tax rate will also create an excess in deferred income taxes because deferred income taxes were calculated based on the higher tax rate. The excess deferred income taxes will need to be calculated and amortized. I will discuss the impact on expense and rate base in more detail.

Q. Please discuss the impact that the reduction in income tax expense has on rates currently being paid by customers?

A. Dominion Energy Utah currently includes income tax expense at a federal income tax rate of 35% in the base distribution non-gas (DNG) rate component and the infrastructure rate adjustment component of its Utah Natural Gas Tariff No. 500 (Tariff). Determination of the impact of the income tax rate change is provided in the sections below.

III. DNG BASE RATE IMPACTS

Q. How is income tax expense included in the base DNG rate component of the DEU Tariff?

A. The currently-effective base DNG rates were based on a 2014 test period and were approved in Docket No. 13-057-19. These rates include an imputed tax expense that was based on a 35% federal income tax rate.

Q. Can you provide some foundational background about how these rates were set?

A. Yes. On July 1, 2013, the Company filed a general rate case in Docket 13-057-05. In that case, rates were approved effective March 1, 2014. In paragraph 29 of the Partial Settlement Stipulation filed with the Utah Public Service Commission (Commission) on December 13, 2013, the parties agreed that the Company would file, in a separate docket, a depreciation study and would seek approval of new depreciation rates to become effective as ordered by the Commission. The parties agreed that upon approval, the new depreciation rates and reserve variance would be applied to the revenue requirement and rates in Docket 13-057-05 and that they would be adjusted accordingly.

Q. Did the Company file a separate depreciation study docket?

A. Yes. In Docket 13-057-19 the Company filed for authority to change its depreciation rates. In its June 6, 2014 Report and Order in that Docket, the Commission approved a Settlement Stipulation resulting in a $1.199 million decrease in DNG revenue from the approved revenue requirement in Docket No. 13-057-05. The revenue requirement and rates approved in the June 6, 2014 order are the base DNG rates that are currently effective in the Company's Tariff.

Q. What were the overall revenue requirement and associated income tax expense ultimately approved in Docket 13-057-19?

A. DEU Exhibit 1.2 provides an overall summary of the revenue requirement. As Column B, line 3 shows, the approved revenue requirement was $300,811,311. As Column B, line 24 shows, the associated imputed income tax expense in that case was $31,117,997.

Q. What would be the impact to the revenue requirement of a decrease in the income tax rate from 35% to 21%?

A. DEU Exhibit 1.2 provides the overall summary. As Column C, line 24 shows, income tax expense would be reduced to $16,629,551, a $14,488,446 decrease as shown in Column D, line 24. As Column D, line 3 shows, the overall revenue requirement is reduced by $14,519,623 to $286,291,687. The model from Docket 13-057-19 that was used to calculate the updated $286 million revenue requirement is provided in DEU Exhibit 1.3.

Q. Why are the overall revenue requirement decrease and income tax decrease different?

A. There is a $33,644 decrease to customer accounts expense. This is a small adjustment to bad debt expense based on the updated amount of revenue that will be collected. This amount is the difference between the overall revenue requirement and the income taxes, and can be seen on Column D, line 17.

Q. On January 2, 2018, Utah Association of Energy Users (UAE) filed a motion requesting that the benefits of the tax bill be deferred beginning January 1, 2018. What is the Company's position on this request?

A. The Company agrees that the income tax benefits of the reduction in income tax rate included in base rates should be deferred beginning January 1, 2018 and continue until the effective date of new rates set in future ratemaking proceedings.

Q. How will these benefits be allocated to the various rate classes?

A. The cost of service allocation amounts were determined in the Report and Order issued in Docket No. 13-057-19. Based on that Report and Order, the revenue requirement impact was spread to each class based on the following percentages:

Rate Schedule	Percent of Total	Deferral amount per class
GS	91.22%	$13,244,950
FS	1.2%	$174,848
NGV	1.22%	$177,661
IS	0.31%	$45,241
TS	4.38%	$636,195
MT	0.01%	$1,498
FT-1	1.65%	$239,230
Total	100%	$14,519,623

These are the percentages that should be used to allocate the impact to each class.

IV. INFRASTRUCTURE RATE ADJUSTMENT IMPACTS

Q. How are income taxes included as part of the infrastructure rate adjustment?

A. The infrastructure rate adjustment includes a pretax return on the net investment that has been placed into service. This pretax return amounts to 10.79% and was approved in Docket No. 13-057-05. In the Company's most recent infrastructure replacement filing, the pretax return amounted to $18,575,587 as shown on column B, line 8 of Exhibit 1.4.

Q. Does the income tax rate reduction from 35% to 21% have an impact on the pretax return used in the infrastructure replacement filings?

A. Yes. When the federal income tax rate is reduced from 35% to 21%, it reduces the pretax return from 10.79% to 9.33% (the calculation for this change is provided in DEU Exhibit 1.5). This in turn reduced the pretax return from $18,575,587 to $16,056,959, a reduction of $2,518,628 as shown on line 8 of DEU Exhibit 1.4.

Q. How does the Company propose to pass these tax savings on to customers?

A. The Company is updating its most recent infrastructure rate adjustment filing in Docket No. 17-057-23 to reflect the new federal income tax rate. This update is being filed concurrently with this filing on January 31, 2018. The Company is requesting that this infrastructure rate adjustment change be approved effective March 1, 2018.

Q. Has the Company made similar updates to the infrastructure rate adjustment in other dockets?

A. Yes. In Docket No. 14-057-27, the Company filed to update rates to reflect changes in bonus depreciation rules related to the Tax Increase Prevention Act of 2014 (HR 5771).

V. DEFERRED INCOME TAX IMPACTS

Q. In addition to the previously-mentioned changes to income tax expense caused by the 2018 Tax Reconciliation Act, does that act cause any other impacts to the revenue requirement?

A. Yes. As mentioned earlier, the accumulated deferred income taxes shown on line 46 of DEU Exhibit 1.2 will be reduced to take into account the reduction in the federal income tax rate.

Q. Please explain how the deferred income taxes are impacted?

A. Deferred income taxes arise from differences in how a utility's capital assets are depreciated for utility rate making and financial reporting purposes versus how they are depreciated for federal income tax purposes. This difference is multiplied by the income tax rate to arrive at the deferred income tax amount. Because the income tax rate has been reduced, the amount of deferred income taxes will also be reduced, creating excess deferred income taxes on the balance sheet. These excess deferred income taxes must be amortized back to customers over a period of time.

Q. What impact does this have on revenue requirement?

A. At this time, the Company is still determining the impact of the tax law on deferred income taxes.

Q. How does the Company propose to pass any potential deferred income tax impacts on to customers?

A. Once the calculation of the amount of excess deferred income tax and determination of the appropriate treatment are completed, any changes to the revenue requirement caused by excess deferred income taxes will be included in a supplemental filing in this docket and in the infrastructure rate adjustment docket.

VI. DEFERRED ACCOUNTING ORDER

Q. Will you please summarize your testimony?

A. The impacts of the 2018 Tax Reconciliation Act will have significant cost impacts to customers. For this reason, the Company respectfully requests that the Commission allow the Company to create a deferred liability beginning January 1, 2018, and to allow the Company to begin deferring the tax benefits as specified earlier in this testimony. This deferral will continue until the effective date of new rates set in future ratemaking proceedings. The Company will also determine the effect that the tax law change will have on excess deferred income taxes and will provide this calculation and any proposed treatment in a supplemental filing.

Q. Does that conclude your testimony?

A. Yes.

State of Utah)
) ss.
County of Salt Lake)

I, Kelly B. Mendenhall, being first duly sworn on oath, state that the answers in the foregoing written testimony are true and correct to the best of my knowledge, information and belief. Except as stated in the testimony, the exhibits attached to the testimony were prepared by me or under my direction and supervision, and they are true and correct to the best of my knowledge, information and belief. Any exhibits not prepared by me or under my direction and supervision are true and correct copies of the documents they purport to be.

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Kelly B. Mendenhall

SUBSCRIBED AND SWORN TO this _____ day of January, 2018.

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Notary Public