Anderson OCS – 1D

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Dominion Energy Utah to Increase Rates and Charges and Make Tariff Modifications	))))))))	**Docket No. 19-057-02** **Phase I Direct Testimony of Alyson Anderson On behalf of the Office of Consumer Services**

October 17, 2019

CONFIDENTIAL INFORMATION INCLUDED
Subject to Rule 746-100-16

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is Alyson Anderson. I am a utility analyst for the Office of Consumer Services (Office). My business address is 160 East 300 South, Salt Lake City, Utah.

Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

A I earned a Bachelor of Business Administration in Accounting from Boise State University. Upon graduation, I worked as an auditor for the Idaho Public Utilities Commission. Prior to joining the Office of Consumer Services, I managed several telecommunications programs as a self-employed consultant. I have completed The Basics Practical Regulatory Training course through New Mexico State University, as well as the NARUC. Regulatory Studies and Advanced Regulatory Studies programs through Michigan State University. This is my first time submitting testimony before the Utah Public Service Commission (Commission)

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I introduce the witnesses who provide revenue requirement and cost of capital testimony on behalf of the Office in this case and provide the Office's overall revenue requirement recommendation based on our analysis. I will also present the Office's policy recommendations regarding the Infrastructure Replacement Tracker Pilot Program (Infrastructure

Tracker) and the changes to the mechanism proposed by Dominion Energy Utah (Company or DEU).

Q. PLEASE IDENTIFY THE WITNESSES FOR THE OFFICE AND THEIR GENERAL AREA OF TESTIMONY.

A. In the revenue requirement phase of this docket, the Office has two witnesses, in addition to myself, who offer direct testimony in Phase I of this proceeding. The first witness is Donna Ramas, a certified public accountant with the firm, Ramas Regulatory Consulting, LLC. Ms. Ramas recommends a number of rate base and net operating income (revenue requirement) adjustments, and provides the analysis behind the Office's revenue requirement recommendation for Dominion Energy Utah. Next is Daniel J. Lawton of the Lawton Law Firm. His direct testimony presents the Office's recommended cost of capital and return on equity (ROE) of 9.1% for Dominion Energy Utah.

Q. WHAT AMOUNT OF REVENUE REQUIREMENT INCREASE DID DOMINION ENERGY UTAH REQUEST IN THIS DOCKET?

A. Dominion Energy Utah is requesting an increase in revenue requirement of $19,249,740 million based on Conservation Enabling Tariff (CET) allowed revenues in its filing.

Q. BASED ON THE OFFICE'S ANALYSIS OF DOMINION ENERGY UTAH'S FILING, WHAT IS THE OFFICE'S RECOMMENDED CHANGE TO THE CURRENT LEVEL OF UTAH REVENUE REQUIREMENT?

A. Based on our analysis the Office recommends a decrease in Dominion Energy Utah's current level of Utah revenue requirement of $14,179,342 based on CET allowed revenues, before the adjustment to remove the costs included in the test year associated with the LNG facility proposed by DEU. Removal of the expenses included in the test year associated with the proposed LNG facility results in an additional reduction to DEU's revenue requirement, resulting in a recommended reduction in rates of *****BEGIN CONFIDENTIAL***** [redacted] *****END CONFIDENTIAL***** based on CET allowed revenues. Both revenue requirement amounts incorporate the adjustments to expenses and rate base as presented by Ms. Ramas, and the Office's recommended 9.1% ROE as presented in Mr. Lawton's testimony.

Q. WHAT COMMENTS DOES THE OFFICE HAVE ON WHETHER DOMINION ENERGY UTAH COMPLIED WITH THE MERGER COMMITTMENTS?

A. While the Office did not review all of the merger commitments, our team did evaluate those commitments related to ratemaking. In particular, I would note Merger Commitment 39 regarding Operation, Maintenance, Administrative and General (OMAG) Expenses per customer. The commitment required Dominion Questar Gas (now known as DEU) to not seek recovery of any increase in the total OMAG Expenses (excluding energy efficiency and bad debt costs) per customer above the year ended December 2015 baseline level, unless it could demonstrate that the increase was not caused by the merger. The baseline OMAG Expense amount per customer at December 2015 was $138.24. The baseline OMAG Expense amount per customer at December 2018, the base year in this docket, was $113.72. This is an 18% decrease in OMAG Expenses, and benefits the ratepayers. Ms. Ramas, also, references this decrease in her testimony.

Q. WHAT IS THE OFFICE'S GENERAL POLICY ON TRACKERS?

A. The Office is generally opposed to trackers. Trackers single out one set of costs to be recovered without a complete review of all costs and revenues. In a general rate case, a complete review often finds new revenues and/or lower expenses that offset the new costs, which is why the Office's policy is a preference for a comprehensive review of a utility's revenue requirement. The Office also acknowledges that trackers can be useful tools in certain limited circumstances with volatile and unpredictable costs.

Q. WHAT IS THE OFFICE'S POLICY REGARDING DEU'S INFRASTRUCTURE REPLACEMENT TRACKER?

A. The Infrastructure Tracker was designed to allow the Company to track and recover costs, outside a general rate case, directly related with the replacement of aging infrastructure investment through an incremental surcharge. The investment recovered through the Infrastructure Tracker is neither volatile nor unpredictable. However, the Office generally believes the Infrastructure Tracker facilitates necessary infrastructure investments for the purposes of providing safe and reliable service. The Shareholders clearly benefit from the Infrastructure Tracker since it avoids regulatory lag by recovering the investment from ratepayers as it occurs. Also, ratepayers are protected from forecast errors, and pay only for the investment as it occurs and is put into service.

Q. PLEASE DESCRIBE THE OFFICE'S CONCERNS REGARDING THE INFRASTRUCTURE TRACKER.

A. The Office is concerned about the apparent reliance on a prudence review as a fail-safe for the program, as well as the size and scope of the tracker going forward.

Prudence Review of Infrastructure Tracker Investments

Q. PLEASE DESCRIBE THE OFFICE'S CONCERN REGARDING PRUDENCE REVIEW OF THE INFRASTRUCTURE TRACKER.

A. In Docket No. 09-057-16, the Commission issued an order outlining an evaluation plan for the Infrastructure Tracker Pilot Program to be completed by the Division of Public Utilities (Division). One of the criteria requested, "[i]dentification of when the prudence of the Company's investments covered under the Infrastructure Tracker will be reviewed and evaluated."[1] There have been several audits and reports completed by the Division to date, all refer to a future prudence review of the investments in the next general rate case. The most recent August 14, 2019 Memorandum regarding the Audit of Dominion Energy Utah Infrastructure Tracker Pilot Program reiterated, "[t]he Division recommends the costs reported in the Tracker be included in rates, subject to a final prudence review in the next general rate case."[2]

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[1] Docket No. 09-057-16 Order on Infrastructure Tracker Pilot Program Evaluation Plan, page 5, Appendix A IX.

[2] Docket Nos. 09-057-16, 13-057-05 Audit of Dominion Energy Utah Infrastructure Tracker Pilot Program Memorandum, page 1-2.

Q. WHAT IS THE OFFICE'S UNDERSTANDING OF THE PRUDENCE REVIEW THAT WILL TAKE PLACE IN THIS CASE?

A. In response to the OCS data request 1.1 asking which investments would be reviewed for prudence in this case, the Division stated, "The parties remain able to review all investments under the tracker since the past general rate case for prudence." The data request further inquired about what the prudence review in this case would entail, to which the Division responded:

> "The Division reviews the semi-annual Tracker filings and makes judgmental determinations about whether to make a more in-depth review of the program or specific projects. In the event such a more in-depth review is undertaken, the Division would make additional requests for information from the utility. It would evaluate the utility's actions and determine whether, in the Division's opinion, they were prudent. That prudence determination may involve reviewing engineering decisions, project timing and priority decisions, expenditure levels, and others."[3]

Q. WHAT ARE THE OFFICE'S CONCERNS ABOUT THE PRUDENCE REVIEW?

A. The Office is unclear on the intended details of the prudence review and appropriate timing of the review. For example, did the Commission intend that a prudence review is mandated before the investment is included in

[3] Response to OCS to DPU Data Request 1.1

base rates or did the Commission intend that a prudence review only be done as deemed necessary by stakeholders, consistent with the review of other capital expenditures?

The Office is concerned that, at least in some cases, the statement that a "prudence review during the next general rate case" is being used as a fail-safe and appears to imply that an affirmative prudence review will be conducted on all Infrastructure Tracker investments prior to being included in base rates. If instead the Commission intended its questions about timing of a prudence review to be a signal for stakeholders regarding their opportunity to raise concerns, if any, on a case-by-case basis, some revised language and guidance would be helpful. The Office is especially concerned about this language because of the manner prudence review is referenced in other policymaking settings and recommends that more clarity would be useful.

Q. WHAT DOES THE OFFICE RECOMMEND REGARDING THE PRUDENCE REVIEW?

A. The Office respectfully asks the Commission to clarify the intent of this important criterion in evaluating the Infrastructure Tracker.

Size and Scope of Infrastructure Tracker

Q. PLEASE PROVIDE SOME HISTORY OF THE SIZE AND SCOPE OF THE TRACKER?

A. During the 2007 general rate case, the Company testified, “[f]eeder line replacement will run about $45 million annually for the next five years.”[4] Then in 2009, the Commission Order approving a Settlement Stipulation in Docket No. 09-057-16 said, “[t]he company estimates it has ten-plus years of specific infrastructure to be replaced, but the infrastructure pilot will be reviewed and revisited at least after every three years.”[5] In Docket No. 13-057-05, the Commission accepted a partial settlement and the Infrastructure Tracker was expanded to include, intermediate high pressure mains, and the spending cap was increased to $65 million adjusted for inflation.[6] Currently, DEU expects the program to be complete in approximately 2036.[7] The Company says the Infrastructure Tracker is “not one, neat, tidy project that can be identified and completed within the framework described in §54-7-13.4. Replacing this type of aging infrastructure will take many years and will occur incrementally through that period.”[8]

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[4] Docket No. 07-057-13, QGC Exhibit 2.0, lines 305-306
[5] Docket No. 09-057-16 Report and Order approving the Settlement Stipulation, page 5.
[6] Docket No. 13-057-05, Report and Order, page 8, 16.
[7] Docket No. 19-057-01 DEU Integrated Resource Plan, page 5-6 – 5-7.
[8] DEU Exhibit 1.0, lines 449-452.

Q. WHAT IS THE OFFICE'S CONCERN ABOUT THE SIZE AND SCOPE OF THE INFRASTRUCTURE TRACKER?

A. While the Office acknowledges the challenges described by the Company, the Infrastructure Tracker does test the boundaries of a pilot program. Currently ten years into the program with an estimated sixteen additional years to completion, and the Company is, again, requesting to increase the spending cap. Because of the limitations of reviewing Infrastructure Tracker expenditures outside of a complete revenue requirement evaluation, the Office is concerned about the increasing duration of the program and the Company's request for increasing the relative dollars associated with the program.

Recommendations

Q. SHOULD THE INFRASTRUCTURE TRACKER BECOME A PERMANENT RATEMAKING MECHANISM?

A. No. Continuing the program at an increasing level of funding for an indefinite period of time provides a significant benefit to the Company without the commensurate protections that traditional ratemaking affords ratepayers.

Q. SHOULD THE INFRASTRUCTURE TRACKER BE ALLOWED TO CONTINUE?

A. Yes. However, the Commission should continue close monitoring of the Infrastructure Tracker to ensure that it is meeting specific criteria and providing benefit to both the ratepayers and the Company. The requirement that the Company files a general rate case every three years, as a condition of the Infrastructure Tracker, should continue.

Q. WHAT DOES DEU PROPOSE FOR THE INFRASTRUCTURE TRACKER SPENDING CAP?

A. The Company proposes to increase the Infrastructure Tracker spending cap from the current $65 million, per year, adjusted for inflation to $80 million, per year, adjusted for inflation. The Company asserts increasing construction costs in justifying the proposed spending cap increase, but also indicates potential cost savings resulting from current construction practices. The potential or real cost savings are not reflected in the Infrastructure Tracker surcharge, and the underlying reason the Office opposes trackers.

Q. SHOULD THE INFRASTRUCTURE TRACKER SPENDING CAP BE INCREASED AS PROPOSED BY THE COMPANY?

A. No. The Company proposes to increase the spending cap from the current $65 million adjusted for inflation to $80 million adjusted for inflation. Kelly B Mendenhall states in his testimony, “[w]hen the

Infrastructure Tracker was originally approved in 2010, it amounted to a larger portion of the Company's total capital spend than it does today."[9] However, calculating a simple percentage from the information provided in DEU Exhibit 1.10, shows the average Infrastructure Tracker Spending for the past ten years is around 33% of Capital Spending. During the ten-year period the Infrastructure Tracker has been in effect, in three instances, the Infrastructure Tracker Spending exceeded that average, and in five instances, it was below that average. The current spending cap of $65 million adjusted for inflation will be $72.2 million in 2020. Moreover, looking at the 2020 Capital Spending forecast, as adjusted by Office witness Donna Ramas, the Infrastructure Tracker will be 31% of total Capital Spending. The Office's policy position is that keeping the Infrastructure Tracker at this level, approximately 33% of total capital investment, is a reasonable balance between ratepayer and shareholder interests.

[9] DEU Exhibit 1.0, lines 594-595.

Q. DOES THE OFFICE SUPPORT DEU'S PROPOSED CHANGES TO THE TREATMENT OF THE SPENDING VARIANCES?

A. Yes. In the past, over variances in tracker spending have reduced the Infrastructure Tracker budget the following year. The Company proposes to net the accumulated over/under spending amounts in calculating the Infrastructure Tracker surcharge. Any net overspent amount will not be recovered in rates until DEU's next general rate case. This balances the interests of both the ratepayer and the shareholders, while allowing the Company flexibility in scheduling and budgeting. The Company's proposed treatment of spending variances will continue to provide the reporting transparency expected with the Infrastructure Tracker, as well as allow DEU a variable budget necessary for these types of projects.

Q. PLEASE SUMMARIZE THE OFFICE'S POSITION ON THE INFRASTRUCTURE TRACKER.

A. The Office requests the Commission clarify the intent and timing of the prudence review of the Infrastructure Tracker investments, as well as carefully monitor the size and scope of the Infrastructure Tracker going forward. The Infrastructure Tracker spending cap should remain at $65 million adjusted for inflation, and the Commission should approve the Company's proposed treatment of spending variances. With the proposed treatment of spending variances, the Infrastructure Tracker will continue to operate as intended, and authorizing a level of spending that is approximately 33% of total capital investment provides an appropriate balance of interests. The Office continues to assert that DEU is responsible for maintaining the safety of its system and should make all proper and necessary investments, not limited solely to the level covered by the special rate treatment afforded by the Infrastructure Tracker.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.