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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**

REDACTED PREFILED TESTIMONY OF KEVIN C. HIGGINS

The UAE Intervention Group (UAE) hereby submits the Redacted Prefiled Direct Testimony of Kevin C. Higgins in Phase II of this docket.

DATED this 14th day of November, 2019.

Respectfully submitted

By: 

Phillip J. Russell
HATCH, JAMES & DODGE, P.C.

Attorneys for UAE

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 14th day of November, 2019, on the following:

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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

Redacted Phase II Direct Testimony of Kevin C. Higgins

on behalf of

UAE

Docket No. 19-057-02

November 14, 2019

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REDACTED DIRECT TESTIMONY OF KEVIN C. HIGGINS

INTRODUCTION

Q. Please state your name and business address.

A. My name is Kevin C. Higgins. My business address is 215 South State Street, Suite 200, Salt Lake City, Utah, 84111.

Q. By whom are you employed and in what capacity?

A. I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies is a private consulting firm specializing in economic and policy analysis applicable to energy production, transportation, and consumption.

Q. Are you the same Kevin C. Higgins who prefiled Phase I direct testimony on behalf of the Utah Association of Energy Users Intervention Group ("UAE") in this proceeding?

A. Yes, I am.

OVERVIEW AND CONCLUSIONS

Q. What is the purpose of your Phase II direct testimony in this proceeding?

A. My testimony addresses Dominion Energy Utah's ("DEU") class cost-of-service study, the appropriate rate spread among classes, and Transportation Service ("TS") rate design. The absence of comment on my part regarding other issues does not signify support for (or opposition to) the Company's filing with respect to the non-discussed issues.

Q. Please summarize your conclusions and recommendations.

A. My testimony offers the following recommendations:

(1) In DEU's future rate case filings, I recommend that the Commission direct DEU to utilize consistent volumes and current revenue in its revenue requirement presentation, cost-of-service study, and rate design. DEU should also provide in its future rate case filings a proof of current revenue that derives the current revenue in the filing using current rates and billing determinants.

(2) I recommend that the throughput weighting for Allocation Factor 230 (the weighted Design Day/Throughput allocator) be based on the system load factor, consistent with the guidance provided in the Gas Distribution Rate Design Manual ("NARUC Manual") published by the National Association of Regulatory Utility Commissioners.

(3) I recommend a three-step phase-in of the full cost-based increase to the TS class and the target increase to the Transportation Bypass Firm ("TBF") class (March 1, 2020, March 1, 2021, and March 1, 2022).

(4) I support DEU's proposal to implement the increase to the TS volumetric charges by proportionately increasing the rate for each block in Step 1 of my recommended three-step phase-in. However, I recommend that the TS rate design for Steps 2 and 3 remain subject to further analysis through an extension of this docket to further examine the relationship between TS demand and volumetric charges, as well as to potentially spread the overall rate increase across

the TS class for customers of various sizes more proportionately, taking into account the proposed reduction in the administrative charges.

DEU'S DEPICTION OF CURRENT REVENUE

Q. What increase is DEU requesting in its Distribution Non-Gas ("DNG") revenue?

A. As shown on DEU Exhibit 3.02, DEU presents its request as a $19,249,740 increase over current Utah Jurisdiction System DNG revenue of $378,376,157.

Q. What is the basis for the current DNG revenue of $378,376,157 shown in Column (F) of DEU Exhibit 3.02?

A. Based on discovery in this case, I have determined that the General Service ("GS") dekatherm ("Dth") volumes used in calculating the $378,376,157 current revenue correspond to DEU's 30-year normal Heating Degree Days ("HDD") analysis.[1] However, in this case, DEU proposes to change to a 20-year HDD analysis for its proposed GS rate design.[2] Since DEU uses inconsistent GS Dth volumes in its revenue requirement presentation (30-year) and rate design presentation (20-year), the current revenue and proposed increase differ between these two presentations.

[1] *See* DEU Responses to UAE Data Request No. 7.03 and DPU Data Request No. 15.16, included in UAE Exhibit 2.1. According to DEU, the $378,376,157 of current revenue also includes 2019 and 2020 growth in the infrastructure tracker revenue.

[2] *See* Direct Testimony of Austin C. Summers (DEU Exhibit 4.0), pp. 32-33.

The 20-year HDD analysis results in lower normalized GS Dth volumes than the 30-year HDD analysis. This means that, compared to the 30-year HDD analysis, normalized current GS revenues are lower using the 20-year HDD analysis, and DEU's proposed GS rates are slightly higher using the 20-year HDD analysis.[3]

Q. Why is the calculation of current revenue important in a rate case?

A. While current revenue does not impact the total proposed revenue requirement, current revenue impacts the proposed revenue requirement *increase*. The billing determinants utilized determine the rates necessary to collect the proposed revenue requirement.

Q. Are you taking a position on the appropriate HDD analysis to use for GS rate design?

A. No. I am not taking a position on the appropriate period to use for the HDD analysis applicable to the GS class. Rather, I am calling attention to this issue because the use of inconsistent billing determinants is problematic for any party addressing the subjects of system revenue requirements, class revenue changes, rate spread, and rate design.

Q. What depiction of current revenue do you use in your analysis?

A. For ease of comparability with DEU's presentation, I use the $378,376,157 of current revenue (derived from the 30-year HDD analysis) when

[3] There are also inconsistencies in the current revenue that DEU shows for TS customers in the Company's cost of service study relative to its rate design summary in DEU Exhibit 4.14, discussed later in my testimony.

presenting my cost-of-service results and rate spread. However, I note that the GS volumes used in calculating the Throughput allocators and Allocation Factor 230 in DEU's cost-of-service study are based on the 20-year HDD analysis. I have not modified these volumes. If the 30-year HDD analysis is employed for the purpose of GS rate design, these allocators would need to be updated, slightly increasing the allocation of costs to the GS class.

Q. Do you have any general recommendations with regard to DEU's presentation of current revenue?

A. Yes. The current revenue amounts used in the (a) revenue requirement presentation (for calculating the proposed increase), (b) cost-of-service study, and (c) rate design should be consistent. It is standard practice in a rate case for a utility to provide a "proof of revenues" calculation of current revenue that demonstrates that applying current rates to normalized billing determinants will yield the current revenue used elsewhere in the utility's filing. DEU has not done so, even after UAE requested this analysis in discovery.[4] In DEU's future rate case filings, I recommend that the Commission direct DEU to utilize consistent volumes and current revenue in its revenue requirement presentation, cost-of-service study, and rate design. DEU should also provide in its future rate case filings a proof of current revenue that derives the current revenue in the filing using current rates and billing determinants.

[4] *See* DEU response to UAE Data Request 7.01, included in in UAE Exhibit 2.1. In this response, DEU changed the current rates that were used in order to target a particular current revenue amount. This response is inadequate because actual current rates should be used in the analysis.

CLASS COST OF SERVICE STUDY

Q. What is the purpose of conducting class cost-of-service analysis?

A. Class cost-of-service analysis is conducted to assist in determining appropriate rates for each customer class. The analysis involves assigning revenues, expenses, and rate base to each customer class. Through this process, each class is allocated a share of responsibility for the utility's costs, and the revenue change needed for each customer class to produce an equalized rate of return is identified.

Q. What class cost-of-service information is presented by DEU?

A. The Company's class cost-of-service results are presented in the direct testimony of DEU witness Austin C. Summers. The Company also made its cost-of-service model available to the parties in this case.

Q. Do you have any comments on the cost-of-service analysis presented by the Company?

A. Yes. I concur with many aspects of the Company's analysis including, in particular, the Company's proposal to not assign peak demand responsibility to interruptible customers. I agree with Mr. Summers' reasoning that interruptible load will be curtailed in an actual peak day event and, therefore, should not be assigned peak demand responsibility.[5] However, I disagree with the throughput weighting used for Allocation Factor 230.

[5] Direct Testimony of Austin C. Summers, pp. 8-9.

Q. What is Allocation Factor 230?

A. As described in DEU Exhibit 4.02, page 1, Allocation Factor 230 is used to allocate the feeder system, compressor station, and measuring and regulating station costs. Allocation Factor 230 is designed to be a weighted blend of peak-day (design day) and throughput factors, presumably because these facilities are viewed as providing both peak-day and throughput-related services. The weighting proposed by DEU for Allocation Factor 230 is 60% design day and 40% throughput. This allocator is also used to allocate the FT1-L (Lakeside) revenue credits to customer classes.

Q. What is your disagreement regarding the weighting used for Allocation Factor 230?

A. Allocating costs for particular facilities on both a peak basis and a throughput basis is an application of a method generally referred to as the "Average and Peak" method.[6] In using the Average and Peak method, the weighting assigned to the Average, or "throughput," component should be no greater than the system load factor.[7] This is because the throughput component is intended to allocate costs that are associated with base-load-type usage, and system load factor is a generally-accepted standard for measuring the portion of

[6] The term "Average" in "Average and Peak" refers to average use, and this component is allocated to classes on the basis of Throughput (Factor 220 in DEU's cost-of-service study). The "Peak" component is apportioned to classes based on the Design Day factor (Factor 210 in DEU's cost-of-service study).

[7] See, for example, the discussion of the Average and Peak Demand Method in the NARUC Manual (June 1989), pp. 27-28, included in UAE Exhibit 2.2. The NARUC Manual specifies that the system's load factor is used to determine the capacity costs associated with average use and apportioned to classes on an annual volumetric basis.

facilities associated with the provision of base load service. The use of system load factor for this weighting is clearly prescribed in the NARUC Manual.

The 40% weighting assigned by DEU to throughput in the composition of Allocation Factor 230 exceeds DEU's load factor and thus overstates the reasonable assignment of cost responsibility to throughput. The 40% weighting proposed by DEU is not tied to any system utilization metric, and is purely judgmental. In contrast, my recommended weighting is based on a nationally recognized standard. Based on DEU's 2020 firm design day demand of 1,442,192 Dth and annual throughput of 168,632,741 Dth, the system load factor is approximately 32%.[8]

Q. What do you recommend to the Commission regarding the appropriate throughput weighting?

A. I recommend that the throughput weighting for Allocation Factor 230 be based on DEU's system load factor of 32%. This produces a weighting for Allocation Factor 230 of 68% design day/32% throughput. This weighting is more consistent with the proper application of the Average and Peak method.

Q. Have you applied your recommended 68% design day / 32% throughput weighting elsewhere in the Company's cost-of-service study?

A. Yes. DEU uses Allocation Factor 230 to allocate the cost share of the TBF discount to other classes.[9] TBF is a firm transportation rate schedule that is

[8] (168,632,741 ÷ 366) ÷ 1,442,192 = 31.95%.

[9] To allocate the TBF discount to the non-TBF classes, Allocation Factor 230 is modified to exclude the TBF class.

charged less than its fully allocated cost of service and is intended to provide an incentive for these customers to remain on DEU's distribution system, thus reducing the likelihood that these customers will connect directly to an interstate pipeline and bypass the DEU system. The TBF class is set to recover 50% of its full revenue requirement based on DEU's proposal. Allocation Factor 230 is used to allocate to the non-TBF classes the portion of costs that would otherwise be assigned to the TBF class. For consistency, I have incorporated my recommended 68% design day / 32% throughput weighting into the allocation of funding the TBF discount.

As I discuss in the following section of my testimony, I recommend that the full cost-based increase to the TS class and the target increase to the TBF class be phased-in in three steps. I also utilize Allocation Factor 230 with my recommended weighting to allocate the TS and TBF phase-in adjustments to the non-TS/TBF classes.

Q. What are the results of the cost-of-service study incorporating your proposed weighting for Allocation Factor 230?

A. In Table KCH-1, below, columns (c) and (d) present the DNG rate revenue change by class that would be necessary for each class to earn an equalized rate of return at DEU's proposed revenue requirement. Columns (e) and (f) include the impact of the TBF discount described above. Table KCH-2 presents this same information at an overall revenue requirement that incorporates

the non-confidential adjustments totaling ($23,918,756) recommended in my Phase I direct testimony.

Table KCH-1
Cost-of-Service Study Results
With UAE Recommended Allocation Factor 230 Weighting
At DEU Proposed Revenue Requirement

Class (a)	Current DNG Revenue (b)	DNG Revenue Change to Achieve Equalized ROR: $ Increase/ (Decrease) (c)	DNG Revenue Change to Achieve Equalized ROR: % Increase/ -Decrease (d)	DNG Revenue Change Plus TBF Subsidy: $ Increase/ (Decrease) (e)	DNG Revenue Change Plus TBF Subsidy: % Increase/ -Decrease (f)
GS	$343,208,444	$5,267,969	1.5%	$7,318,177	2.1%
FS	$2,669,970	$108,109	4.0%	$143,527	5.4%
IS	$185,961	($42,377)	-22.8%	($41,698)	-22.4%
TS	$28,164,455	$10,036,937	35.6%	$10,595,208	37.6%
TBF	$1,513,475	$3,685,676	243.5%	$1,038,809	68.6%
NGV	$2,633,852	$193,426	7.3%	$195,717	7.4%
Total	$378,376,157	$19,249,740	5.1%	$19,249,740	5.1%

Table KCH-2
Cost-of-Service Study Results
With UAE Recommended Allocation Factor 230 Weighting
At UAE Non-Confidential Revenue Requirement

Class (a)	Current DNG Revenue (b)	DNG Revenue Change to Achieve Equalized ROR: $ Increase/ (Decrease) (c)	DNG Revenue Change to Achieve Equalized ROR: % Increase/ -Decrease (d)	DNG Revenue Change Plus TBF Subsidy: $ Increase/ (Decrease) (e)	DNG Revenue Change Plus TBF Subsidy: % Increase/ -Decrease (f)
GS	$343,208,444	($15,758,480)	-4.6%	($13,831,471)	-4.0%
FS	$2,669,970	($62,992)	-2.4%	($29,701)	-1.1%
IS	$185,961	($49,303)	-26.5%	($48,665)	-26.2%
TS	$28,164,455	$7,755,066	27.5%	$8,279,790	29.4%
TBF	$1,513,475	$3,369,236	222.6%	$881,421	58.2%
NGV	$2,633,852	$77,457	2.9%	$79,610	3.0%
Total	$378,376,157	($4,669,016)	-1.2%	($4,669,016)	-1.2%

RATE SPREAD

Q. What does DEU propose with regard to rate spread?

A. DEU proposes to move each rate class to DEU's proposed full cost of service (i.e. an equalized rate of return) with the exception of the TBF class. As explained above, the TBF class is set to recover 50% of its full revenue requirement under DEU's proposal, and the portion of costs that would otherwise be assigned to the TBF class is allocated to the non-TBF classes. Table KCH-3, below, summarizes the results of DEU's cost-of-service study alongside DEU's proposed rate spread.

Table KCH-3
Summary of DEU Cost of Service Results
and Proposed Rate Spread [10]

		DNG Revenue Change to Achieve Equalized ROR		DEU Proposed DNG Revenue Change	
Class	Current DNG Revenue	$ Increase/ (Decrease)	% Increase/ -Decrease	$ Increase/ (Decrease)	% Increase/ -Decrease
GS	$343,174,439	$3,273,048	1.0%	$5,152,407	1.5%
FS	$2,670,970	$166,752	6.2%	$200,760	7.5%
IS	$186,124	($32,815)	-17.6%	($32,023)	-17.2%
TS	$28,202,776	$12,285,096	43.6%	$12,843,063	45.5%
TBF	$1,507,777	$3,351,430	222.3%	$876,956	58.2%
NGV	$2,634,071	$206,228	7.8%	$208,576	7.9%
Total	$378,376,157	$19,249,740	5.1%	$19,249,740	5.1%

Q. Do you have any concerns about DEU's proposed rate spread?

A. Yes. I am concerned with DEU's proposal to implement the increases to the TS and TBF classes in a single step. In order for the TS class to achieve an equalized rate of return, plus cover its cost-share of the TBF discount, the TS

[10] Based on 19-057-02 DEU Exhibit 4.18-Summers-Rate Case Model 7-1-2019.

class would require a 45.5% increase using DEU's cost-of-service study and proposed revenue requirement. Incorporating my Allocation Factor 230 weighting, the TS class would need a 37.6% increase under DEU's revenue requirement, or a 29.4% increase with UAE's proposed non-confidential revenue requirement adjustments, as shown in column (f) in Tables KCH-1 and KCH-2, respectively.[11]

Similarly, DEU's target increase for the TBF class is 58.2%. This impact increases to 68.6% using my recommended 32% throughput weighting for Allocation Factor 230 (at DEU's requested revenue requirement). Incorporating UAE's proposed non-confidential revenue requirement adjustments, the resulting TBF class increase is 58.2% (coincidentally the same as DEU's proposed increase).[12]

Q. What do you propose with regard to the TS and TBF class increases?

A. I recommend that the full cost-based increase to the TS class (plus TS's cost-share of the TBF discount) and the target increase to the TBF class be phased-in in three annual steps. Since the rate effective date of this case is anticipated to be March 1, 2020, I propose that the subsequent two increases to the TS and TBF classes (and concurrent decreases to other classes) occur on March 1, 2021, and March 1, 2022.

[11] When my confidential Phase I adjustment is included, the TS class would require a [redacted] increase to achieve an equalized rate of return and cover its cost-share of the TBF discount.

[12] When my confidential Phase I adjustment is included, the TBF class would require a [redacted] increase to achieve its target revenue requirement.

My proposal will move TS to its full cost of service and TBF to its target revenue requirement by March 1, 2022 but will mitigate the immediate impact to these classes that would occur if the increases were implemented in a single step.

Q. How do you recommend spreading the portion of TS and TBF costs that will not be immediately borne by the TS/TBF classes to the other classes?

A. I recommend using Allocation Factor 230 with my recommended weighting to spread a portion of the TS and TBF costs to the non-TS/TBF classes during the Step 1 and Step 2 rate effective periods. For this purpose, I used a modified Allocation Factor 230 that excludes the TS and TBF classes. Allocation Factor 230 is also used by DEU to allocate the cost of the TBF discount to the non-TBF classes. Table KCH-4, below, presents the three-step DNG revenue changes I recommend for each class at DEU's proposed revenue requirement. The sum of the Step 1, Step 2, and Step 3 revenue changes for each class shown in Table KCH-4 is equal to Table KCH-1, column (e).

Table KCH-4
UAE Recommended Three-Step Phase-In
With UAE Recommended Allocation Factor 230 Weighting
At DEU Proposed Revenue Requirement

		Step 1 DNG Rev. Change		Step 2 DNG Rev. Change from Step 1		Step 3 DNG Rev. Change from Step 2	
Class	Current DNG Revenue	$ Increase/ (Decrease)	% Increase/ -Decrease	$ Increase/ (Decrease)	% Increase/ -Decrease	$ Increase/ (Decrease)	% Increase/ -Decrease
GS	$343,208,444	$15,883,316	4.6%	($4,282,569)	-1.2%	($4,282,569)	-1.2%
FS	$2,669,970	$291,496	10.9%	($73,984)	-2.5%	($73,984)	-2.6%
IS	$185,961	($38,862)	-20.9%	($1,418)	-1.0%	($1,418)	-1.0%
TS	$28,164,455	$2,648,802	9.4%	$3,973,203	12.9%	$3,973,203	11.4%
TBF	$1,513,475	$259,702	17.2%	$389,553	22.0%	$389,553	18.0%
NGV	$2,633,852	$205,285	7.8%	($4,784)	-0.2%	($4,784)	-0.2%
Total	$378,376,157	$19,249,740	5.1%	$0	0.0%	$0	0.0%

Table KCH-5, below, presents the three-step DNG revenue changes I recommend for each class incorporating the non-confidential revenue requirement adjustments I recommend in my Phase I direct testimony. The sum of the Step 1, Step 2, and Step 3 revenue changes for each class shown in Table KCH-5 is equal to Table KCH-2, column (e).

Table KCH-5
UAE Recommended Three-Step Phase-In
With UAE Recommended Allocation Factor 230 Weighting
At UAE Non-Confidential Revenue Requirement

		Step 1 DNG Rev. Change		Step 2 DNG Rev. Change from Step 1		Step 3 DNG Rev. Change from Step 2	
Class	Current DNG Revenue	$ Increase/ (Decrease)	% Increase/ -Decrease	$ Increase/ (Decrease)	% Increase/ -Decrease	$ Increase/ (Decrease)	% Increase/ -Decrease
GS	$343,208,444	($7,086,849)	-2.1%	($3,372,311)	-1.0%	($3,372,311)	-1.0%
FS	$2,669,970	$86,817	3.3%	($58,259)	-2.1%	($58,259)	-2.2%
IS	$185,961	($46,432)	-25.0%	($1,117)	-0.8%	($1,117)	-0.8%
TS	$28,164,455	$2,069,947	7.3%	$3,104,921	10.3%	$3,104,921	9.3%
TBF	$1,513,475	$220,355	14.6%	$330,533	19.1%	$330,533	16.0%
NGV	$2,633,852	$87,145	3.3%	($3,767)	-0.1%	($3,767)	-0.1%
Total	$378,376,157	($4,669,016)	-1.2%	$0	0.0%	$0	0.0%

Q. Are you proposing that the three steps be equal in size?

A. No. I am proposing a slightly smaller first step increase (25% of the total increase) in order to provide some time to address rate design issues within the TS class for implementation in Steps 2 and 3, which I discuss further below. Moreover, the percentage increases I am using for my rate spread presentation are based on DEU's representation of current revenue in its cost-of-service study, which is inconsistent with the current revenue that DEU uses in its rate design summary. Specifically, the TS and TBF current revenue in DEU's rate design summary shown in DEU Exhibit 4.14 is less than what is shown in DEU's cost of

service study. This inconsistency raises the possibility that *actual* TS and TBF rate impacts could be greater than the *depicted* rate impacts. For this reason, it is reasonable for my first step increase (calculated using DEU's cost of service current revenue) to be somewhat smaller than the increases in Steps 2 and 3.

RATE DESIGN

Q. Do you have a recommendation regarding rate design for the TS class?

A. Yes. DEU proposes to increase the TS rate applicable to each of the volumetric blocks by an equal percentage. I support DEU's proposal to implement the increase to the TS volumetric charges by proportionately increasing the rate for each block for the first step of my proposed three-step phase-in. However, because DEU is proposing to reduce the administrative charge, this approach will result in a smaller percentage increase on the lower-volume TS customers than the higher-volume TS customers. In light of the significant overall rate increase that will be experienced by the class, it may be reasonable to restructure the rate increase in the volumetric charges in Steps 2 and 3 to spread the overall rate increase more proportionately throughout the TS class.

In addition, I have concerns about DEU's depiction of demand-related costs versus volumetric-related costs *within* the TS class. Specifically, DEU apportions Allocation Factor 230 costs between demand-related costs and throughput-related costs for TS customers using the *systemwide* relationship between these two classifications, whereas the proportion of demand-related costs incurred within the TS class is actually much smaller than the systemwide share.

For this reason, it may be useful to reapportion the demand and volumetric charges for the Step 2 and Step 3 increases.

In light of these concerns, I recommend that the TS rate design for Steps 2 and 3 remain subject to further analysis through an extension of this docket to further examine the relationship between TS demand and volumetric charges, as well as to potentially spread the rate increase across the TS class for customers of various sizes more proportionately.

In UAE Exhibit 2.3, I present the Step 1 rate design I recommend for TS at DEU's proposed revenue requirement, as well as *placeholder* rates for Step 2 and Step 3 using the same equal percentage increase across the blocks. Similarly, in UAE Exhibit 2.4, I present the Step 1 rate design I recommend for TS at the UAE revenue requirement including my non-confidential Phase I adjustments, as well as placeholder rates for Step 2 and Step 3 using the same equal percentage increase across the blocks.

Q. DEU proposes that customers with usage below 35,000 Dth per year no longer be allowed to migrate to the TS class.[13] Do you have any response to that proposal?

A. At this juncture, I have seen no convincing evidence that smaller TS customers are creating an intra-class subsidy problem. However, if the Commission adopts my proposed three-step phase-in to full cost of service rates for TS, then a *moratorium* (as distinct from a prohibition) on new migration to TS

[13] Direct Testimony of Austin C. Summers (DEU Exhibit 4.0), pp. 24-25.

for customers with usage below 35,000 Dth per year may be appropriate until full cost of service for TS is reached.

Q. Does this conclude your direct testimony?

A. Yes, it does.