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

DIRECT TESTIMONY OF ANGC WITNESS
BRUCE R. OLIVER

ANGC EXHIBIT 2

Phase 2

TESTIMONY ON CLASS COST OF SERVICE
AND RATE STRUCTURE ISSUES

November 14, 2019

Testimony on Behalf of

American Natural Gas Council

/s/*Bruce R. Oliver*

DIRECT TESTIMONY OF BRUCE R. OLIVER
ON CLASS COST OF SERVICE AND RATE STRUCTURE ISSUES
UPSC Docket No. 19-057-02

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DIRECT TESTIMONY OF BRUCE R. OLIVER
ON CLASS COST OF SERVICE AND RATE STRUCTURE ISSUES
UPSC Docket No. 19-057-02

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Bruce R. Oliver. My business address is 7103 Laketree Drive Fairfax Station, Virginia, 22039.

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

A. I am employed by Revilo Hill Associates, Inc., and serve as President of the firm, and I manage the firm's business and consulting activities. I direct the preparation and presentation of economic, utility planning, and policy analyses for clients.

Q. ON WHOSE BEHALF DO YOU APPEAR IN THIS PROCEEDING?

A. I appear on behalf of the American Natural Gas Council ("ANGC").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. This testimony addresses issues relating to class costs of service, rate structure and tariff issues with particular focus on the proposals of Dominion Energy Utah (DEU) that impact customers who are currently using or may wish to consider the use of Transportation Services under DEU Rate Schedule TS.

Q. PLEASE SUMMARIZE YOUR EXPERIENCE AND QUALIFICATIONS.

A. My experience and qualifications are summarized on pages 2-3 of my Direct Testimony that was filed in Phase I of this proceeding (ANGC Exhibit 1). Also, Attachment A to that testimony provides a copy of my resume which includes a list of the utility regulatory proceedings by jurisdiction in which I have testified. I would also add that my experience with gas transportation rates for retail customers of gas distribution utilities dates back to the opening of retail markets to gas supply competition in the early to mid-1990s. For over 25 years I served the Rhode Island Division of Publicly Utilities on gas rate issues and in that role contributed substantively to the initial development and evolution of that state's gas transportation service rates and policies. I have also testified on gas rate structure and/or gas transportation policy issues in a number of other states, including multiple testimonies before commissions in states such as Virginia, Maryland, and the District of Columbia.

Q. HAVE YOU PREVIOUSLY APPEARED BEFORE THIS COMMISSION?

A. I submitted Direct Testimony on Cost of Capital Issues in this proceeding on October 17, 2019, but I have not previously appeared before this Commission.

Q. WERE THIS TESTIMONY AND ACCOMPANYING SCHEDULES PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION AND CONTROL?

A. Yes, they were.

Q. SHOULD THE COMMISSION VIEW YOUR TESTIMONY AS SOLELY THAT OF AN ADVOCATE OF TS CLASS CUSTOMERS?

A. No. I am being presented as a witness on behalf of the American Natural Gas Council which has specific interest in DEU's TS service offerings, as it directly impacts their business activities. However, my background and my perspectives in this case are those of an independent rate analyst who has represented many diverse interests in utility rate proceedings. I have performed extensive work for Commissions in smaller jurisdictions (e.g., Rhode Island, Delaware, the Virgin Islands, and Guam) where my role was to address the equitable treatment of all classes of service. I have also participated in numerous proceedings on behalf of residential consumer advocacy groups, as well as for representatives of commercial, institutional, industrial, and governmental rate case intervenors. My key concern is the development of fair and reasonable rates.

II. SUMMARY

Q. DO YOU HAVE ANY GENERAL OBSERVATIONS REGARDING THE COST ALLOCATIONS AND RATE STRUCTURE PROPOSALS THAT DOMINION ENERGY UTAH HAS PRESENTED IN THIS PROCEEDING?

A. I do. This testimony generally discusses DEU's rate structure proposals in this proceeding. However, it focuses particularly on the Company's proposals for dramatic changes in its charges and tariff provisions relating to gas transportation services (i.e., the manner in which DEU bills customers for the delivery of gas that they may elect to purchase from a third party).

Transportation service offerings by gas distribution utilities have become widespread in the industry since the Federal Energy Regulatory Commission ("FERC") opened access to interstate gas pipelines in the early 1990's. Gas transportation services are now offered by the majority of gas distribution utilities across the U.S. Substantial numbers of both large and small customers currently purchase their gas supplies from Competitive Service Providers ("CSPs") in other jurisdictions. Although some differences in the costs of administration for gas transportation services and more traditional gas sales service are generally recognized, the costs of moving gas through DEU's distribution system for delivery to a customer are essentially the same regardless of whether the customer purchases gas from the Company or from a third party (i.e., a CSP).

In this proceeding DEU proposes changes in its distribution service rates and tariff provisions that would: (1) dramatically raise the Company's charges for gas transportation service under Rate TS;[1] and (2) arbitrarily limit the availability of gas transportation service to customers who commit to using 35,000 Dekatherms per year or more. Yet, if the Company's rate design proposals in this proceeding for Rate TS are adopted, significant numbers of existing

[1] Rate TS is the primary schedule under which DEU provides gas transportation services. DEU also provides gas transportation service under rate schedules TSB and MT. However, those transportation service alternatives have very limited applicability.

transportation service customers may suddenly find that service uneconomic such that they could be forced to transfer back to DEU supplied gas sales service. That result could impose significant economic penalties on customers who have existing gas supply contracts with CSPs that may involve multiple-year gas purchase commitments. The Commission should recognize neither existing Rate TS customers nor their suppliers have acted to "game" the system. Rather, they have attempted to make reasonable economic decisions based on the rates and policies approved by the Commission and set forth in the Company's published tariff.

A properly structured gas transportation service program should produce rates which recover essentially the same costs for distribution service from a customer, regardless of whether the customer elects to use gas supplied by the utility or gas supplied by a Competitive Service Provider. Thus, the Company's distribution service costs should be essentially unaffected by a customer's decision to make use of a competitive supply option. In doing so, the economics of using an alternative gas supply provider are focused more directly on the ability of a CSP to provide gas supplies at lower cost.

In this proceeding DEU argues that its rates for firm and interruptible Transportation Service (Rates TSF and TSI) are not properly designed and have resulted in a growing subsidization of customers who choose to switch to competitively-provided gas supply services. However, the problems in DEU's rates are not limited to the design of its Transportation Service offerings. As

DEU Witness Summers indicates, subsidization within the Company's GS rate class may be adding to incentives for customers to shift to gas transportation service. Yet, that problem appears to be a minor factor in customers' decisions to use competitively provided gas supplies. There are sufficient benefits from competitive gas supply alternatives alone to justify such transfers.

This testimony submits that: (1) DEU has not properly assessed the extent and causes of rate subsidies associated with its provision of gas distribution services; (2) interclass and intra-class rate subsidies have long been a part of the gas services provided by DEU (and its predecessor organizations); (3) the Company's existing differences in cost recovery among rate classes are not appropriately eliminated in a single rate case; and (4) DEU's approach to the administration of gas transportation services is overly restrictive, cumbersome and unnecessarily costly.

DEU's concerns regarding the pricing of gas transportation service are not new. They appear to date back at least to the Company's 2013 rate case. Yet, rather than using the time between rate case filings to design a rate that might better price transportation services for "smaller" TS customers,[2] the Company

[2] Although new TS customers on average use noticeably less gas on an annual basis than existing TS customers, they are only "smaller" users of gas when placed in the context of existing TS customers. Witness Summers indicates that in 2018 average annual use of TS customers had fallen to approximately 9,000 Dth per year compared to a 51,000 Dth annual average for TS customers in 2011. However, most new TS customers are transfers from the GS class, and the **average use per customer for** that class (based on the Rate Comparison schedule for the **GS class** in DEU Exhibit 4.14) is only **101 Dth**. In other words, the average TS customers still uses nearly **90 times** the average annual gas requirements of a GS customer. In the context of this observation and Witness Summers' testimony regarding Rate GS intra-class subsidies, the Commission should question whether DEU has any rate schedule that is properly designed for the requirements of customers who have elected to transfer from GS service to TS service.

has acted to stifle further growth in the numbers of customers who use gas transportation service and inordinately increase its charges for customers who continue to use TS service. The Company's decisions to settle its 2013 rate case and withdraw its 2016 rate filing do not provide license for the Company to ignore the concepts of gradualism and continuity in ratemaking for its Transportation Service rate changes in this proceeding. The Commission has previously accepted DEU's existing rates and charges, and TS customers should have the right to presume that those rates and charges were just and reasonable when accepted by the Commission. In that context, customers who have made gas purchase commitments and/or investment decisions on the basis of rates approved by the Commission should not now be faced with dramatic changes in those rates and charges. If changes are deemed necessary and appropriate, they should be implemented gradually over time.

A. Summary of Findings

Q. PLEASE SUMMARIZE THE KEY FINDINGS OF YOUR TESTIMONY REGARDING DEU'S CLASS COST OF SERVICE ANALYSES AND RATE DESIGN PROPOSALS?

A. The following are key findings that have been derived from my review and analysis of the testimony and exhibits DEU has sponsored in this proceeding that address class cost of service allocation and rate design, as well as the Company's responses to discovery requests propounded by ANGC and other parties:[3]

- DEU's allocations of costs by class of service have a number of shortcomings that limit the Commission's ability to accurately assess cost responsibilities by customer class.

- The Company's representations that smaller customers migrating to Rate TS have exacerbated its under-recovery of costs for that class are not supported by the Company's own data and analyses.

- DEU's representations regarding the optimization of its rate designs are misleading in that they fail to consider a key element of the Company's costs of service, i.e., demand-related costs, and inappropriately assume that customers' load factors remain constant as levels of annual gas use (i.e. throughput) change.

- DEU's TS customers are entitled to reasonable continuity in the Commission's ratemaking determinations and policies. They rely on the rates that have been approved by the Commission to make

[3] This list of key findings is not necessarily inclusive of all findings set forth in this testimony. The omission from this list of a finding set forth elsewhere in this testimony is not intended in any way to diminish the importance of such a finding.

economic decisions regarding energy-related investments and to evaluate energy purchase alternatives. Customers should be able to trust that the rates currently in effect were deemed by the Commission to be just and reasonable, and that those rates will not be subjected to dramatic changes from one case to the next.

- DEU's Rate Schedule TS proposals are insensitive to competitive market gas supply considerations and leave many current and prospective transportation service customers in a highly untenable position with respect to their budgeting of gas service costs and their competitive supply service commitments.

- Many of DEU's rate design problems stem from its attempt to address the gas service requirements of a highly diverse mix of customers through a single GS rate schedule. Most gas distribution utilities address similar customer requirements through the use of multiple rate schedules that differentiate charges for: (1) residential and non-residential users; (2) heating and non-heating customers; (3) larger and smaller firm service non-residential customers; and (4) separate charges for master metered services (e.g., apartment buildings and/or mobile home parks).

- The size of the GS class, relative to DEU's other rate classes, yields cost allocation studies in which comparatively small errors in the assessment of costs for the GS class can have large impacts on the assessed costs of service for DEU's other, much smaller, classes of service.

- When DEU's proposed charges and changes in tariff provisions for Rate TS are compared to the Company's proposals for Rate MT, serious questions must be asked regarding whether the differences in the proposed rates for those classes, which are treated as a single class for cost allocation purposes, constitute inappropriate and unjustified rate discrimination.

- DEU's proposed minimum annual usage requirement for TS customers is not well supported. The imposition of that minimum usage requirement is expected, if not specifically intended, to cause a "***mass migration*** *from TS back to sales service*."[4]

- The Company's proposed minimum annual usage requirement for Rate TS is an inefficient means of ensuring greater collection of demand-related costs; and absent the implementation of a

[4] DEU's presentation for the Cost of Service/Rate Design Technical Conference, September 12, 2019, Slide 9. (Emphasis Added).

transportation service rate for customers using less that the proposed minimum annual usage requirement, that requirement would serve as a significant and unjustified deterrent to further growth in customers' use of transportation services.

- Although DEU proposes to lower its Administrative Charge for TS customers, the Company's proposed charge remains inappropriately high. Most gas utilities either do not assess separate charges for the administration of gas transportation services or have much lower administrative charges.

- DEU's limitation on transfers of customers to TS service is unnecessary and unduly restricts customers' access to competitive gas supply alternatives.

- For most current and potential Rate TS customers, the savings they can achieve by purchasing lower cost gas supplies from a competitive service provider are more important to their decisions to use TS service than the differences in the charges that are assessed for distribution service under Rate TS and alternative sales service rates.

A. Summary of Recommendations

Q. WHAT RECOMMENDATIONS DO YOU OFFER WITH RESPECT TO DEU'S COST ALLOCATIONS AND RATE STRUCTURE PROPOSALS IN THIS PROCEEDING?

A. The following presents a summary of recommendations that I offer for the Commission's consideration in this proceeding. These recommendations are based on the findings discussed above and the discussion of issues and supporting analyses contained in the remainder of this testimony as well as the accompanying attachments and schedules.[5]

1. The Commission should find that DEU's rate design inputs and assumptions for the TS class are inconsistent, assuming on one hand that the Company will add significant numbers of new TS customers while on the other hand proposing large percentage increases in charges for TS service and significant changes in the terms of that service.

2. The Commission should exercise gradualism in its adjustment of rates for TS service and provide TS customers reasonable continuity in the rates and policies applicable to that service.

[5] This summary of recommendations is not necessarily inclusive of all recommendations set forth in this testimony. The omission from this list of a recommendation found elsewhere in this testimony is not intended to diminish the importance of such a recommendation.

Moreover, no class should be required to bear a revenue increase of more than 20% or 1.5 times the system average increase.

3. The Commission should recognize that customers make gas purchase and energy investment decisions based on the presumption that the rates presently billed by DEU were approved by the Commission as just and reasonable, and the principle of continuity in ratemaking, therefore, suggests that the Commission's exercise of gradualism in the adjustment of TS rates is essential.

4. The Commission should reject DEU's rate optimization analyses as the cost curves presented fail to address the impact of variations in customers' peak load contributions and load factors on DEU's costs of serving individual customers.

5. The Commission should not entertain DEU's proposal to place a 35,000 Dth minimum annual use requirement on customers served under Rate Schedule TS unless and until the Company develops, and the Commission has found acceptable, a new rate offering for "smaller" Rate TS customers.

6. The Commission should determine that any increase in revenue requirement for the TS class should be recovered primarily through increased charges for larger customers within that class.

7. The Commission should direct DEU to develop a separate gas transportation service rate schedule for smaller transportation service customers that wish to take advantage of third-party gas supply alternatives.

8. The Commission should require DEU to remove or substantially modify its restrictions on when a customer can transfer from sales service to gas transportation service.

9. The Commission should direct DEU to develop and implement procedures for the administration of gas transportation services that are more cost-effective, less administratively burdensome, recognizing more specifically the role of competitive service providers in the development and submission of daily nominations.

10. The Commission should require DEU to re-assess the cost basis for its Basic Service Fees in each subsequent base rate filing.

III. DISCUSSION OF ISSUES

V. **HOW IS YOUR DISCUSSION OF ISSUES RELATING TO DEU'S DIRECT TESTIMONY AND SCHEDULES IN THIS PROCEEDING ORGANIZED?**

A. The discussion of issues in this testimony is presented in two sections. Part A reviews DEU's Class Cost of Service allocations and the implications of those allocations. Part B addresses the Company's rate design proposals with particular focus on the Company's proposed distribution of its requested revenue increase among classes and DEU's proposed changes in its charges and tariff provisions for Rate TS.

A. Class Costs of Service Issues

Q. HAVE YOU REVIEWED DEU'S ALLOCATIONS OF COSTS AMONG RATE CLASSES FOR THIS PROCEEDING?

A. Yes, I have. I have examined the detail of the allocations included in the Company's "Rate Model" that is presented as DEU Exhibit 4.18. I have also reviewed a number of data request responses relating to those allocations.

1. <u>General Observations</u>

Q. DO YOU HAVE ANY GENERAL OBSERVATIONS REGARDING DEU'S ALLOCATIONS OF COSTS AMONG RATE CLASSES?

A. Yes, I do.

First, class cost of service studies should reflect cost causation. Each class should be allocated costs in a manner that reflects the Company's incurrence of costs to serve the class. Where costs are incurred for commonly used facilities or services, it is important that each class's contribution to the Company's need for the incurrence of such costs be apportioned among classes on a cost-causative basis. For distribution plant, the costs the Company incurs for the installation of facilities (e.g., mains, services, measuring and regulating equipment, and compressor station equipment) should reflect the criteria that are used by the Company to determine the sizing, length, costs, and other parameters of such facilities. For example, the sizing of facilities may be influenced by minimum sizing considerations and/or the Company's need to be able to serve fluctuations in load over time (e.g., estimated design peak day requirements). Those planning considerations should be reflected directly in the Company's development of its plant allocation factors. However, DEU's response to ANGC Data Request 1.01 states: "*System planning is unrelated to cost allocation*." That response should not be deemed reasonable or acceptable by this Commission.[6] Rather, DEU should be responsible for demonstrating the manner in which its cost allocations reflect the drivers of its planning decisions.

Second, the Company's allocations of projected costs for 2020 are premised on the assumption of additional customer transfers to the TS class which may not occur if the Company's rate design and tariff change proposals in this proceeding for the TS class are approved. This creates a significant uncertainty regarding accuracy of the numbers of customers and measures of service for which costs should be allocated to the TS class and for which TS rates should be designed. As DEU has explicitly recognized, its TS rate design proposals in this proceeding can be expected to cause a "mass migration" of existing TS customers back to other rate schedules.[7] The potential always exists that rate changes will cause some customers to re-evaluate their service options. However, most utility rate adjustments do not typically involve nearly 50% increases in overall rates for any customer class, much less the imposition of a substantial new minimum annual usage requirement. Thus, the degree of uncertainty regarding the future composition of the TS class is substantial and greatly complicates any effort to ensure fair and equitable treatment of either the customers who remain on TS service or customers who return to sales service.[8]

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[6] The Commission should note that the Company's responses to FEA Data Requests 1.09, 1.10, and 1.11 demonstrate the importance of customer demands and customer load factors to the Company's distribution system planning and therefore, its costs for its distribution system facilities.

[7] DEU's presentation for the Cost of Service/Rate Design Technical Conference, September 12, 2019, Slide 9.

[8] As discussed further below, the movement of customers from the TS class to GS service does not necessarily result in those customers receiving more appropriately priced service given that larger GS customers generally subsidize the costs of service for smaller customers within that class.

DEU's arguments that the transfer of comparatively smaller customers to the TS rate class have eroded its overall recovery of costs from that class are not correct (a matter that I will discuss further later in this testimony). The decisions of customers either not to switch from other rates to TS service or to move from the TS class back to GS, FS or IS service could significantly impact the costs that the Company's TS rates should be designed to recover.

Third, the size of the GS class relative to the other classes to which costs are allocated is a concern. For almost every allocation, the GS class is responsible for the vast majority of the measure on which costs are allocated. As a result, comparatively small errors in the development of allocators for the GS class can have large impacts on the Company's assessment of cost responsibilities for other classes. This further erodes the confidence the Commission can place on the Company's assessment of its costs for providing TS service.

Q. HAVE YOU IDENTIFIED ANY OTHER PROBLEMS IN DEU'S ANALYSIS OF ITS COSTS OF SERVICE BY RATE CLASS?

A. Yes. I have identified several areas in which the Company's allocation of costs among rate classes are inappropriate and/or warrant further examination. For the purposes of this presentation, I will focus on three additional concerns regarding DEU's cost allocation methodologies. First, the Company uses a 60/40 weighting of Design Day Demands and Annual Throughput to allocate major elements of its plant investment costs,[9] as well as its O&M expenses for Measuring and Regulating Stations (Accounts 875 and 889). That 60/40 weighting of Design Day and Annual Throughput is arbitrary and not cost-based, and it overstates the cost responsibilities of users of natural gas outside the GS class that typically have larger volume service requirements. Second, the Company's assignment of costs for small diameter mains inappropriately penalizes customers who are located closer to mains of greater diameter. Third, DEU inappropriately allocates **all** of its administrative and general ("A&G") expenses on the basis of **gross plant** despite the existence of little if any relationship between the magnitude of the Company's plant investment and substantial elements of its A&G costs.

2. Design Day/Throughput Allocation Factors

Q. WHY IS DEU'S 60/40 WEIGHTING OF DESIGN DAY DEMANDS AND ANNUAL THROUGHPUT IN ITS ALLOCATION OF IMPORTANT ELEMENTS OF ITS DISTRIBUTION PLANT COSTS INAPPROPRIATE?

A. DEU offers no cost or operational justification for the 60/40 weighting of Design Day and Throughput allocators that it employs. However, based on the data the Company uses to construct those allocators we can compute that those factors

[9] DEU's 60/40 weighting of Design Day Demands and Annual Throughput is applied to its plant costs for "Mains - Feeders" in Account 376, Compressor Station Equipment (Account 377), and Measuring and Regulating Station Equipment (Account 378).

reflect an annual system load factor of **32%**. In other words, the Company's average daily throughput (i.e., annual throughput divided by 365 days) equates to only **32%** of the Company's estimated design day requirements. This suggests that if the system were designed only to serve average daily throughput requirements it would need only 32% of the capacity required to serve its design day requirements. Increases in the sizing of DEU's distribution facilities are required to meet differences between customers' average throughput requirements and its design day peak requirements, and the Company's load distribution load factor suggests that peak day demands account for **68%** of DEU's total required capacity. Thus, I recommend that DEU's 60/40 weighting of Design Day and Throughput allocators be replaced with a **68/32** weighting.

3. DEU'S Distribution Plant Factor Study

Q. DO YOU FIND THE COMPANY'S DEVELOPMENT OF ITS PLANT FACTOR STUDY REASONABLE?

A. I do with one exception. That exception lies in the manner in which the Company assesses cost responsibilities for small diameter mains.

Q. PLEASE EXPLAIN THE BASIS FOR YOUR CONCERNS REGARDING DEU'S DISTRIBUTION PLANT FACTOR METHODOLOGY AS IT RELATES TO COSTS FOR SMALL DIAMETER MAINS?

A. DEU's assignment of costs for small diameter mains is not reflective of cost-based considerations. The location of a customer, in and of itself, should not be the basis for assessing greater responsibility for small diameter mains. However, the Company's methodology yields results in which a customer located closer to larger diameter mains[10] is assessed greater cost responsibilities than a customer more distant from larger diameter mains. That is not a reasonable or appropriate assignment of costs.

The problem in DEU's assessment of cost responsibilities for small diameter mains is illustrated by the following example. Two customers are directly connected to 2-inch diameter mains. However, the first customer is located 400 feet from a 4-inch main while the second is located more than a thousand feet from any main of greater than 2-inch diameter. The Company's Distribution Plant Factor methodology for small diameter mains assigns costs for 400 feet of 2-inch main and costs for 600 feet of 4-inch main to the first customer while the second customer is assigned costs for 1,000 feet of 2-inch main. Assuming the number of customers per 1,000 feet of mains is similar for the two examples and the Company's costs of 4-inch mains are greater than its costs for 2-inch mains, the first customer is assessed to have significantly greater

[10] As explained in the Direct Testimony of DEU Witness Summers, the Company has defined small diameter mains to include mains of 6-inch diameter and smaller. In the context of this discussion, the phrase "larger diameter main" is intended to refer to a main of greater diameter than the main to which a customer is directly connected but does not go beyond the Company's definition of small diameter mains. For example, if a customer is directly connected to a 2-inch main, a 3-inch or 4-inch diameter main would constitute a larger diameter main.

responsibility for small diameter main costs. This does not reflect cost causation. It only reflects the difference in their distance from larger diameter mains.

The Company's methodology unjustifiably assumes that the first customer's location causes the Company to incur costs for larger diameter mains. However, DEU incurs costs for larger diameter mains where the aggregated demands of all customers served from a main segment require greater capacity. The location of a customer closer to a larger diameter main has no direct bearing on the Company's need to incur costs for the larger diameter mains. Whether a customer served by a specific segment of larger diameter main is located a few hundred feet or several thousand feet from a larger diameter main is not a relevant consideration in the absence of explicit consideration of each customer's demand requirements. Yet, there is nothing in the Company's methodology that assesses the impact of an individual customer's load (demand) requirements on the need for increased diameter in the upstream mains to which the customer may be connected.[11]

[11] The Company's methodology for the assignment of costs for small diameter mains includes consideration of the rating of the meter through which a customer is served. However, the rating of a customer's meter is not necessarily indicative of the demands a customer places on the Company's smaller diameter mains. Thus, meter ratings are only reflective of the Company's estimate of a customer's maximum anticipated gas use at the time the customer submits an application for service. Such estimates of a customer's maximum demand potential can vary significantly from a customer's actual demands or anticipated future demands. With diversity in the timing of the customer's use of gas consuming equipment, the likelihood increases that the customer's actual maximum demands will fall below the maximum flow rates for which the customer's meter is sized. In addition, other factors can cause a customer's demand requirements to be considerably less than the maximum rating of the meter installed at the customer's service location. Those factors may include: (1) changes in a customer's activities; (2) a customer's installation of more energy-efficient equipment; and/or (3) efforts by a customer to better insulate its facilities.

4. <u>DEU's Allocation of A&G Expenses</u>

Q. WHY IS DEU'S ALLOCATION OF A&G EXPENSES ON THE BASIS OF PLANT COSTS INAPPROPRIATE?

A. DEU's A&G expenses now account for over **40%** if the Company's total annual operating and maintenance expenses. Substantial elements of those costs have little or no relationship to the amount of plant included in the Company's rate base, and therefore those costs are not properly allocated among rate classes on the basis of the Company's allocated plant by class. Again, a class cost of service study should seek to identify cost causative relationships and reflect those relationships in the determination of class cost responsibilities. DEU's blanket application of a single factor (i.e., gross plant) to apportion costs for a wide array of Administrative and General expense accounts departs significantly from the basic purpose for preparing class cost of service allocation studies.

The largest single component of the Company's A&G expense is found in Account 923, Outside Services. In this case Outside Services constitute **$35.2 million** or **over 71%** of the Company's total A&G expense. Outside services can include a wide range of activities, such as financial services, legal services, and human resource services which have no cost-causative relationship to the Company's gross plant investment. Furthermore, in a holding company structure, Outside Services may include costs for a number of activities that were formerly performed in-house but are now performed by an affiliated service company or by parent company personnel. Transfer of activities formerly performed in-house to an outside entity or to an affiliated service company must not be permitted to distort the Company's assessment of class responsibilities for such costs.

Other significant elements of the Company's A&G costs represent labor-related expenses, not plant-related costs. For example, Employee Pensions & Benefits (Account 926) at **$9.7 million** represents the second largest component of DEU's A&G expenses, and those costs are clearly labor-related costs. In addition, the Company's incurrence of costs for Office Supplies & Expenses (Account 921) and Administrative and General Salaries (Account 920) are more likely to be labor-related, than plant-related expenditures.

In essence, the Company's Administrative and General Expenses represent a significant component of its overall operating expenditures. Yet, DEU has failed to properly examine the details of those costs and ensure that those costs are allocated among classes in a manner that reasonably reflects cost-causative relationships. As a result, the overall accuracy and reliability of DEU's class cost of service allocations is eroded. For this reason, the Commission should require DEU to perform a more detailed assessment of the components of its A&G costs and the factors that drive the incurrence of those costs for its next base rate proceeding. Moreover, the Commission should specify that DEU's examination of its A&G costs should include identification and separate allocation of the major components of its costs for Outside Services in

Account 923, noting where those costs serve to replace expenditures for activities formerly performed in-house.

5. <u>TS Class Cost Recovery</u>

Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING DEU WITNESS SUMMERS' COST OF SERVICE PRESENTATION?

A. Yes. At the bottom of page 9 and the top of page 10 of his Direct Testimony, Witness Summers discusses the results of the Company's Design Day Factor Study. He reports that the average load factor for the GS class was computed to be 25.6%, while the average load factor for the FS class was 45.4%. He neglects to mention that the Company's Design Day Factor Study computes an average load factor for the TS class is 72.1%. This indicates that the TS class load factor is 2.8 times the GS load factor and 1.59 times the load factor for the FS class.

Q. WHY IS THE MUCH HIGHER LOAD FACTOR OF THE TS CLASS RELEVANT?

A. Lower load factor operations require the Company to increase its sizing of distribution facilities to accommodate fluctuations in a class's demands over the course of a year. The comparatively high load factor for the TS class indicates the substantially less variability in the requirements of customers in that class.

Thus, the amount required to serve TS customers per unit of annual throughput will be significantly less on average for the TS class than for the GS and FS classes.

Q. DEU WITNESS SUMMERS SUGGESTS THAT THE TRANSFER OF CUSTOMERS INTO THE TS CLASS WITH USAGE LEVELS SMALLER THAN THOSE PREVIOUSLY ASSOCIATED WITH THAT CLASS HAS SIGNIFICANTLY ERODED COST RECOVERY FOR THE TS CLASS. DO YOU FIND SUBSTANTIVE SUPPORT FOR THAT ARGUMENT?

A. No. I do not. As previously noted, Witness Summers' representations regarding cost recovery from the TS class are incorrect and misleading. While it appears the Company may not be achieving a system average rate of return from the TS class, the Company did not properly assess the causes of its claimed under-recovery of costs. The Commission should note, for example, that DEU's response to ANGC Data Request 1.04 suggests that customers who are expected to transfer from other rate schedules to TS service in the coming year will reduce their gas use in each winter month while increasing their gas use in summer months. That shift of nearly 20% of their annual gas use to summer months is generally viewed in this industry as a positive result which provides for more cost-effective and efficient use of gas distribution system facilities.

In addition, data derived from DEU's responses to ANGC Data Requests 2.01 and 2.02 indicate that between calendar year 2018 and the twelve months ended August 2019, DEU experiences an increase of 114 customers in the TS class.[12] Yet, despite that roughly 12% increase in the number of Rate TS customers, average use per customer for the TS class declined only 1.8%. (See **ANGC Exhibit 2.01**). That is not a level of change that necessitates dramatic rate adjustments.

However, the most compelling information on this matter is found in Attachment 5 to the Company's response to DPU Data Request 11.01. That attachment provides a cost of service summary similar to the COS Summary included in DEU Exhibit 4.18. The key distinction is that the costs of service summary provided in in Attachment 5 to the Company's response to DPU Data Request 11.01 splits the TS class into two segments (i.e. a TSS class for customers using less than 120,000 Dth per year and a TSL class for customers using greater than 120,000 Dth per year)[13] and computes rates of return and revenue deficiencies separately for each of the Rate TS subclasses.

When the TS class is split as suggested in DPU Data Request 11.01, the results are almost directly counter to DEU's assessment of the cause of its revenue deficiency. The Company computes an overall revenue deficiency for the TS class of $12.3 million. Of that revenue deficiency **TSL** customers (i.e., customers who use **in excess** of 120,000 Dth per year) account for **$10.9 million** or **88.9%** of the total. The TSS class (that comprises smaller trans-

[12] The number of TS customers increased from 946 in 2018 to 1060 for the twelve months ended August 2019.

[13] For clarity, the acronym "TSS" stands for Transportation Service Small and the acronym "TSL" stands Transportation Service Large.

portation service customers) is responsible for less than **$1.4 million** or 11.1% of the overall TS class revenue deficiency. Moreover, the Company's computed rate of return for TSS service prior to any rate adjustment is **6.27%**, while the TLS rate of return is **0.59%**. Unfortunately, it appears that these results were only computed in response to the referenced DPU data request and were not examined by DEU prior to the submission of its application in this proceeding. A copy of the cost of service summary from Attachment 5 to the Company's response to DPU Data Request 11.01 is attached to this testimony as **ANGC Exhibit 2.02** with the Company's computed pre-increase RORs and revenue deficiencies for TSS and TSL customers.

Q. HAS DEU PROVIDE ANY OTHER ANALYSES OF ITS COSTS FOR SERVICE FOR SUBDIVISIONS OF THE TS CLASS?

A. Yes. The Company's response to USM Data Request 2.01, Attachment 5, presents an analysis costs for TSS and TSL subdivisions of the TS class similar to that found in Attachment 5 to DPU Data Request 11.01. The key difference is that the USM data request asked the Company to divide the class at 800,000 Dth of annual use. **ANGC Exhibit 2.03** combines the data from DEU's responses to DPU Data Request 11.01 and USM Data Request 2.01 to show results for three segments of the TS class (i.e., 0 to 120,000 Dth per year, 120,000 to 800,000 Dth per year, and greater than 800,000 Dth per year). **ANGC Exhibit 2.03** shows that TS customers using less than 120,000 Dth per year account for

50.1% of the TS class total Non-Gas Distribution Revenue at present rates, 24.0% of TS class annual throughput, but only 11.1% of the classes revenue deficiency at the Company's proposed revenue requirement in this proceeding. It also indicates that the Company's computed revenue deficiency for customers using less 120,000 Dth per year equates to only **9.9%** of revenue at present rates for those customers.[14] By contrast, the revenue deficiency for TS customers that use over 800,000 Dth per year equals **174.5%** of the revenues that those customers generate at present rates. Again, this emphasizes the point that small TS customers are not the primary cause of DEU's claimed under recovery of costs from the TS class.

B. Rate Design Issues

Q. WHAT IS THE PRIMARY FOCUS OF DEU'S RATE DESIGN PROPOSALS IN THIS PROCEEDING?

A. As presented in the Direct Testimony of DEU Witness Summers, the primary focus of the Company's rate design proposals is increasing its charges for TS service to what it represents are 'full cost" levels, and deterring further use of Rate TS by customers who consume less than 35,000 Dth per year. DEU also

[14] If DEU's requested ROE is reduced, as ANGC and others have recommended in this proceeding, any revenue deficiency for TS customers using less than 120,000 Dth per year could be significantly reduced, if not fully eliminated.

examines alternative block structures for the GS class and the appropriate historic period for use in determining normal heating degree days.

1. <u>Existing Interclass and Intra-class Rate Subsidies</u>

Q. DEU WITNESS SUMMERS HAS SUGGESTED THAT AT PRESENT THE TS CLASS IS COVERING ONLY 40% OF ITS COSTS OF SERVICE.[15] IS THAT AN ACCURATE REPRESENTATION OF THE RESULTS OF THE COMPANY'S CLASS COST OF SERVICE STUDY?

A. No, it is not. Accepting ***<u>arguendo</u>*** the results of the class cost of service study presented in DEU Exhibit 4.18, that study indicates the TS class is currently providing revenues that equate to about **70%** of its allocated cost of service.[16] In other words, the Company's cost of service allocations show that its recovery of costs from the TS class is not substantially different today than was reflected in the settlement accepted by the Commission in Docket No. 13-057-05.[17] Thus, DEU's claims that further transfers of customers to TS service since Docket No.

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[15] DEU's presentation for the Cost of Service/Rate Design Technical Conference, September 12, 2019, Slide 6; and the Direct Testimony of DEU Witness Summers, page14, lines 354-357. In addition, DEU's Response to ANGC Data Request 1.10, part b., states, "*The revenue currently collected from the TS class is more than 50% below the cost of service.*"

[16] As shown in the Company's summary of its Class Cost of Service allocations, DEU has allocated $41.05 million of annual revenue requirements to the TS class. That summary also shows that the TS class provides $28,974,801 of revenue at present rates. Dividing the TS class revenue at present rates by the Company's allocated costs for that class indicates that based on the Company's COS results the TS class presently recovers over **70%** of its allocated costs (i.e., $28.97 million divided by $41.05 million = 70.6% coverage of allocated costs), not 50% coverage as Witness Summers suggests.

[17] DEU's presentation for the Cost of Service/Rate Design Technical Conference, September 12, 2019, Slide 6, indicates that its 2013 rate case was settled with the TS class at 72% of its cost of service.

13-057-05 have substantially eroded its cost recovery from that class are not substantiated by its own cost allocation results.

Q. WITNESS SUMMERS' TESTIMONY ALSO SUGGESTS THAT THE TS CLASS IS MORE HEAVILY SUBSIDIZED THAN THE TBF CLASS. IS THAT ASSERTION CONSISTENT WITH THE RESULTS OF THE COMPANY'S COST OF SERVICE STUDY?

A. No. The COS summary presented in DEU Exhibit 4.18 shows the TS class generating a Return on Rate Base of 2.75%. By contrast, DEU computes that that TBF class provides a **-3.36%** Return on Rate Base. The Company's class cost-of-service analyses do not support Witness Summers' statement. Clearly, the TS class is providing greater cost recovery than the TBF class.

Q. ARE DEU'S RATE DESIGN PROBLEMS LIMITED TO ITS DESIGN OF CHARGES FOR THE TS CLASS?

A. No. Witness Summers' Direct Testimony indicates that customers switching to the TS rate class from the GS class were likely subsidizing the Company's service to smaller customers within the GS class.[18] Thus, it is apparent that DEU's GS rates also are not properly designed for many of the commercial and industrial customers who have elected to use gas transportation services.

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[18] The Direct Testimony of DEU Witness Summers, page 13, lines 342-344; and page 23, lines 598-599.

2. <u>DEU's Rate Optimization Analyses</u>

Q. THE DIRECT TESTIMONY OF DEU WITNESS SUMMERS DISCUSSES THE CONCEPT OF "RATE OPTIMIZATION." SHOULD THE COMMISSION ACCEPT THE COMPANY'S REPRESENTATIONS OF WHAT CONSTITUTES AN "OPTIMIZED" RATE DESIGN?

A. No. Witness Summers testifies, "*The Company has developed an algorithm that optimizes the rates for each class*." However, the rate optimization analyses the Company presents are misleading and do not appropriately address rate optimization concerns. Importantly, the "*cost curves*" shown in DEU Exhibit 4.10 are a two dimensional representation of a **three dimensional** problem. Notably missing is any consideration of the manner in which a customer's cost responsibilities change as the customer's load factor (i.e., the relationship between a customer's usage volumes and peak service requirement) changes. Although the Company's Cost of Service model separately identifies demand-related costs, Witness Summers' "rate optimization" analyses implicitly assume that each customer's annual load factor remains constant across all levels of use (i.e., the customer's demand-related cost responsibilities do not vary with changes in usage even though such increased usage may be in off-peak periods). Any attempt to optimize DEU's rate designs based solely on revenue per Dth is meaningless if the impacts of variations in the relationship between a customer's annual usage and the customer's demand cost responsibilities are not explicitly considered.

Q. DO THE COMPANY'S GS RATE DESIGN PROPOSALS PROVIDE CHARGES THAT BETTER TRACK THE COMPANY'S COSTS OF PROVIDING SERVICE TO CUSTOMERS IN THE GS CLASS?

A. No. The costs that DEU needs to recover per Dth of gas use for Rate GS customers is directly related to the relationship between incremental gas use and incremental demands that a customer places on the system. In the absence of separate demand charges for Rate GS customers, the Company offers no evidence that its proposed pricing of gas service to GS customers properly reflects the manner in which demand cost responsibilities for customers in that class vary with changes in gas use.

To the extent a customer's load factors improve as monthly usage increases, the changes in the block structure and charges by rate block for Rate GS customers would serve to limit ability of the Company's rates to track its costs. The Company's GS rate design proposals, therefore, do not adequately address the diversity of customers and usage patterns to which the GS rate schedule is applied. For example, customers having a greater proportion of non-heating load, regardless of size, will tend to have comparatively smaller contributions to system peak requirements than a heating customer with the same level of annual gas use. Thus, the non-heating customer will have lower cost responsibilities per unit of gas use, than customers who primarily use natural gas for space heating purposes.

DEU's efforts to maintain a single GS rate schedule to address the service requirements of a diversity of customer usage requirements may reduce issues regarding **interclass** rate equity. But that practice amplifies **intra-class** rate equity issues. It also greatly limits the Company's ability to ensure that its billed charges for customers having different usage characteristics reasonably reflect the costs of the services they are provided.

Most gas utilities have elected to address differences in customer usage characteristics through the development of separate rate schedules for customer groups having identifiable differences in their gas use patterns. For this reason, gas utilities typically have separate rate schedules for residential and non-residential customers and often further segment those groups by providing separate rate offerings for space heating customers and for non-space heating customers. In addition, within their non-residential firm service rate offerings, rates are often differentiated for small, medium and large usage customers and/or for high load factor and lower load factor customers.

The establishment of separate rates for classifications of customers with different usage characteristics can help to limit the diversity of usage characteristics for which a set of rates must be designed. It also can enable a utility to better track demand cost responsibilities within a class without the added costs of demand metering. To the extent DEU has concerns regarding the costtracking nature of its rates, the Company may benefit from starting its rate reform efforts with a division of its current GS rate class in to a number of separate rate classes with rates for each class more specifically designed to address the usage characteristics of a more narrowly defined set of customers.

Q. HAS DEU OFFERED RATE ANALYSIS THAT PURPORTS TO OPTIMIZE ITS CHARGES FOR TS CUSTOMERS?

A. Yes. However, once again, DEU's purported "Optimal TS Rates"[19] fail to address the manner in which variations in customers' load factors impact its costs of providing service, and the relationship the manner in which the relationship between costs and revenues is altered when load factors of customers within the TS class vary. Given that a number of customers within the TS class utilize interruptible gas service for some or all of their requirements, the observable variations in load factors for the TS class are substantial. From the customer-by-customer demand and throughput data provided in the attachment to DEU's response to OCS Data Request 6.09, I have identified more than 109 of the 1,019 customers that TS class data set who had annual load factors in excess of 100% due to their use of interruptible gas volumes. At the other end of the spectrum were approximately 90 TS customers with annual load factors less than 20%. Yet, even within the Company's 100 largest TS customers (based on

[19] DEU's presentation for the Cost of Service/Rate Design Technical Conference, September 12, 2019, Slide 9.

annual throughput), individual customers' annual load factors ranged from about 23% to well over 1000%.

3. DEU's Proposed TS Rate Design and Tariff Changes

Q. HAS DEU PREPARED A DETAILED ANALYSIS OF ITS COSTS AND REVENUES BY CUSTOMER FOR THE TS CLASS?

A. Yes, it has. As part of the Company's effort to examine alternative block structures for the TS class, DEU has developed a customer-by-customer assessment of its TS costs of service and revenues. That analysis has been provided in the Company's response to the Office of Consumer Services ("OCS") Data Request 6.09.[20]

Q. WHAT RELIANCE SHOULD BE PLACED ON THE ANALYSIS OF COSTS AND REVENUES FOR THE TS CLASS THAT IS PRESENTED IN THE COMPANY'S RESPONSE TO OCS DATA REQUEST 6.09?

A. None. That analysis, which attempts to depict a customer-by-customer assessment of the Company's costs and revenues for its TS class includes a number of conceptual flaws that severely undermine the usability of its results. However, as

[20] The Commission should note that this analysis was not used in the development of the Company's rate model. Rather, it references the results of the Company's rate model. Thus, there is no evidence that the analysis presented in DEU's response to OCS Data Request 6.09 was used in any way to develop the Company's TS rate design proposals in this proceeding.

I explain below, some insights may be gleaned from customer-by-customer data inputs used in that analysis.

a. <u>Basic Service Fees</u>

Q. DOES THE RATE DESIGN ANALYSIS PRESENTED IN DEU'S RESPONSE TO OCS DATA REQUEST 6.09 ACCURATELY REFLECT INDIVIDUAL TS CUSTOMERS' RESPONSIBILITIES FOR CUSTOMER-RELATED COST?

A. No. The Company's analysis in that response inappropriately assumes that all TS customers bear equal responsibility for customer-related costs assigned to the TS class. As shown in that analysis, each TS customer is assigned $5,289.15 of customer costs. This ignores the Company's Basic Service Fee structure which recognizes differences in customer cost responsibilities for all classes based on meter size categories. Thus, that analysis erroneously assumes that all TS customers require similar meter ratings and thereby have similar customer cost responsibilities. However, when examining revenue per customer, the same analysis recognizes that TS customers actually are billed in each Basic Service Fee category. The rate design analysis included in the Company's response to OCS Data Request 6.09 also overlooks DEU Distribution Plant Factor analysis which differentiates customers' cost responsibilities based on meter size (i.e., meter maximum flow ratings).

As set forth in the Company's tariff, customers in all classes (except the NGV class) are assessed Basic Service Fees under a uniform schedule of charges. When that schedule of Basic Service Fees is compared with the Company's assigned annual customer cost for each TS customer in its response to OCS Data Request 6.09, we find that none of the Company's Basic Service Fees recovers the assigned level of customer-related costs for TS service customers. Furthermore, the implied under-recovery of customer costs for all TS customers included in BSF Categories 1, 2, and 3 is more than $4,500 per customer. See Table 1 below.

Table 1
Comparison of Basic Service Fees with
Assigned Annual Customer Costs for the TS Class

Category	Monthly Charge	Annual Revenue	Assigned Annual Cost	Over (Under) Recovery
BSF Category 1	$ 6.75	$81.00	$5,289.15	($5,208.15)
BSF Category 2	$ 18.25	219.00	$5,289.15	($5,070.15)
BSF Category 3	$ 63.50	$762.00	$5,289.15	($4,527.15)
BSF Category 4	$ 420.25	5,043.00	$5,289.15	($ 246.15)[21]

These results portray a very different cause for the under-recovery of costs from TS customers than DEU suggests. Where DEU suggests that its under-recovery from TS customers is a result of inappropriately structured Distribution Non-Gas Charges, the analysis in Table 1 suggests that any under-recovery of costs from smaller TS customers may stem primarily from an

[21] Over- (Under-) recovery equals the Annual BSF revenue less the Assigned Annual Cost.

inconsistency between the levels of the Basic Service Fees that DEU uniformly applies to all classes (other than NGV service) and DEU's identified customer-related costs by class.

Q. ARE THERE OTHER RATE CLASSES FOR WHICH SIGNIFICANT DIFFERENCES BETWEEN ALLOCATED CUSTOMER COSTS AND THE COMPANY'S BASIC SERVICE FEES CAN BE IDENTIFIED?

A. Yes. The Rate Model presented in DEU Exhibit 4.18 includes a "Classification" analysis in which the functional components of the costs allocated to each rate class are identified. That analysis segregates the allocated costs for each class into four categories: Customer Costs, Distribution Plant Costs, Throughput Costs, and Demand Costs. Accepting *arguendo*, the accuracy of the Company's identified Customer Costs by class, we find, for example, that the Company allocates $295,229 of Customer Costs to the TBF class. For the six customers in that class, the average annual cost per customer is $49,205. To recover those costs, the monthly customer charge for the TBF class would need to be $4,100.40. Yet, none of the Company's Basic Service Fees even begins to approach that level. DEU's highest Basic Service Fee (i.e., the fee for Category 4) is only $420.25 per month. Even if we allow for a 50% subsidy of TBS class Customer Cost responsibilities, the Company's cost "Classification" analysis would yield a monthly charge of $2,050.20 or nearly five times more than the Category 4 Basis Service Fee.

On the other hand, the cost “Classification” analysis in DEU Exhibit 4.18 yields an average charge per customer for all GS customers of only $4.56 per month. That is lower than the lowest (Category 1) Basic Service Fee which, as shown in Table 1 above, is $6.75 per month. Nothing in the Company’s presentation in this case addresses these difference between its cost allocation results and its current Basic Service Fees.

Q. DID YOU SEEK GREATER INFORMATION REGARDING THE COST BASIS FOR THE COMPANY’S BASIC SERVICE FEES?

A. Yes. ANGC Data Request 1.13 asked DEU to identify the costs that it seeks to recover through its Basic Service Fee for each BSF Category. DEU’s response to that request provided copies of pages from QGC Exhibit 4.8 in Docket No. 13-057-05 which show a development of charges based on forecasted 2012 costs, as well as a higher federal income tax rate than is now applicable and a higher overall cost of capital than the Company proposes in this proceeding. Apparently, DEU did not update that analysis from Docket No. 13-057-05 before proposing to maintain its Basic Service Fees at their present levels.

b. <u>Minimum Annual Use Requirements</u>

Q. DOES DEU’S RATE SCHEDULE TS CURRENTLY INCLUDE A MINIMUM ANNUAL GAS USE REQUIREMENT?

A. No, it does not.

Q. WHAT IS THE MINIMUM ANNUAL REQUIRED GAS USE THAT DEU PROPOSES FOR RATE TS CUSTOMERS?

A. The Company's proposed tariff pages for Rate Schedule TS introduce a new **35,000 Dth** minimum annual usage requirement for **<u>new</u>** Rate TS customers. As stated in the Company's proposed tariff:

> *Beginning on March 1, 2020 a minimum annual usage of 35,000 Dth is required for any customer to begin TSF or TSI service under this section. Those customers taking service under this section on or before February 29, 2020 may continue to receive service under this rate schedule.*

Q. WHAT PERCENTAGE OF THE CUSTOMERS CURRENTLY RECEIVING SERVICE UNDER RATE TS HAVE ANNUAL GAS USE THAT MEETS OR EXCEEDS THE COMPANY'S PROPOSED MINIMUM ANNUAL USAGE REQUIREMENT?

A. Based on DEU data for 2018 **less than 20%** of the 948 Rate TS customers in that year had annual usage equal to or greater than 35,000 Dth.[22] In other words, **more than 80%** of existing Rate TS customers in 2018 **did not meet the Company's proposed minimum annual usage requirement.**

[22] With further growth in the number of TS customers since 2018, the current percentage of total TS customers that meet the 35,000 Dth minimum annual usage requirement is most likely even lower.

Q. HAS DEU IDENTIFIED A COST BASIS FOR THE PROPOSED DIFFERENTIATION OF ITS TREATMENT OF NEW AND EXISTING RATE TS CUSTOMERS WITH RESPECT TO REQUIRED MINIMUM USAGE?

A. No, it has not.

Q. SHOULD THE COMMISSION ACCEPT THE PURPORTED "CLUSTER ANALYSIS" ON WHICH DEU HAS RELIED TO CHOOSE ITS PROPOSED MINIMUM ANNUAL USAGE REQUIREMENT FOR RATE TS CUSTOMERS?

A. No. The analysis that Witness Summers presents in Chart 3 in DEU Exhibit 4.11 is not meaningful and provides no insight for an appropriate grouping of customers within the TS class. Witness Summers submits, "*Cluster analysis is a mathematical technique that identifies subsets within a larger group where members of a subset are more similar to each other than to members outside of the subset*."[23] However, the "cluster analysis" Witness Summers purports to present in DEU Exhibit 4.11, Chart 3, only shows that customers who used less than 30,000 Dth annual use less gas than customers who consumed more than 30,000 Dth annual. Moreover, after concluding that there is a "possible" separation point at approximately 30,000 Dth per year, Witness Summers asserts: "*After analyzing each of these characteristics of the TS Class customers, the Company determined 35,000 Dth is a suitable minimum use requirement*."[24] Yet, nothing in his exhibits or workpapers provides any evidence of examination

[23] The Direct Testimony of DEU Witness Summers, page 25, lines 650-652.
[24] Ibid., lines 652-653.

of any customer characteristics other than annual usage, and he provides no analytic foundation for the Company's determination that "*35,000 Dth is a **suitable** minimum use requirement." (Emphasis Added.)*

Q. HAVE YOU EXAMINED GROUPINGS OF CUSTOMERS WITHIN THE TS CLASS THAT IDENTIFY MORE HOMOGENEOUS SUBSETS OF CUSTOMERS WITHIN THAT CLASS?

A. Yes, such groupings are shown in **ANGC Exhibit 2.04**. That exhibit depicts eight subgroups within the TS class. Within each subgroup, at least 57.7% of the customers in the subgroup have annual Dth use within plus or minus one standard deviation of the subgroup mean annual usage level, and at least 95% of the customers in the subgroup are within plus or minus two standard deviations of the subgroup mean. Moreover, the mean usage levels for these subgroups generally align well with the median usage level for the subgroup, suggesting that customers within the group are fairly evenly distributed above and below the identified mean usage for the subgroup. I do not represent that the groupings of TS customers shown in **ANGC Exhibit 2.04** are the only reasonable groupings that might be identified for the TS class. However, the identified subgroups better portray "*subsets within a larger group* [based on annual gas use] *where members of a subset are more similar to each other than to members outside of the subset*." Still, I must emphasize that even the analysis in **ANGC Exhibit 2.04** does not address differences among TS customers related to annual load factor which appears to be an important determinant of individual customer cost responsibilities.

Q. DOES DEU APPLY MINIMUM ANNUAL USE REQUIREMENTS FOR OTHER CLASSES OF SERVICE?

A. Yes. The Company currently has minimum annual use requirements for customers served under Rate FS and Rate IS.

Q. WHAT ARE THE CURRENT MINIMUM ANNUAL USE REQUIREMENTS FOR RATE TS AND RATE IS CUSTOMERS?

A. DEU's minimum annual use requirement for **Rate FS** customers is **2,100 Dth**.[25] The Company's minimum annual use requirement for **Rate IS** customers is **7,000 Dth**.[26] Neither of those rate schedules includes a demand charge.

Q. DOES THE COMPANY OFFER ANY EXPLANATION OR JUSTIFICATION FOR THE RELATIVE LEVEL OF THE MINIMUM ANNUAL GAS USE REQUIREMENT THAT IT NOW PROPOSES FOR RATE TS CUSTOMERS?

A. No, it does not. The only support DEU offers for its proposed minimum annual usage requirement is the analysis presented in DEU Exhibit 4.11, Chart 3.

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25 Dominion Energy Utah, Natural Gas Tariff, PSCU 500, **page 2-5**, Advice No. 19-09, Section Revision No. 15, effective August 1. 2019

26 Dominion Energy Utah, Natural Gas Tariff, PSCU 500, **page 4-4**, Advice No. 19-09, Section Revision No. 15, effective August 1. 2019

Q. DID QUESTAR PREVIOUSLY APPLY A MINIMUM CHARGE TO CUSTOMERS WHO USED GAS TRANSPORTATION SERVICES?

A. Yes. DEU's response to ANGC Data Request 2.05 indicates the former FT-2 rate class had a minimum annual charge based on 120,000 Dth of annual gas use. It should be noted that, as shown in Attachment 1 to DEU's response to ANGC Data Request 2.05, the FT-2 rate schedules had no demand charge. When the TS Rate Schedule was implemented in 2009, the minimum annual charge was replaced by a separately stated demand charge.

Q. IS THERE SOUND RATIONALE FOR APPLYING BOTH A DEMAND CHARGE AND A MINIMUM ANNUAL USAGE REQUIREMENT FOR TS CUSTOMERS?

A. No. Both the formerly used "minimum annual charge" and the more recently implemented "demand charge" are employed to ensure the Company's collection recovery of demand-related costs. However, DEU's current demand charge is the preferable approach for collecting demand-related costs since it is billed directly on each customer's contracted peak day gas supply. The former minimum charge implicitly assumed a relationship between TS customers' demand cost responsibilities and their annual gas use (i.e., customers' annual load factors) that could cause the amounts billed to TS customers for recovery of demand-related cost to deviate from their actual demand cost responsibilities.[27]

[27] The FT-2 rate schedule provided in Attachment 1 to DEU's response to ANGC Data Request 2.05 indicates that FT-2 rate classification also included a requirement that customers served under that rate maintain at least a 50% annual load factor. The annual load factor requirement, in combination with that

The demand charge currently employed within the TS rate schedule is not dependent upon arbitrary assumptions regarding the relationship between a customer's annual gas use and the customer's load factor to assess the customer's demand cost responsibilities. Therefore, a demand charge is preferable to a minimum usage requirement for the recovery of demand-related costs. It is also apparent the DEU's proposed minimum demand charge is not a remedy for its TS class cost recovery concerns.

Q. SHOULD THE COMMISSION ACCEPT DEU'S PROPOSAL FOR THE ADDITION OF A MINIMUM ANNUAL GAS USE REQUIREMENT ON RATE TS CUSTOMERS?

A. No. As explained above, given the Company's application of a separately stated demand charge to TS customers' contract demands, DEU's proposed minimum annual usage requirement is unnecessary and redundant. Moreover, the level of the Company's proposed minimum annual gas use requirement is not justified, and DEU's non-cost-based application of the proposed minimum use requirement to only new Rate TS customers (i.e., customers taking service on or before February 29, 2020) is unduly discriminatory. In this context, the Commission must ensure that the Company's proposals are not simply a means for DEU to slow further development of an otherwise vibrant competitive gas supply market in Utah.

minimum annual charge (although unnecessarily restrictive), did serve to limit the impacts of variations in customers' actual load factors on their demand cost responsibilities.

The Commission is also asked to recognize that DEU's proposed addition of a minimum annual usage requirement creates substantial uncertainty and risk for customers who might otherwise consider switching to gas transportation service.[28] Under DEU's current policies, customers are provided only **one opportunity each year** to transfer from sales service to transportation service. That limited window of opportunity requires customers seeking to switch to gas transportation service effective on or after July 1, 2020 to notify the Company of their intent to transfer to TS service by **February 15, 2020**. They must also provide DEU a copy of an executed contract for competitive gas supply by not later than February 28, 2020. However, the Commission's determinations regarding the Company's TS rate proposals in this proceeding most likely will not be known until after notice is required and after commitments to competitive gas supply contracts have be made.

As a result, customers considering a transfer to TS service may be forced to make gas supply commitments before the outcome of this case is known. Any customer that uses less than 35,000 Dth per year, thus, faces the potential that it will have to contract for competitive gas supply without knowing if it will

[28] The Company's rate design proposals in this proceeding create significant uncertainty for customers considering a switch to use of transportation service. Given the schedule established for customers to inform DEU of their desire to transfer to Rate TS, customers will most likely not know any final determination of rate issues in this case before their only opportunity to make such a switch in 2020 is past. Although the Company has indicated that the customer has several opportunities to change their minds once the process of switching to Rate TS is initiated, that only addresses part of the customer's concerns. Before announcing their intention to shift to Rate TS and committing to the costs of specialized metering for TS service, customers generally will need to lock-in the costs of the competitive gas supply service they intend to use. This can involve multi-year commitments with limited or no ability to exit early without incurring penalties. DEU fails to address these impacts of the Company's proposals and the uncertain they create for customers.

ultimately meet any minimum annual use requirement the Commission may approve in this proceeding. In other words, DEU may effectively foreclose the opportunity for smaller customers to transfer to Rate TS regardless of the Commission's ultimate determination regarding the Company's proposed minimum annual usage requirement. As demonstrated herein, that result is neither necessary nor appropriate. The Commission is, therefore, urged to either:

(1) Require DEU to extend its 2020 window for enrollment in TS service to allow customers a reasonable opportunity to make transfer decisions subsequent to the Commission's final order in this case; or

(2) Direct DEU to implement a rolling enrollment process under which customers are no longer constrained with respect to when during the year they can seek transfers to service under Rate Schedule TS.

Although a customer may be confident that it will achieve sufficient savings to justify such a transfer regardless of the proposed changes in TS prices, the Company's proposals would allow DEU to bar a customer from using TS service by the Company even if it is willing to absorb minimum annual usage costs. Moreover, the Commission should recognize that, if despite the

Company's pending minimum use requirement, a customer provides notice of transfer by February 15, 2020 and, as required, enters into a contract for competitive gas supply prior to February 28, 2020, the customer may face significant cost risk associated with their competitive gas supply commitments. Having taken those actions, a customer with less than 35,000 Dth of annual gas use could be subject to a determination by DEU that it does not qualify for TS service and be barred by DEU from transferring to Rate Schedule TS for not meeting minimum usage requirements. That, in turn, could cause a customer to be exposed to significant cost penalties for early termination of a competitive gas supply contract. Such a result would represent substantial and unjustifiable interference with competitive markets.

I reiterate my assessment that the proposed minimum annual usage requirement is unnecessary and inappropriate. However, if the Commission approves DEU's minimum annual usage proposal for Rate TS, a customer using less than 35,000 Dth per year who is willing to pay the full minimum usage charges should be viewed as reasonably compensating the Company for services provided. Thus, in that scenario, any customer that agrees to fully compensate the Company for applicable required minimum annual usage charges should be free to make that economic decision even if the customer's actual annual volumes do not meet, or are not expected to meet, the minimum annual usage requirement.

Q. DO OTHER UTILITIES GENERALLY LIMIT TRANSFERS FROM SALES SERVICE TO TRANSPORTATION SERVICE TO ONCE A YEAR?

A. No. While some advance notice of transfer may be required, it is typically not as long as the advance notice that DEU requires, and customers may provide such notice and move to transportation service at any time during the year. DEU's policies regarding customer transfers from sales service to transportation service are among the most restrictive policies I have encountered over more than 25 years since the first opening of retail markets to allow customers to use competitive gas supply alternatives.

c. <u>Administrative Charges</u>

Q. DOES DEU PROPOSE A CHANGE IN ITS ADMINISTRATIVE CHARGE FOR TRANSPORTATION SERVICE CUSTOMERS?

A. Yes. Although the Company proposes a roughly 50% overall increase in its charges for Rate TS customers it proposes to lower its Administrative Charge for transportation service customers from $4,500 per year (or $375.00 per month) to $3,000 per year (or $250.00 per month). That represents a 33% reduction.

Q. HOW DO YOU EXPLAIN THE DECLINE IN DEU'S ADMINISTRATIVE CHARGE WHEN THE COMPANY PROPOSES LARGE PERCENTAGE INCREASES IN OTHER CHARGES FOR TS SERVICE?

A. I attribute the decline in DEU's Administrative Charges to two basic influences. First, as noted by the Company in response to ANGC Data Request 1.08, the number of TS customers has risen faster than the costs. In this context, the Commission can observe from the Attachment to DEU's response to ANGC Data Request 3.03 that the labor costs for the six departments within the Company for which allocations of labor costs included in DEU's claimed Administrative Costs for TS customers have not increased significantly since 2017 despite growth in the numbers of TS customers. This suggests that the Company has experienced economies of scale in its administration of TS service. Second, each time the Administrative Charges for TS service are reviewed the costs underlying those charges are subject to more detailed levels of scrutiny and become better understood.

Q. WITH DEU'S PROPOSED 33% REDUCTION IN ITS ADMINISTRATIVE CHARGE, SHOULD THE COMMISSION NOW ACCEPT THAT CHARGE AS REASONABLE?

A. No, the Company's Administrative Charge remains inappropriately high and not properly cost-based. Further, even at the reduced level that DEU has proposed in this proceeding, the Company's Administrative Charge for transportation service customers is inordinately high and continues to serve as an inappropriate impediment to customers' use of gas transportation services.

Q. WHAT SUPPORT DOES THE COMPANY OFFER FOR THE LEVEL OF ITS PROPOSED ADMINISTRATIVE CHARGE?

A. DEU Exhibit 4.12 is offered as support for the level of its proposed Administrative Fee. That exhibit identifies six categories of costs that the Company believes should be recovered through its Administrative Charge for TS customers. Those categories of costs include: (1) Account Management Costs; (2) Measurement & Allocation Costs; (3) Billing Costs; (4) Gas Supply Costs; (5) Commercial Support Costs; and (6) Nominations/Scheduling Costs. Most of the costs the Company seeks to recover through its Rate TS Administrative Charge are labor-related costs. In total DEU Exhibit 4.12 suggests that the Company has nearly $3.2 million of costs annually that it believes should be recovered through Rate TS administrative charges. Most of the costs that DEU seeks to recover through its TS Administrative Charge are labor-related costs, and the majority of those labor-related costs are associated with functions the Company commonly performs for all customers (i.e., account management, measurement and allocation, billing, and customer support). The only non-labor costs shown that DEU associates with its administration of transportation service accounts are: (a) $690,960 of unspecified "*maintenance materials;*" and (b) $305,958 for two software support contracts.

Q. DO OTHER DOMINION ENERGY GAS DISTRIBUTION UTILITY AFFILIATES ASSESS ADMINISTRATIVE CHARGES TO TRANSPORTATION SERVICE CUSTOMERS?

A. No. DEU's gas distribution utility affiliates in Ohio, South Carolina, and West Virginia offer gas transportation services with no administrative charges. Only Dominion Energy operations in Utah, Idaho, and Wyoming require gas transportation service customers to pay a separate administrative charge.

Q. SHOULD THE COMMISSION ACCEPT THE COMPANY'S IDENTIFICATION OF ADMINISTRATIVE COSTS FOR TS SERVICE?

A. No. At a minimum, the Commission needs to better understand the relationship between the Company's claimed Administrative Costs and the "Classified" Customer, Distribution Plant, Throughput, and Demand cost that are computed as part of DEU's class cost of service allocations. DEU has failed to demonstrate that the costs included in its Administrative Charge analysis are **incremental** to the costs that it seeks to recover through its Basic Service Fees, Distribution Non-Gas Charges, and Demand Charges for TS customers.

As previously discussed, the Company's cost of service study classifies the costs allocated to each class of service as Customer, Distribution Plant, Throughput, and Demand cost. However, the Company's cost classifications include no separate category for Administrative costs. Assuming that the Company develops its costs of service in a manner that incorporates all of the costs for its Utah distribution utility operation, the costs DEU identifies as Administrative Costs in DEU Exhibit 4.12 are necessarily components of the costs the Company has already classified as Customer, Distribution Plant, Throughput, and Demand cost in its classification of cost. Yet, DEU provides no assessment of the portions of its purported Administrative Costs that are drawn from each of those categories of classified costs.

The Commission should also observe that roughly two-thirds of the Company's claimed administrative costs are for labor and labor overheads. Yet, as indicated in DEU's response to ANGC Data Request 2.07, "*the Company's administrative workload for the specific task of Rate TS is not tracked month by month*." Thus, the Company's assessment of labor hours incurred to support its administration of TS service is, at best, an arbitrary, after-the-fact determination for which no supporting time sheets have been provided. The methods on which DEU relied to determine the portions of its labor costs that should be associated with its administration of Transportation Service remain undocumented. This is not an appropriate basis on which to set rates.

Additionally, the Commission should take note that the Gas Supply Costs DEU includes in its claimed Administrative Costs for TS service include charges for two software support contracts (i.e., Pioneer-TRM Tracker Software Support and Quorum Software Support). In response to ANGC's efforts to further investigate the basis for those software support costs, DEU recognized that the Pioneer-TRM costs were mistakenly included and are not relevant TS service.

ANGC understands and accepts that Quorum Software is used in the provision of service to TS customers, but it questions how the parties or Commission can verify the appropriateness of the dollar amounts allocated to DEU transportation service activities. The Company provided an analysis in Attachment 3 to ANGC Data Request 3.01 that shows an allocation of its Quorum Software Support costs among several affiliated entities. But this Commission is offered no means of assessing the accuracy of the data for entities other than DEU (a.k.a. QGC) on which allocations Quorum costs are based.

Q. DO YOU HAVE ANY OTHER CONCERNS REGARDING DEU'S ADMINISTRATIVE CHARGES FOR TS CUSTOMERS?

A. Yes. Several of the activities for which DEU includes costs in its Administrative Charge calculations for Rate TS are activities that it also performs for customers in other rate classes. However, DEU only assesses a separate Administrative Charge for TS customers. For example, DEU Witness Summers states, "*Each TS customer has an account representative at Dominion Energy that helps customers understand the terms of their contracts and the effect of rate changes, and provides overall customer service*."[29] I suspect that the same can be said for each FS and IS customer, but those classes are not separately assessed for such services. Witness Summers also indicates that the Company's account

[29] The Direct Testimony of DEU Witness Summers, page 29, lines 772-774.

representatives "*work with customers during interruption events*."[30] Again, IS customers are subject to similar service interruptions and are most likely assisted by DEU account representatives in a similar manner without any suggestion that they should pay a separate Administrative Fee.

d. Distribution Non-Gas Charges

Q. HOW DOES DEU PROPOSE TO ADJUST ITS DISTRIBUITON NON-GAS CHARGES FOR RATE TS CUSTOMERS?

A. DEU Exhibit 4.14 indicates that the Company applies a uniform 64.8% increase to the charges for each of its Distribution Non-Gas rate blocks.

Q. DOES DEU DEMONSTRATE THAT ITS PROPOSED UNIFORM PERCENT-AGE ADJUSTMENTS FOR ALL RATE BLOCKS IS COST-BASED?

A. No. The Company argues that its current TS rates are not properly designed for smaller Rate TS customers, but its proposed rate adjustments do not reflect that concern. By adjusting all of its Distribution Non-Gas Charges in a proportional manner, the Company suggests that its under-recovery of costs is a more uniform problem for both large and small TS customers.

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[30] Ibid. lines 774-775.

Q. THE RATE MODEL PROVIDED IN DEU EXHIBIT 4.18 INCLUDES A WORKSHEET LABELED "RULES." DOES THE COMPANY OFFER ANY EVIDENCE THAT ITS "RULES" FOR RATE TS ARE COST-BASED?

A. No, it does not. The "Rules" shown on that worksheet generally do nothing more than establish arbitrary dollars per therm pricing differentials between rate blocks. ANGC understands that certain larger customers within the TS class do not use the Company's distribution system facilities and should not be required to pay charges that provide for recovery of distribution plant costs. But DEU's development of its TS rate design is devoid of any explicit consideration of how to price its services to recover distribution plant costs only from customers who use distribution plant. The Company also fails to establish any direct correlation between the sizing of its TS rate blocks and the appropriate allocation of cost responsibilities among TS customers. Without closer adherence to cost-based considerations in the development of the Company's Distribution Non-Gas Charges any hope of eliminating intra-class rate subsidies is at best fleeting.

e. <u>Demand Charges</u>

Q. HOW DOES DEU PROPOSE TO ADJUST ITS DEMAND CHARGES FOR RATE TS CUSTOMERS?

A. DEU Exhibit 4.14 shows the Company's Demand Charge per Dth of Contract Firm Demand increasing from $2.14 per Dth per month to $4.31 per Dth per month. That represents a **101%** increase (e.g., more than a doubling of the current Rate Schedule TS Demand Charge).

Q. ARE DEU'S PROPOSED ADJUSTMENTS TO ITS RATE TS DEMAND CHARGES REASONABLE?

A. No. As noted above, DEU's proposed TS rate design would more than double the magnitude of its Demand Charges for TS customers. Even if the Company believes it can justify that increase based on its "classified" costs for Rate TS, there is nothing gradual about the Company's proposed increase in its TS Demand Charge. Furthermore, adjustments to either the Company's requested ROE and/or the 60/40 weighting of Design Day and Annual Throughput requirements the Company uses in its cost of service allocations could have a noticeable impact on the magnitude of demand-related costs DEU would need to recover from TS customers to reach its suggested full cost levels.

Q. DO YOU HAVE OTHER CONCERNS REGARDING DEU'S PROPOSED TS DEMAND CHARGE?

A. Yes. The Company's proposed Rate TS Demand Charge includes a "Supplier Non-gas Adder" of $1.42296 per Dth.[31] DEU Exhibit 4.17 documents the development of that charge and shows that the charge is based on the Company's allocation of DEQPC and Kern River Peak Hour Costs to Rate TS

[31] See the Company's proposed Tariff, DEU Exhibit 5.02, page 5-10.

customers. However, DEU's tariff permits the Company to limit gas use by TS customers through an Operational Flow Order ("OFO") in a manner which ensures that TS customers do not add to the Company's costs of gas purchases, production, or storage requirements during critical periods.[32] In the context of the Company's ability to restrict TS customers' daily imbalances and issue "hold burn to scheduled quantity restrictions," TS customers should have no ability to add to the Company's peak hour capacity requirements and no responsibility for DEU's peak hour Supplier Non-Gas Costs. As set forth in DEU's tariff, each TS customer must contract for upstream pipeline capacity to meet the customer's firm gas delivery requirements.

Q. DOES THE COMPANY PROPOSE A COMPARABLE DEMAND CHARGE FOR ITS ONE RATE SCHEDULE MT CUSTOMER?

A. No. The Company's Rate Schedule MT does not include a Demand Charge. Although both Rate Schedule MT and Rate Schedule TS are purportedly premised on the same set of cost of service allocations (i.e., the TS class allocations in the Company's Class Cost of Service study), DEU includes a separate Demand Charge in its design of charges for Rate TS but not for Rate MT. Moreover, the Company offers no rationale for this distinction between its TS and MT rate designs. The Commission should also note that the Company's proposed charges for its MT rate classification only requires its MT customer to

[32] Ibid., pages 5-15 through 5-16.

maintain a 15% minimum annual load factor,[33] and include no assessment for recovery of Supplier Non-Gas Costs.

4. <u>Rate Shock and TS Customer Impacts</u>

Q. DEU WITNESS SUMMERS' DIRECT TESTIMONY DISCUSSES "RATE SHOCK" THAT MIGHT RESULT FROM THE COMPANY'S EFFORTS TO ELIMINATE THE GS CLASS INTRA-CLASS RATE SUBSIDY.[34] DOES HE RAISE SIMILAR CONCERNS WITH RESPECT TO THE COMPANY'S PRO-POSED RATE INCREASES FOR TS CUSTOMERS?

A. No, he does not. His rate design proposals would raise the overall revenue requirement for Rate TS customers by over 48.25%. It would also increase distribution charges per Dth for that class by 62.4% and would raise the TS demand charge by 101%. These large percentage increases are effectively devoid of gradualism considerations, and inappropriately attempt to remedy cost of service and rate design concerns that have prevailed for at least the last six years (i.e., at least since Docket No. 13-057-02) in a single one-step adjustment.

These increases will apply to a diversity of commercial and industrial customers including schools and hospitals which must operate within their budgeted costs. DEU's proposals offer no consideration of the hardships that its

[33] The 15% minimum annual load factor for Rate Schedule MT is well below the average load factor for the system and appears to provide little assurance of demand cost recovery from the Company's one MT customer.

[34] The Direct Testimony of DEU Witness Summers, page 27, lines 712-713.

proposed changes in its TS rate design may impose on such customers. As previously noted, DEU expects that its proposed changes in the design of TS rates could result in a massive migration of TS customers back to sales service.

Q. DEU'S RESPONSE TO DPU DATA REQUEST 1.20 SUGGESTS THAT AN APPROACH WHICH "… BRINGS THE TS CLASS TO FULL COST NOW, AND PROVIDES A PATH IN THE FUTURE TO ELIMINATE ANY REMAINING SUBSIDIES…" IS "… THE MOST EFFECTIVE WAY TO ACHIEVE OPTIMIZED RATES WHILE MINIMIZING ABRUPT RATE CHANGES…"? DO YOU AGREE?

A. No. The Commission should challenge several elements of that assessment. First, the adjustments the Company has proposed in this proceeding in an effort to move toward full cost rates for the TS class are wholly inconsistent with the concept of "*minimizing abrupt rate changes*." Second, the rate analyses underlying DEU's rate design proposals fall well short of optimizing rates for TS service and will never achieve an optimization of those rates without addressing variations in customer load factors. Third, the Company has already had substantial time to develop a rate design tailored to the requirements of smaller TS customers, yet it has failed to use that time productively. Simply giving the Company more time to address rate subsidy considerations fails to offer reasonable confidence that any real progress will be made to improve the design of DEU's TS rates prior to the filing of its next general rate case. DEU needs to compare its TS rates and policies with those of other gas distribution utilities and better understand how other utilities structure gas transportation service offerings such that they can be essentially indifferent as to whether customers use utility supplied gas or gas supplied by competitive service providers.

Q. SHOULD THE COMMISSION'S RATE DESIGN DETERMINATIONS IN THIS PROCEEDING BE INFLUENCED BY ASSESSMENTS OF THE COSTS THAT DEU EXPECTS TS CUSTOMERS TO PAY FOR THEIR GAS SUPPLIES IN FUTURE PERIODS?

A. No. Whether, or to what extent, TS customers achieving savings in their gas supply costs should be immaterial to this Commission's determination of appropriate charges for DEU's delivery of gas to a customer under Rate Schedule TS. The goal of the Commission should be to move toward rate structures that make the Company's distribution system indifferent with respect to whether a customer obtains its gas supplies from the Company or through a competitive service provider. Unfortunately, the Company's existing rate classifications and designs may not allow achievement of that goal within this rate case. However, with proper assessment of customers' cost responsibilities, movement toward more cost-based rate offerings should be pursued, along with a directive to the Company to make further progress toward that objective in its next rate filing.

Q. DOES DEU EXHIBIT 4.08 ACCURATELY DEPICT THE COSTS OF GAS PAID BY RATE TS CUSTOMERS?

A. No. As explained in Witness Summers' Direct Testimony, DEU Exhibit 4.08 is premised on the notion that TS customers have historically paid for natural gas commodity on the basis of a "first of month price." That is an inappropriate assumption. Although TS customers may have the option of purchasing gas supplies on the basis of a first of month price, many, if not most, customers who utilize competitively supplied gas, lock-in gas commodity rates for the duration of their competitive supply agreements. Moreover, competitive gas supply agreements are increasingly multiple year arrangements which provide customers greater longer term predictability in the prices they pay for gas. Thus, the graph provided in DEU Exhibit 4.08 does not accurately depict either the cost that all TS customers have paid for their gas supplies in past periods or the costs they will pay in future periods.

Q. DO THE COMPANY'S EFFORTS TO INFORM TS CUSTOMERS OF ITS INTENSION TO MOVE TO A FULL COST RATE ELIMINATE THE NEED FOR DEU TO PURSUE GRADUALISM IN ITS ADJUSTMENT OF RATES FOR TS CUSTOMERS?

A. No. Although the Company may choose to ignore gradualism in its proposed adjustments to its transportation service rates, the Commission is the entity ultimately responsible for determining what will constitute just and reasonable rates for each class of service.

Q. HAVE YOU IDENTIFIED ANY OTHER PROBLEMS IN THE COMPANY'S ANALYSIS OF TS CLASS COSTS AND REVENUES?

A. Yes, there are several. First, the Company uses conceptually and computationally flawed regression analyses to assess relationships between costs per Dth for TS customers and their annual Dth use. Included in the measure of costs per Dth used in that analysis are Demand Costs, Throughput, Costs, Plant Costs, and Customer Costs. However, Customer Costs do not vary directly with gas use, and Demand Cost vary with each TS customer's contract demands, not annual Dth use. Two customers with identical annual Dth requirements can have very different demand cost responsibilities depending on each customer's load factor and the portion of each customer's gas use that is identified as interruptible load.[35] As a result of these considerations, DEU's inclusion of Demand and Customer costs in the measure of costs per Dth used in its regression analysis distorts the regression relationship, rendering it meaningless for rate design purposes.

Second, to improve the fit of its regression analysis, DEU has opted to alter its regression model to assess the natural log of cost/Dth against the natural log of annual Dth use. However, the Company does not bill customers on the

[35] Interruptible load has no associated demand cost responsibility.

basis of logarithmic relationships. Rather, rates per Dth are applied directly to metered Dth use. Thus, in the absence of a conceptually sound justification for the Company's transformation of variables into logarithmic form, the results of DEU's regression of costs per Dth and Dth usage (transformed into logarithmic measures) is essentially a meaningless endeavor.

Third, DEU performs a similarly meaningless analysis of logarithmic data to estimate a relationship between the natural log of revenue per Dth and the natural log of each customer's annual Dth use. Again the transformation of basic usage and revenue per Dth data in to logarithmic notation represents a departure from reality that only serves to give the appearance of a better fit in the data. There is no functional justification for the transformations employed.

Fourth, the Company uses its regression output to graphically present curves that depict costs per Dth and Revenues per Dth. However, those graphs represent a two-dimensional representation of a multi-dimensional relationship. As in the rate optimization analyses that DEU purports to present for the GS class, the Company's graphical representation of its regression results implicitly assumes that all TS customers have the same load factor and have comparable customer cost responsibilities per Dth of gas consumed. Neither of those implicit assumptions is supported by the data base from which the Company's regression analyses are generated.

IV. CONCLUSION

Q. DO YOU HAVE ANY CONCLUDING OBSERVATIONS REGARDING THE COMPANY'S RATE DESIGN PROPOSALS IN THIS PROCEEDING?

A. DEU has had considerable time and opportunity to develop a transportation service rate offering tailored to the requirements of smaller transportation service customers. It has chosen not to do so. Rather, the Company has acted instead to slam the door on gas transportation service for smaller customers and to raise rates for existing TS customers in a manner that will knowingly create significant economic dislocations for significant numbers of those customers. All of this is premised on the unsubstantiated presumption that transfers of smaller customers to Rate Schedule TS are rapidly eroding its cost recovery for the TS class.

In fact, DEU has not had rates that were properly designed to recover costs for most, if not all, of its customers for at least a number of years. Although DEU voices concern over its recovery of costs from TS customers, DEU's overall rates include many non-cost-based elements. Moreover, DEU's lack of consistent focus on cost-based rates is exemplified by its election not to update the analyses on which it has relied in the past to support its Basic Service Fees.

Well-designed gas transportation service rate offerings should leave a gas distribution utility indifferent as to whether a customer elects to use Company supplied gas or gas purchased from a Competitive Service Provider. However, it appears in this instance that the Company's integrated operations do not find that to be an attractive option given the above market cost of Wexpro gas supplies. In this context, the Commission must act to ensure that DEU's pricing of distribution services is not improperly used to thwart a burgeoning gas transportation market and remove gas purchase options for a growing number of DEU's customers in Utah.

As an initial step in the direction of more cost-based ratemaking, the Commission should moderate the level of the rate increase that DEU proposes to apply to Rate TS customers and reject the minimum annual use requirement for TS service that the Company proposes. In addition, the Commission should require DEU to work with the parties to develop a separate gas transportation service rate offering for smaller gas transportation service customers (e.g., customers who use less than 25,000 Dth per year) for the Commission's consideration not later than the Company's next base rate filing. Furthermore, DEU should be directed to segment its existing GS class into a number of separate rate offerings that are designed more specifically to serve identifiable subgroups within the existing GS class. Only through more appropriately designed sales and transportation service rate offerings can this Commission ensure that all customers are provided fair and equitable distribution service rates regardless of their gas supply choices.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes. It does.

Dominion Energy Utah
Docket No. 19-057-04

Changes in TS Gas Use per Customer
From DEU Responses to ANGC Data Requests 2.01 and 2.02

		Rate TS Nos of Customers				Rate TS Annual Dth						TS Use per Customer	
Ln No	Annual Usage	2018	TME Aug 2019	Change	% of Total Change	2018	% of 2018 Total	TME Aug 2019	% of TME 2019 Total	Change	% of Total Change	2018	TME Aug 2019
1	Zero Dth to 1,000 Dth	5	5	-	0.47%	2,828	0.006%	2,316	0.004%	(512)	-0.01%	565.6	463.2
2	1,001 Dth to 5,000 Dth	190	232	42	21.89%	663,626	1.343%	814,454	1.498%	150,828	3.04%	3,492.8	3,510.6
3	5,001 Dth to 10,000 Dth	286	329	43	31.04%	2,028,027	4.105%	2,374,825	4.368%	346,798	7.00%	7,091.0	7,218.3
4	10,001 Dth to 20,000 Dth	179	191	12	18.02%	2,555,860	5.173%	2,717,028	4.998%	161,168	3.25%	14,278.5	14,225.3
5	20,001 Dth to 35,000 Dth	104	110	6	10.38%	2,773,371	5.613%	2,941,471	5.411%	168,100	3.39%	26,667.0	26,740.6
6	35,001 Dth to 50,000 Dth	49	51	2	4.81%	2,014,317	4.077%	2,090,013	3.844%	75,696	1.53%	41,108.5	40,980.6
7	50,001 Dth to 100,000 Dth	57	65	8	6.13%	4,079,143	8.256%	4,618,596	8.495%	539,453	10.89%	71,563.9	71,055.3
8	Greater than 100,000 Dth	76	77	1	7.26%	35,292,575	71.428%	38,806,913	71.381%	3,514,338	70.91%	464,376.0	503,985.9
9	Total	946	1,060	114	100.00%	49,409,747	100.000%	54,365,616	100.000%	4,955,869	100.00%	52,230.2	51,288.3

Dominion Energy
Utah - DEC 2020 Adjusted Avg Results CET
12 Months Ended : Dec-2020

COST OF SERVICE SUMMARY AND ALLOCATIONS TO RATE CLASSES

	(A)	(B)	(C)	(D)	(E)			(G)	(H)
		Utah Jurisdiction	Allocations to Rate Classes						
	Description	DNG Related	GS	FS	IS	TSS	TSL	TBF	NGV
1	**NET INCOME SUMMARY**								
2	**Utility Operating Revenue**								
3	System Distribution Non-Gas Reve	378,376,157	343,174,526	2,670,972	186,125	14,039,627	14,163,058	1,507,779	2,634,071
4	System Supplier Non-Gas Revenu	0	0	0	0	0	0	0	0
5	System Commodity Revenue	0	0	0	0	0	0	0	0
6	Pass-Through Related Other Reve	0	0	0	0	0	0	0	0
7	General Related Other Revenue	10,750,615	9,808,181	62,594	2,880	319,941	451,993	89,742	15,282
8	Total Utility Operating Revenue	389,126,772	352,982,707	2,733,566	189,005	14,359,569	14,615,051	1,597,521	2,649,353
9	**Utility Operating Expenses**								
10	Gas Purchase Expenses								
11	Utah Value of Peaking Supply	0	0	0	0	0	0	0	0
12	Total Gas Purchase Expenses	0	0	0	0	0	0	0	0
13	O&M Expenses								
14	Production	(838,701)	(715,105)	(6,040)	(255)	(32,744)	(57,200)	(10,484)	(16,873)
15	Distribution	55,486,323	47,309,547	399,607	16,848	2,166,240	3,784,226	693,572	1,116,282
16	Customer Accounts	12,536,206	12,020,402	42,249	2,903	213,130	205,554	21,408	30,560
17	Customer Service & Information	3,047,465	2,326,920	39,201	30,642	317,100	294,189	31,709	7,703
18	Administrative & General	49,477,895	43,517,873	373,058	15,273	1,879,187	3,060,973	605,019	26,512
19	Total O&M Expense	119,709,188	104,459,637	848,075	65,411	4,542,913	7,287,742	1,341,224	1,164,184
20	Other Operating Expenses								
21	Depreciation, Depletion, Amortizat	85,423,490	75,016,447	622,689	26,755	3,291,978	5,362,242	1,059,878	43,502
22	Taxes Other Than Income Taxes	28,343,362	24,862,530	201,528	8,969	1,103,564	1,797,575	355,301	13,895
23	Income Taxes	29,744,657	29,162,228	201,022	18,979	1,001,067	(513,486)	(396,511)	271,359
24	Total Other Operating Expenses	143,511,509	129,041,205	1,025,239	54,703	5,396,608	6,646,330	1,018,667	328,757
25	Total Utility Operating Expenses	263,220,697	233,500,842	1,873,314	120,115	9,939,522	13,934,073	2,359,891	1,492,941
26	**NET OPERATING INCOME**	125,906,075	119,481,865	860,251	68,890	4,420,047	680,979	(762,370)	1,156,412
27	**RATE BASE SUMMARY**								
28	**Net Utility Plant**								
29	101 Gas Plant In Service	3,244,815,858	2,839,798,111	24,344,247	996,637	122,628,056	199,746,583	39,481,048	17,821,176
30	105 Gas Plant Held For Future Use	5,037	4,418	36	2	196	319	63	2
31	106 Completed Construction Not Class	0	0	0	0	0	0	0	0
32	108 Accumulated Depreciation	(799,516,884)	(707,808,978)	(6,869,002)	(231,603)	(28,496,872)	(46,418,030)	(9,174,787)	(517,612)
33	111 Accumulated Amort & Depletion	(5,624,786)	(5,466,911)	(137,379)	(20)	(2,502)	(4,076)	(806)	(13,091)
34	254 Other Regulatory Liabilities	(404,258,011)	(355,183,644)	(2,978,959)	(126,034)	(15,507,484)	(25,259,855)	(4,992,754)	(209,282)
35	**Total Net Utility Plant**	2,035,421,214	1,771,342,998	14,358,942	638,981	78,621,394	128,064,941	25,312,764	17,081,193
36	**Other Rate Base Accounts**								
37	154 Materials & Supplies	24,807,024	21,818,813	187,042	7,657	942,179	1,534,698	303,342	13,292
38	164-1Gas Stored Underground	0	0	0	0	0	0	0	0
39	165 Prepayments	2,774,808	2,440,560	20,922	857	105,388	171,665	33,931	1,487
40	1900 Accum Deferred Income Tax Fed	31,711,929	27,891,965	239,105	9,789	1,204,430	1,961,874	387,775	16,992
41	1900 Accum Deferred Income Tax Stat	7,523,879	6,617,565	56,729	2,322	285,759	465,468	92,002	4,032
42	235-1Customer Deposits	(5,361,639)	(5,353,307)	(2,225)	(91)	(5,454)	(416)	(30)	(116)
43	252 Misc Customer Credits	1	1	0	0	0	0	0	0
44	253-1Unclaimed Customer Deposits	(36,874)	(36,816)	(15)	(1)	(38)	(3)	(0)	(1)
45	255 Deferred Investment Tax Credits	0	0	0	0	0	0	0	0
46	282 Accum Deferred Income Taxes	(294,564,927)	(259,036,449)	(2,212,638)	(91,077)	(11,206,239)	(18,253,637)	(3,607,935)	(156,951)
47	Working Capital - Cash	13,938,535	12,259,523	105,095	4,303	529,390	862,314	170,441	7,469
48	**Total Other Rate Base Accounts**	(219,207,263)	(193,398,146)	(1,605,985)	(66,240)	(8,144,584)	(13,258,037)	(2,620,474)	(113,796)
49	**TOTAL RATE BASE**	1,816,213,951	1,577,944,851	12,752,957	572,741	70,476,810	114,806,904	22,692,290	16,967,398
50	Return On Rate Base- Actual	6.93%	7.57%	6.75%	12.03%	**6.27%**	**0.59%**	-3.36%	6.82%
51	Return On Equity - Actual	9.05%	10.22%	8.71%	18.32%	7.85%	-2.47%	-9.66%	8.84%
52	Cost of Service (Line 25 + Line 26)	389,126,772	352,982,707	2,733,566	189,005	14,359,569	14,615,051	1,597,521	2,649,353
53	Deficiency (((Line 48 * Line 57) - Line 26) *	(167,716,381)	(159,158,849)	(1,145,920)	(91,767)	**(5,887,836)**	**(907,115)**	1,015,534	(1,540,428)

ANGC Exhibit 2.03

Dominion Energy Utah
Docket No. 19-057-02

Analysis of TS Class Revenue Deficiency by Usage Category
Class Segments Based on Annual Dth

	Annual Dth Threshold for TSL	Total TS Class	TS < 120,000 Dth	TS > 120,000 Dth	TS > 120,000 Dth < 800,000 Dth	TS < 800,000 Dth	TS > 800,000 Dth
Annual Revenue at Present Rates for TS Class Segmented by Annual Use Categories							
DEU Exhibit 4.18	na	$ 27,666,569	na	na	na	na	na
DEU Response to DPU Data Request 11.01, Att 5	120,000	$ 27,666,569	$ 13,863,514	$ 13,803,055	na	na	na
Percent of TS Class Revenue at Present Rates		*100.0%*	*50.1%*	*49.9%*			
DEU Response to USM Data Request 2.01, Att 5	800,000	$ 27,666,569	na	na	na	$ 24,271,069	$ 3,395,500
Percent of TS Class Revenue at Present Rates		*100.0%*				*87.7%*	*12.3%*
Revenue Deficiency by Segment		$ 27,666,569	$ 13,863,514	na	$ 10,407,555	na	$ 3,395,500
Percent of TS Class Revenue at Present Rates		*100.0%*	***50.1%***		***37.6%***		***12.3%***
Annual Dth Use for TS Class Segmented by Annual Use Categories							
DEU Exhibit 4.18	na	55,375,315	na	na	na	na	na
DEU Response to DPU Data Request 11.01, Att 5	120,000	55,353,696	13,284,887	42,068,809	na	na	na
Percent of Total TS Class Annual Dth		*100.0%*	*24.0%*	*76.0%*			
DEU Response to USM Data Request 2.01, Att 5	800,000	55,375,315	na	na	na	39,229,253	16,146,062
Percent of Total TS Class Annual Dth		*100.0%*				*70.8%*	*29.2%*
Annual Dth by TS Class Segment		55,375,315	13,284,887	na	25,944,366	na	16,146,062
Percent of Total TS Class Annual Dth		*100.0%*	***24.0%***		***46.9%***		***29.2%***
Revenue Deficiencies for TS Class Segmented by Annual Use Categories							
DEU Exhibit 4.18	na	$ 12,285,096	na	na	na	na	na
DEU Response to DPU Data Request 11.01, Att 5	120,000	$ 12,278,671	$ 1,367,243	$ 10,911,427	na	na	na
Percent of Total TS Class Deficiency		*100.0%*	*11.1%*	*88.9%*			
DEU Response to USM Data Request 2.01, Att 5	800,000	$ 12,285,096	na	na	na	$ 6,361,592	$ 5,923,504
Percent of Total TS Class Deficiency		*100.0%*				*51.8%*	*48.2%*
Revenue Deficiency by Segment		$ 12,285,096	$ 1,367,243	na	$ 4,994,349	na	$ 5,923,504
Percent of Total TS Class Deficiency		*100.0%*	***11.1%***		***40.7%***		***48.2%***
Revenue Deficiency as a Percent of Present Revenue		***44.4%***	***9.9%***		***48.0%***		***174.5%***

na Indicates "not applicable"

Dominion Energy Utah

Docket No. 19-057-02, Phase II

ANGC TS Cluster Analysis *(Based on Annual Usage)*

Developed from 2018 Rate TS Usage by Customer from DEU's Response to ANGC Data Request 2.06

	Usage Category (Dth per year)							
Category	**0 - 10,000**	**> 10,000 < 25,000**	**> 25,000 < 50,000**	**> 50,000 < 100,000**	**> 100,000 < 250,000**	**> 250,000 < 750,000**	**> 750,000 < 1,250,000**	**>1,250,000**
Assessment of Customer Groupings								
Count of Customers	483	221	111	58	40	26	4	5
Median Annual Dth	5,590	15,110	32,817	67,713	140,613	415,558	929,412	1,799,757
Mean Annual Dth	5,572	15,797	34,480	71,325	150,272	432,720	949,266	2,811,311
Median as % of Mean	**100.3%**	**95.6%**	**95.2%**	**94.9%**	**93.6%**	**96.0%**	**97.9%**	**64.0%**
Standard Deviation	2,210	4,326	6,760	14,685	38,894	138,524	152,376	1,909,768
Mean - 1 StDev	3,362	11,472	27,720	56,640	111,379	294,196	796,890	901,543
Mean + 1 StDev	7,782	20,123	41,239	86,010	189,166	571,243	1,101,641	4,721,078
Mean - 2 StDev	1,152	7,146	20,960	41,954	72,485	155,672	644,515	(1,008,225)
Mean + 2 StDev	9,992	24,449	47,999	100,695	228,059	709,767	1,254,017	6,630,846
Customers in Category within 1 Standard Deviation of the Category Mean								
Count	303	137	66	36	27	15	3	4
% of Total in Category	**62.7%**	**62.0%**	**59.5%**	**62.1%**	**67.5%**	**57.7%**	**75.0%**	**80.0%**
Customers in Category within 2 Standard Deviations of the Category Mean								
Count	473	212	107	58	38	25	4	5
% of Total in Category	**97.9%**	**95.9%**	**96.4%**	**100.0%**	**95.0%**	**96.2%**	**100.0%**	**100.0%**
Gap and Overlap Analysis								
Overlap *(Customers in other categories that fall within plus or minus 2 Standard Deviations of the category mean)*								
Count	0	122	37	21	26	13	3	947
% of Total in Category	-	55.2%	33.3%	36.2%	65.0%	50.0%	75.0%	18940.0%
Gap *(Customers within the category that fall outside of plus or minus 2 Standard Deviations of the category mean)*								
Count	10	9	4	-	2	-	-	-
% of Total in Category	2.1%	4.1%	3.6%	0.0%	5.0%	0.0%	0.0%	0.0%

Attachment A: DEU Data Request Responses

1. **DEU's Responses to ANGC Data Requests**
2. **DEU's Responses to DPU Data Requests**
3. **DEU's Responses to OCS Data Requests**
4. **DEU's Responses to FEA Data Requests**
5. **DEU's Responses to USM Data Requests**

Note: Attachments referenced in these data responses were generally provided as MS Excel files and that were not formatted for printing. Therefore, the attachments referenced in the written responses could not be included herein. The associated attachments in MS Excel format are available through Dominion Energy Utah's Vbulletin file sharing platform.

1. DEU's Responses to ANGC Data Requests

ANGC 1.01
ANGC 1.04
ANGC 1.08
ANGC 1.10
ANGC 1.13
ANGC 1.20
ANGC 2.01
ANGC 2.02
ANGC 2.05
ANGC 2.07
ANGC 3.01
ANGC 3.03
ANGC 3.04

ANGC 1.01: Does the Company have a System Planning Manual on which it relies to guide decisions regarding the design and sizing of distribution facilities installed on its system? Please explain how each element of the Company's allocation of costs for main installations relates to its system planning criteria.

Answer: The System Planning and Analysis group has general analysis guidelines (ANGC 1.01 Attachment 1) as well as template analyses for each type of analysis. Sizing of facilities due to growth is identified through the High Pressure State of the System (ANGC 1.01 Attachment 2). Other analyses that may expose necessary system improvements include the IRP, Joint Operations Agreement, Master Planning Models and Feeder Line Replacement.

System planning is unrelated to cost allocation. Once the engineers determine the best solution to meet customer needs and install those facilities, the costs of those facilities are allocated to the customer classes in the cost of service studies.

Prepared by: Austin Summers, Manager, State Regulatory Affairs
Michael L. Platt, Manager, Engineering

P.S.C.U. Docket No. 19-057-02
ANGC Data Request No. 1.04
Requested by the American Natural Gas Council, Inc.
Date of DEU Response September 13, 2019

ANGC 1.04: Please provide the Company's assumptions regarding the annual volumes and peak day requirements of customers it expects to add to Rate Schedule TS during calendar year 2020, as well as the calculations and workpapers used to estimate the weather normalized volumes and peak requirements for customers added to Rate Schedule TS. Please segregate the projected 2020 volumes for added Rate Schedule TS customers between Firm service and Interruptible Service volumes.

Answer: Please refer to ANGC 1.04 Attachment.xlsx for the assumed annual and monthly usage and firm peak day assumptions. The spreadsheet shows the annual usage and customer increase to the TS class assumed for 2020 and the sales classes from which the transfers come. The spreadsheet also shows the assumed daily firm demand total of all shifting customers.

These assumptions are obtained from the activity that was anticipated for 2019 based upon notices of intent to initiate transportation service received by the Company from existing customers. Those notices were received in February of 2019 at the time the Company prepared its annual IRP forecast. The test year forecast used in this general rate case filing was taken from that IRP forecast.

Because all notices of intent to shift in 2020 will not be received until February of that year, the Company can only estimate the activity based upon recent history. To do so, the Company has assumed that the same level of customer and usage growth in the TS class as was anticipated in 2019 for the 2020 test year forecast.

The Company does not forecast TS class within the firm and interruptible categories. Only total monthly usage is projected using billable usage from the Company's Customer Care and Billing System (CC&B). Firm demand planning for the TS class is based upon the daily firm demand level specified in customer service agreements.

Prepared by: David Landward, Regulatory Consultant

ANGC 1.08: Please document and explain how increases in the number of Rate Schedule TS customers since the Company's last fully litigated base rate case have impacted its costs of administration for that rate schedule. As part of the response to this request, please identify areas in which economies of scale have been experienced as the number of Rate Schedule TS customers has increased.

Answer: During the task force that took place after the Company's 2013 general rate case (Docket No. 13-057-05), the Company calculated total administrative costs of $1,430,307 for 303 primary customers and 66 secondary customers. This supported a primary administrative charge of $4,257, which is close to the current $4,500 administrative charge. As shown in DEU Exhibit 4.12, the total administrative costs have risen to $3,174,944 for 959 primary customers and 132 secondary customers. This supports an annual administrative charge of $3,098 which was rounded down to $3,000 for simplicity.

Though the total costs have risen substantially since the last rate case, due to the addition of personnel in the gas supply and gas measurement department to manage these additional customers. The number of customers have increased more than the costs, which results in the reduced administrative charge proposed in this case.

Prepared by: Austin Summers, Manager, State Regulatory Affairs

P.S.C.U. Docket No. 19-057-02
ANGC Data Request No. 1.10
Requested by the American Natural Gas Council, Inc.
Date of DEU Response September 13, 2019

ANGC 1.10: The Company shows its number of TS customers increasing from **1,095** in June 2020 to **1,238** in July 2020.

a. What is the basis for this presumed increase in the number of Rate TS customers?

b. Please reconcile this projected increase in the number of TS customers with the substantially above average increase the Company proposes for the TS class?

c. Does the Company presume that the proposed increase for Rate Schedule TS customers will have no impact on the number of customers added to that rate schedule.

Answer: a. Because customers have moved from sales service to transportation service every year since 2012, the Company has assumed continued activity during the 2020 test year. Please refer to the response to ANGC 1.04 for the specific assumptions made.

b. The Company's projected growth in the TS class during the test year is not the cause of the large increase in revenue requirement for the class; rather, it is the result of seven years of tremendous class expansion driven by lower-usage sales customers shifting to transportation service and benefiting from discounted rates.

Over 900 sales customers have shifted to the TS class since January of 2012. Throughout that period of class expansion, rates have not been designed to collect the full cost of service, and customers have benefited from the discount at the expense of sales customers. The revenue currently collected from the TS class is more than 50% below the cost of service. The Company's proposal in this case is intended to eliminate the discount and revenue collection gap that has grown as the class has expanded over the past seven years.

c. The Company assumes that if the proposed increase to the TS class rates is approved, some economic incentive for sales customers to shift to transportation service will be removed. Likewise, some economic incentive for existing TS customers to remain on that rate schedule will be removed. However, during the forecasting and integrated resource planning process of early 2019, the Company could not assume that migration to the TS class would change in 2020. As commodity prices remain low, some economic incentive for a subset of existing sales customers may remain. To assume otherwise when the outcome of this case is unknown would risk an overstatement of projected sales demand and an understatement of projected transportation demand in the 2019/2020 heating season. When the final rate design proposed is determined, any necessary adjustments will be made to the billing determinants.

The Company believes it is prudent to assume that shifting of sales customers to transportation service will continue to some degree, consistent with the uninterrupted activity of the last seven years, through the coming heating season.

Prepared by: David Landward, Regulatory Consultant

P.S.C.U. Docket No. 19-057-02
ANGC Data Request No. 1.13
Requested by the American Natural Gas Council, Inc.
Date of DEU Response September 13, 2019

ANGC 1.13: Please identify by FERC account and subaccount all costs that the Company seeks to recover through its BSF for each BSF Category.

Answer: The basic service fee is based on the items below that are required for each customer to receive service.

1. Return on net investment – 85% of service lines, 10% of mains, 100% of meter & regulator
2. Grossed up income tax – the income tax associated with the taxable return on the net investment in the plant listed above
3. Operating & Maintenance costs on the plant items listed above
4. Billing Costs
5. Property tax on plant items listed above
6. Annual depreciation on the plant items listed above

In the Company's last general rate case (Docket No. 13-057-05), the Company filed QGC Exhibit 4.8 to propose new basic service fees. Pages 3 and 4 of that exhibit are attached as ANGC 1.13 Attachment. These two pages offer more support on the calculations.

Prepared by: Austin Summers, Manager, State Regulatory Affairs

ANGC 1.20: Please identify by rate class the number of instances in which multiple accounts are provided gas through a single service line.

Answer: The numbers of service lines being shared by multiple accounts are summarized in the table below. Note that the data are taken from the end of the 2018 base year. The instances were identified by counting active accounts connected to a single service line. In some cases, the accounts belong to separate customers; however, in other cases a single customer can have multiple accounts established at a site with multiple meters served from a single service line. Both scenarios are represented in these instances.

RATE CLASS	LINES
FS	63
GS	57848
IS	4
TS	98

Prepared by: David Landward, Regulatory Consultant, DEU

P.S.C.U. Docket No. 19-057-02
ANGC Data Request No. 2.01
Requested by the American Natural Gas Council, Inc.
Date of DEU Response September 18, 2019

ANGC 2.01: Please identify the number of existing Rate TS customers with annual usage for calendar year 2018 and for the most recent twelve months:

a. From zero Dth to 1,000 Dth
b. From 1,001 Dth to 5,000 Dth
c. From 5,001 Dth to 10,000 Dth
d. From 10,001 Dth to 20,000 Dth
e. From 20,001 Dth to 35,000 Dth
f. From 35,001 Dth to 50,000 Dth
g. From 50,001 Dth to 100,000 Dth
h. Greater than 100,000 Dth.

Answer:

	2018	**12-months ending Aug, 2019**
zero Dth to 1,000 Dth	5	5
1,001 Dth to 5,000 Dth	190	232
5,001 Dth to 10,000 Dth	286	329
10,001 Dth to 20,000 Dth	179	191
20,001 Dth to 35,000 Dth	104	110
35,001 Dth to 50,000 Dth	49	51
50,001 Dth to 100,000 Dth	57	65
Greater than 100,000 Dth	76	77

Prepared by: David Landward, Regulatory Consultant

P.S.C.U. Docket No. 19-057-02
ANGC Data Request No. 2.02
Requested by the American Natural Gas Council, Inc.
Date of DEU Response September 18, 2019

ANGC 2.02: Please identify the total annual usage for existing Rate TS customers with annual usage for calendar year 2018 and for the most recent twelve months that falls in each of the following usage categories:

a. From zero Dth to 1,000 Dth
b. From 1,001 Dth to 5,000 Dth
c. From 5,001 Dth to 10,000 Dth
d. From 10,001 Dth to 20,000 Dth
e. From 20,001 Dth to 35,000 Dth
f. From 35,001 Dth to 50,000 Dth
g. From 50,001 Dth to 100,000 Dth
h. Greater than 100,000 Dth

Answer:

	2018	12-months ending Aug, 2019
zero Dth to 1,000 Dth	2,828	2,316
1,001 Dth to 5,000 Dth	663,626	814,454
5,001 Dth to 10,000 Dth	2,028,027	2,374,825
10,001 Dth to 20,000 Dth	2,555,860	2,717,028
20,001 Dth to 35,000 Dth	2,773,371	2,941,471
35,001 Dth to 50,000 Dth	2,014,317	2,090,013
50,001 Dth to 100,000 Dth	4,079,143	4,618,596
Greater than 100,000 Dth	35,292,575	38,806,913

Prepared by: David Landward, Regulatory Consultant

P.S.C.U. Docket No. 19-057-02
ANGC Data Request No. 2.05
Requested by the American Natural Gas Council, Inc.
Date of DEU Response September 18, 2019

ANGC 2.05: Re: the Direct Testimony of Witness Summers at page 24, lines 615 to 617, please provide:

a. The referenced "extensive rate design analysis" including the analysis, all workpapers, and supporting documents.

b. Documents that support the assertion that the TS class was not designed for small customers.

Answer: a. Please refer to the Company's response to OCS 6.09 for the rate design analysis.

b. The Company discussed the history of the TS class during its technical conference on September 12, 2019. During that technical conference, the Company noted that before the TS class existed, customers were able to take firm transportation service on the FT-2 class. ANGC 2.05 Attachment 1 shows a tariff sheet for the FT-2 class. The minimum Yearly Distribution Non-Gas Charge of 24,700 is calculated by multiplying the first block DNG rate of .20581 by 120,000 Dth. This is evidence that these customers were expecting to use at least 120,000 Dth/year. As was mentioned at the technical conference, this minimum bill requirement did not carry forward to the TS class. ANGC 2.05 Attachment 2 is the first Tariff sheet for the TS class in 2009. While the TS class does not have the minimum bill, the block break did increase to 20,000 Dth for the first block. The structure of this first TS class rate design was clearly meant for larger customers.

Prepared by: Austin Summers, Manager, State Regulatory Affairs

P.S.C.U. Docket No. 19-057-02
ANGC Data Request No. 2.07
Requested by the American Natural Gas Council, Inc.
Date of DEU Response September 18, 2019

ANGC 2.07: Re: Tariff page 5-2, Request for Service, please:

a. Please explain why it is necessary and appropriate to require existing Rate Schedule TS customers to submit a written request for transportation service each year. If a customer enters into a multi-year supply contract with a third-party supplier, why is it necessary for the customer to submit a new request each year during the term of the customer's supply contract?

b. Please explain on what grounds, if any, the request of an existing customer for transportation service in the next year (i.e., the following July 1 through June 30) period would be denied service.

c. Please explain why it is necessary and appropriate for the Company to require a meeting with a Dominion Energy Utah telemetry gas technician each year by April 15th?

d. Document by month for each of the Company's last three calendar years and for 2019 to date, the distribution of the Company's administrative workload for Rate Schedule TS.

Answer: The paragraph containing the requirements mentioned above in parts a-c is under the Heading "Request for Service" and applies to existing DEU customers who do not currently use Rate Schedule TS service. The next paragraph "New Customers" refers to requirements for customers who are not currently taking any service from DEU at their end use site, or sites that are being purchased by a new owner and require a new billing account.

a. When a Customer enters into a service agreement, it has an initial term ending the following June 30th, with an evergreen provision allowing it to automatically renew. Customers wishing to continue service do not need to sign new contracts yearly.

b. A customer could be denied service if it was an interruptible customer and available capacity was no longer available to serve them without impairing the reliability of the system, or as otherwise provided in the Tariff or applicable statutes, rules or regulations.

c. See response a. Customers with ongoing service on the Rate Schedule TS are not required to meet with a technician yearly. New TS customers must meet with a technician by April 15th to ensure that the equipment is installed before the contract starts on July 1st. Telemetry equipment is necessary in order for the company to collect measurement and usage data.

d. The Company's administrative workload for the specific task of Rate TS is not tracked month by month. The annual calculation is shown in DEU Exhibit 4.12.

Prepared by: Abby Thomas, Engineer, QGC Commercial Support

P.S.C.U. Docket No. 19-057-02
ANGC Data Request No. 3.01
Requested by the American Natural Gas Council, Inc.
Date of DEU Response September 20, 2019

ANGC 3.01: Re: DEU Exhibit 4.12, please provide the source data and calculations used to derive the dollar amounts shown in Column (B) for:

a. Pioneer-TRM Tracker Software Support (Line 17)

b. Quorum Software Support (Line 18)

Answer: The requested information is Confidential and will be provided to those who agree in writing to comply with Utah Admin Code R746-1-601 through 603.

a. Pioneer Solutions software invoice is provided in ANGC 3.01 Confidential Attachment 1.pdf.

b. Quorum software invoices are provided in ANGC 3.01 Confidential Attachment 2.pdf. This software is used by multiple Dominion Energy affiliated companies, ANGC 3.01 Attachment 3.xlsx provides the allocation to Dominion Energy Utah. The invoice for AutoSol is included as ANGC 3.01 Confidential Attachment 4.pdf.

Prepared by: Jessica L. Ipson, Regulatory Analyst III

P.S.C.U. Docket No. 19-057-02
ANGC Data Request No. 3.03
Requested by the American Natural Gas Council, Inc.
Date of DEU Response September 20, 2019

ANGC 3.03: Re: DEU Exhibit 4.12, please provide the Company's actual costs for each of the last three calendar years, as well as its projected costs for calendar year 2020 for:

a. Account Management Labor
b. Measurement & Allocation Labor
c. Billing Labor
d. Gas Supply Labor
e. Commercial Support Labor
f. Nominations/Scheduling Labor

Answer: ANGC 3.03 Attachment.xlsx includes actual labor costs for each of the departments listed above from 2016-2018 and projected 2020 costs.

Prepared by: Jessica L. Ipson, Regulatory Analyst III,
Mike Rawlins, Senior Financial Analyst,
Katie Hess, Supervisor of Financial & Business Services

P.S.C.U. Docket No. 19-057-02
ANGC Data Request No. 3.04
Requested by the American Natural Gas Council, Inc.
Date of DEU Response September 20, 2019

ANGC 3.04: Re: DEU Exhibit 4.12, Line 17, please:

a. Describe in detail the function of the referenced Pioneer-TRM Tracker Software and the activities supported by the Pioneer-TRM Tracker Software for:

i. Rate TSF
ii. Rate TSI
iii. Rate TSB
iv. Rate MT
v. Other rate schedules
vi. Other operating or administrative functions within the Company

b. Please explain the manner in which costs for Pioneer-TRM Tracker Software are influenced by the number of Primary and Secondary accounts (or customers) taking service under Rate TS. If the software support requirements for Rate TSF customers differ from those for Rate TSI customers, please describe in detail any and all such differences;

c. Please provide the Company's actual Pioneer-TRM Tracker Software Support costs for each of the last three calendar years;

d. Provide the Company's projected Pioneer-TRM Tracker Software Support costs for calendar year 2020.

Answer:

a. It was discovered in the process of researching this data request, Pioneer-TMR Tracker Software does not support the transportation rate classes. The software is used for firm sales classes. This cost should not be included in the calculation of the administrative charge. Pioneer –TRM Tracker is not used to manage TSF, TSI, TSB, or MT rate schedules. TRM Tracker is only used to manage gas supply for Sales Service customers. TRM Tracker is used to manage gas supply purchases, scheduling on both gathering and transportation contracts and storage management.

b. through d. See response to subpart a, above.

Prepared by: Will Schwarzenbach, Manager, Gas Supply and Jessica L. Ipson, Regulatory Analyst III, State Regulatory Affairs

2. DEU's Response to DPU Data Requests

DPU 1.15
DPU 1.20
DPU 11.01
DPU 15.10

P.S.C.U. Docket No. 19-057-02
DPU Data Request No. 1.15
Requested by Division of Public Utilities
Date of DEU Response August 5, 2019

DPU 1.15: Referring to Summers testimony at page 11, lines 287-291. Has the Company considered the option of defining eligibility for the TS class such that small commercial customers would not qualify for the TS rate? If so, please provide any internal analysis or relevant documents that reflect the Company's consideration of such option or options.

Answer: The TS class was first introduced on April 1, 2009, as a result of class changes in the Company's 2007 general rate case. Prior to the TS class, there were two classes for transportation customers; the FT-2 class for firm customers, and the IT class for interruptible customers. The final FT-2 tariff sheet did include a minimum yearly distribution non-gas charge of $24,700. This minimum bill was calculated by multiplying the first block rate of $0.20581 by 120,000 Dth. So, in a way, there was a minimum usage requirement of 120,000 Dth for firm transportation customers. The IT class did not have a minimum bill. Current DEU employees have reviewed testimony from the 2007 general rate case to determine if there was a reason that the minimum bill was not proposed on the new TS class, but was unable to find any reasoning.

The Company has proposed to limit the small commercial customers in this general rate case by implementing a 35,000 Dth minimum usage requirement. The Company made some movement toward full-cost rates in the 2013 general rate case, but that movement wasn't enough and customers continued to switch from the sales classes to the TS class. The Company proposed major changes in its 2016 general rate case, but that case was never finished due to the merger between Questar Gas Company and Dominion Energy.

Prepared by: Austin Summers, Regulatory Affairs Manager, Dominion Energy

DPU 1.20: Referring to Summers testimony at page 26, lines 668-673. What would be the approximate impact of modifying the rates using cost curves "to identify the optimal rate structure for that class" at this time versus waiting until the next general rate case? Specifically, please provide an estimate of how would this impact the lower use customers in this class?

Answer: During the preparation of this case, the Company attempted to calculate the cost curves and design rates that would eliminate the intra-class subsidy in the TS class. However, as discussed in the direct testimony of Austin Summers, the current makeup of the class prevented effectively optimized rates. Therefore, the Company recommends the proposed three-step approach that brings the TS class to full cost now, and also provides a path in the future to eliminate any remaining subsidies. This approach is the most effective way to achieve optimized rates while minimizing abrupt rate changes and resolving confusion that would need to be addressed later.

Prepared by: Madeline Haynes, Regulatory Analyst, Dominion Energy Utah

P.S.C.U. Docket No. 19-057-02
DPU Data Request No. 11.01
Requested by Division of Public Utilities
Date of DEU Response September 13, 2019

DPU 11.01: Please prepare a version of the Cost of Service study in which the Transportation Service ("TS") rate group is separated into two distinct subsets of customer classes, as specified below:

a) TS Subset 1 meets the minimum use requirement of 120,000 Dth per year.

b) TS Subset 2 does not meet the minimum use requirement of 120,000 Dth per year.

Please provide all results, summaries and supporting calculations with formulas intact.

Answer: The Company has recalculated its cost of service studies to split the TS class as requested and offers the following documents to support these calculations.

1. DPU 11.01 Attachment 1 – Distribution Plant Factor Study
2. DPU 11.01 Attachment 2 – Distribution Throughput Study
3. DPU 11.01 Attachment 3 – Design Day Study
4. DPU 11.01 Attachment 4 – TS class revenue split by class
5. DPU 11.01 Attachment 5 – Updated version of DEU Exhibit 4.18 (model) with all cost of service allocators updated. The results can be found in the yellow cost of service tabs.

Prepared by: Austin Summers, Manager, State Regulatory Affairs

DPU 15.10: Please address to what extent, if any, the Distribution Plant Factor takes non-coincident peak demand into consideration.

Answer: The Distribution Plant Factor does not take non-coincident peak demand into consideration. The distribution plant factor is used for small diameter mains, service lines, and meters. Generally, the Company uses peak considerations for larger infrastructure that is used by the entire customer base.

Prepared by: Austin Summers, Manager, Regulation, Dominion Energy

3. DEU's Response to OCS Data Requests

OCS 6.08
OCS 6.09

P.S.C.U. Docket No. 19-057-02
OCS Data Request No. 6.08
Requested by the Office of Consumer Services
Date of DEU Response September 12, 2019

OCS 6.08: Did the Company consider creating a second transportation service rate class for the lower use customers (less than 35,000 Dth per year) currently in the TS rate class? If not, explain why not.

Answer: As discussed at the September 12, 2019 technical conference, the Company proposes to move the entire class to full cost rates by percentage-increasing the rates to all customers in the class. This will give the Company time to develop an appropriate rate design before the next general rate case in 2022. The 35,000 Dth minimum usage requirement was meant as a way to prevent the subsidy in the TS class from getting worse over the next three years. The Company has not developed rates for TS customers using less than 35,000 Dth/year.

Prepared by: Austin Summers, Regulatory Affairs Manager, Dominion Energy Utah

P.S.C.U. Docket No. 19-057-02
OCS Data Request No. 6.09
Requested by the Office of Consumer Services
Date of DEU Response September 12, 2019

OCS 6.09: Please refer to item 2 on page 23 of the direct testimony of Austin Summers. Provide a working electronic file copy of studies or analyses that showed “significant rate increases for certain groups of customers” when attempting to optimize TS rates.

Answer: The rates were designed using the cost curve analysis. See OCS 6.09 Attachment 1 for an excel version of the TS cost curve calculation that includes optimal rates for the class in cells C11 through C14 of the “Rates” tab. In addition, the Company provided OCS 6.06 Attachment, which compares the proposed rates in the TS class to the proposed rates in the GS class. These spreadsheets were made to be dynamic and make quick comparisons. These comparisons were frequently made using the same spreadsheets but not all scenarios were saved.

Prepared by: Austin Summers, Regulatory Affairs Manager, Dominion Energy Utah

4. DEU's Responses to FEA Data Requests

FEA 1.09
FEA 1.10
FEA 1.11

FEA 1.09: Does the Company use the system load factor and/or class load factors to design the capacity of its distribution main system? Please explain your response.

Answer: Yes. Customers may have a system load factor and/or class load factor applied to how their peak hour demand is calculated for a peak day. For example, most customers have a rate type of GS (General Sales), which usually indicates the customer is a residential customer. Some customers have a TS (Transportation Sales) rate type which usually indicates the customer is an industrial customer. Most GS customers have their total daily demand spread out fairly evenly over a 24 hour period, whereas many TS customers may have their total daily demand spread out over a 16 hour period. Most GS customers also have a 35% difference between their peak hour usage versus their average daily usage. Some TS customers also experience a similar peak to average flow rate. Some other customers do not have a large peak to average difference since they may operate as a factory or similar process with little to no fluctuations in their demand throughout any given day.

Prepared by: Adam Del Toro, Supervisor, Gas Distribution Engineering, Dominion Energy Utah

FEA 1.10: Does the Company use the total usage of its system to design the capacity of its distribution main system? Please explain your response.

Answer: The total demand on the system has a significant impact on linepack which is modeled using an unsteady-state Gas Network Analysis (GNA) model. Some areas of the distribution main system are less sensitive to total system demand and are designed based on current and future demands within its proximity. Some areas of the distribution main system are planned and designed to carry gas supply away from gate stations and be distributed further away to larger demand areas.

Prepared by: Adam Del Toro, Supervisor, Gas Distribution Engineering, Dominion Energy Utah

FEA 1.11: Does the Company agree that the system of mains must have enough capacity to meet the expected Design Day Demand of its customers? Please explain your response.

Answer: The distribution main system must be planned and designed as a whole to meet peak day design demands of its customers. However, certain areas of the system must be designed based on the local demand in the given area, regardless of what the entire system capacity as a whole may be.

Prepared by: Adam Del Toro, Supervisor, Gas Distribution Engineering, Dominion Energy Utah

5. DEU's Responses to USM Data Requests

USM 2.01

USM 2.01: Please refer to the Cost of Service calculations included in DEU Exhibit 4.18 – Utah Rate Case Model, and DEU Exhibit 4.0, page 24, line 632. Please prepare a version of the Cost of Service study in which the Transportation Service ("TS") rate group is separated into two distinct subsets of customer classes, as specified below:

a) TS Subset 1 meets the minimum use requirement of 800,000 Dekatherms per year.

b) TS Subset 2 does not meet the minimum use requirement of 800,000 Dekatherms per year.

Please provide all results, summaries and supporting calculations with formulas intact.

Answer: The Company has recalculated its cost of service studies to split the TS class as requested and offers the following documents to support these calculations.

6. USM 2.01 Attachment 1 – Distribution Plant Factor Study
7. USM 2.01 Attachment 2 – Distribution Throughput Study
8. USM 2.01 Attachment 3 – Design Day Study
9. USM 2.01 Attachment 4 – TS class revenue split by class
10. USM 2.01 Attachment 5 – Updated version of DEU Exhibit 4.18 (model) with all cost of service allocators updated. The results can be found in the yellow cost of service tabs.

Prepared by: Austin Summers, Manager, State Regulatory Affairs

Attachment B:

DEU September 12, 2019

Cost of Service/Rate Design Technical Conference

Cost of Service/Rate Design Technical Conference

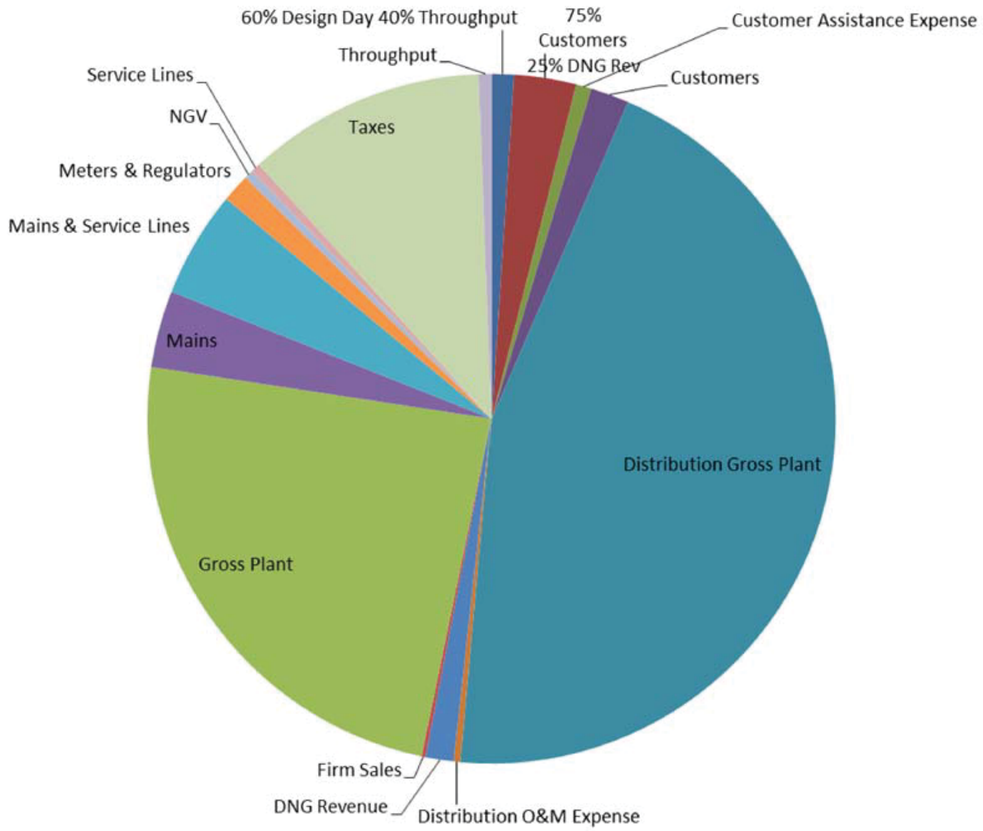
Docket No. 19-057-02

Dominion Energy

Overview of Cost of Service Studies

- Same Cost of Service Studies that were used in 2013 and 2016
- Most Used Allocators
  - Distribution Plant (Mains, Services, Meters & Regulators)
  - Design Day
  - Throughput
- Goal to eliminate inter-class subsidies

Allocation of Expense by Allocator



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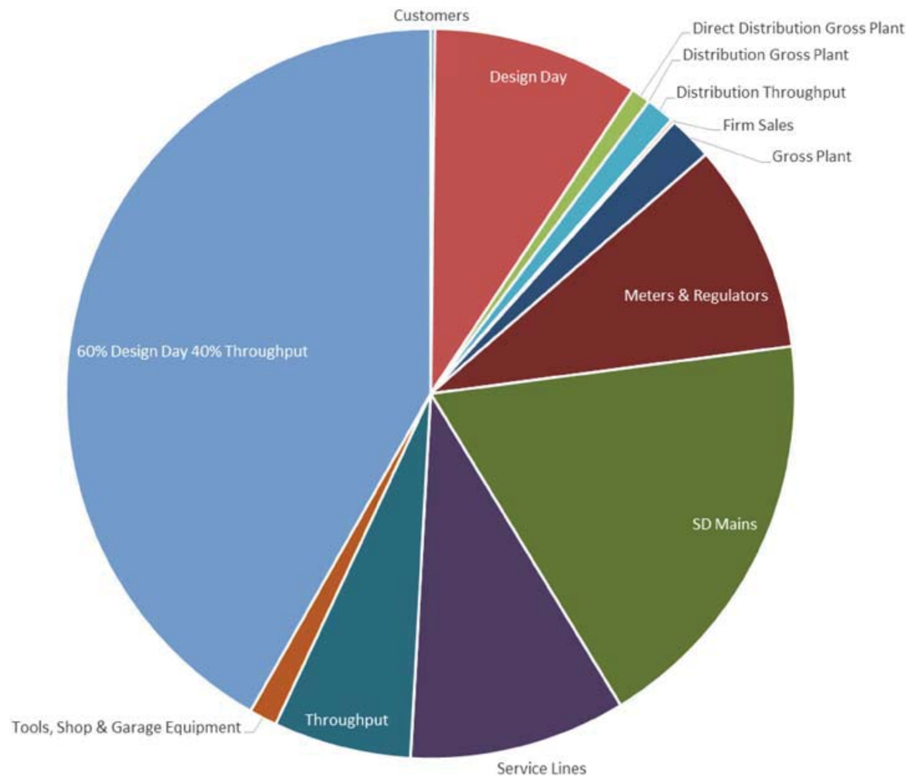
Allocation of Rate Base by Allocator



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Rate Design Objectives (all classes)

- Cost Causation – Customer that causes the cost should pay the cost
- Consistency
  - From class to class – customer should be paying similar distribution costs
  - From rate case to rate case
- Remove DNG incentives to switch classes
  - Commodity incentives are decreasing over time
- Remove intra-class subsidies

Timeline of TS Class

Inception of TS class as we know it. No longer just IT and FT-2.	2013 Rate Case	Proposed 2016 Rate Case	2019 Rate Case
≈2010	2013	2016	2019
132 Customers	345 Customers	563 Customers	1,095 Customers
Class created for large industrial customers.	Settled at 72% Cost of Service	TS class at 53% cost of service at time of filing	TS class at 40% cost of service at time of filing
	Peak/Throughput settled at 67/33	Proposed full cost of service	Proposing all classes at full cost of service
	Changes made to block breaks.	Proposed optimized rates and blocks	1,238 Customers forecast for 2020

Rate Design Results for TS class

- High growth rate in TS class
- Subsidized rates for over a decade
- Getting the volume discount without using the volume
- Use of rate optimization in TS class is an option, just needs to be used for homogeneous groups of customers

TS class rates – rate design results (DPU #3)

Optimal TS Rates

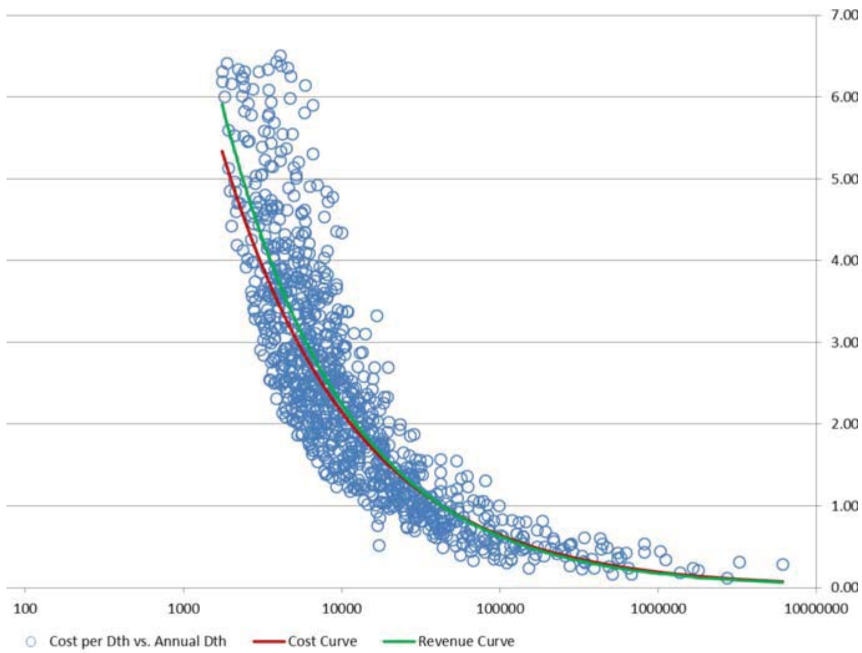
First 400	Next 1,600	Next 48,000	All over 50,000
$2.48313	$1.30313	$0.25313	$0.19313

Existing TS Rates

First 200	Next 1,800	Next 98,000	All over 100,000
$0.74751	$0.48865	$0.19983	$0.07396

Proposed TS Rates

First 200	Next 1,800	Next 98,000	All over 100,000
$1.21967	$0.79730	$0.32605	$0.12068



TS Class Rate Design Options

Step 1

Full Cost of Service

35,000 Dth Minimum

Step 2

Split class or optimize rates in next rate case

- Allows time for customers to choose where they want to be
- WACOG prices get closer to market
- Allows time to research best option

Use Optimized Rate Design Now

- Unreasonable rates for small customers
- Mass migration from TS back to sales
- Could solve intra-class subsidies now
- Drastic changes to blocks might have to be changed back next case

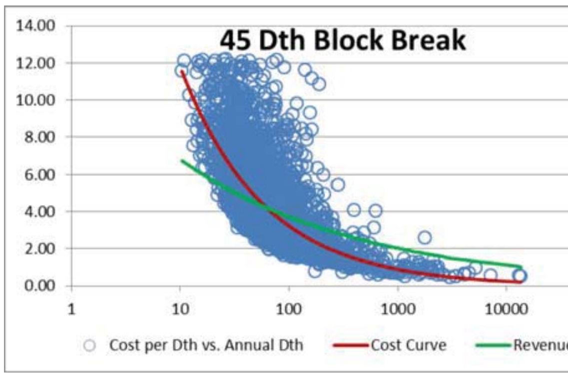
Split Class Now

- Studying now – data requests
- Could resolve intra-class subsidies now
- Would require a class minimum

GS Class Rate Design DPU #2

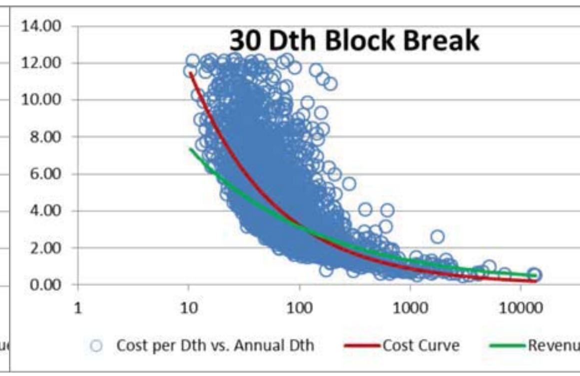
- Cost curves showed that large customers were subsidizing small customers
  - This also contributes to customers moving to the TS class
  - Partial move now will reduce rate shock in 2022 general rate case

Current



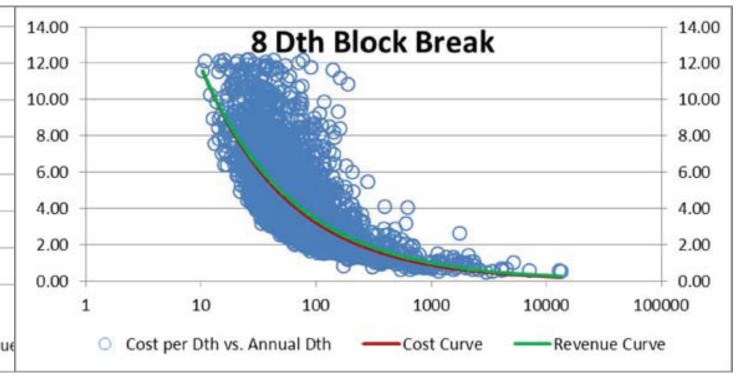
Block 1	2.79390
Block 2	1.52525
Block Differential	1.26865

Proposed



Block 1	2.89676
Block 2	0.99535
Block Differential	1.90141

Optimal



Block 1	3.66291
Block 2	0.51236
Block Differential	3.15055

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DPU #4 & #5 – allocation of design day costs to IS class

IS	Proposed	Adding Design-Day	Difference
Total Volumetric Requirement	$110,031.98	$175,856.42	$65,824.44
Block 1	$0.96532	$1.54281	$0.58
Block 2	$0.14577	$0.23297	$0.09
Block 3	$0.08580	$0.13713	$0.05

- Curtailment during Operational Flow Order (OFO)
  - Purpose of OFO is to match supply to usage, not to reduce or curtail usage
  - Haven’t had “hold burn to scheduled quantity” or an interruption since new tariff approved
- No A&G in the plant factor study, but some A&G costs are allocated using the distribution plant factor

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PSC Questions – Plant study for multi-unit dwellings

- The plant study as filed does not identify the differences between single and multi-family dwellings. The GS class includes single and multi-family dwellings, as well as commercial customers.

	Multi Dwelling	Single Dwelling
Population Total	223,049	724,545
Sample Total	685	2,309
Average Service Line Cost	$ 1,444	$ 1,653
Average Service Line cost w/ shared meters (average 8 meters/service)	$ 499	
Average Service Line Footage	52	61
Average Main Line Cost	$ 1,402	$ 1,654
Average Meter Cost	$ 530	$ 406

OCS Questions

- #1 – Changes to COS studies
  - Same COS methods used in 2016 and 2013 rate cases
  - 2013 case (settled) did not allocate design day costs to IS class
- #2 – Determining "gradualism adjustment"
  - This is the 50% subsidy given to the TBF class
  - Historically determined to be a discount that provides incentive to not bypass
- #3 – Allocation factor used to spread the TBF subsidy
  - 60% design day/40% throughput used in the 2013, 2016, and 2019 cases
  - Same allocation factor used to allocate costs of M&R stations and Feeder Lines
    - TBF customers use assets that are similar to those allocated with the 60/40

ANGC Questions

- #1 – Comparing rates to surrounding states
  - Each state has different objectives, rate designs, rate classes
  - Rates must be set on Utah rules, customers, and costs
- #2 – Contracting on a yearly schedule
  - Coincides with IRP planning – gas supply purchases
- #3 – Effective date of 35,000 Dth floor
  - Provision would be effective March 1, 2020.
  - Provision would apply to new customers in July 2020

ANGC Questions (continued)

- #4 – Designing a separate rate for customers less than 35,000 Dth annually
  - Anticipated using declining blocks
  - Two outstanding data requests asking for Cost of Service at 35,000 Dth and 120,000 Dth (minimum usage requirement before TS class)
- #5 – With Admin Fee and BSF, what costs is DEU under-collecting from customers under 35,000 Dth?
  - DEU doesn't have a rate structure for customers less than 35,000 Dth
  - In TS class as a whole, Admin fee and BSF collect $5,475,363 of $40,582,654

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ANGC Questions (continued)

- #6 – Analyses and studies used by DEU to assess impacts of rate changes
  - COS studies – tell which customers should pay for costs
  - % change of total bill (commodity included to be consistent with sales customers)
  - Comparison of rates to sales classes (where customers came from)
  - Consistency between classes – costs should follow customer
  - Reasonableness
- Creation of a 35,000 Dth floor meant to stop the subsidies from getting worse
  - Doesn't cause rates to change in the TS class

ANGC Questions (continued)

- #7 – TS customer count used for Admin charge vs count used for 2020 forecast
  - Admin charge was based on 2019 actual customers
  - 2020 forecast shows customer count used to collect revenue in 2020
- #8 – Customer growth from June 2020 to July 2020
  - 2019 IRP assumed 2019 growth would carry forward to 2020
  - New TS customers start service on July 1
- #9 – Basis for 60/40 allocation instead of 67/33 as settled in 2013 general rate case
  - "The Parties do not agree on whether the Settlement Model represents the proper way of calculating cost of service, and agree that any assumptions employed in that model should bear no precedential value in any other matter." - Settlement Stipulation in Docket No. 13-057-05, paragraph 14

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Direct Testimony of Bruce R. Oliver for the American Natural Gas Council in Phase 2 of Docket No. 19-057-02 was served by email this 14th day of November 2019 on the following:

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