Phillip Russell (10445)
HATCH, JAMES & DODGE
10 West Broadway, Suite 400
Salt Lake City, UT 84101
Telephone: 801-363-6363
Facsimile: 801-363-6666
Email: prussell@hjdlaw.com

Attorneys for UAE Intervention Group

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**

PREFILED REBUTTAL TESTIMONY OF KEVIN C. HIGGINS

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

DATED this 13th day of December, 2019.

Respectfully submitted

By: 

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

Attorneys for UAE

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 13th day of December, 2019, on the following:

QUESTAR GAS COMPANY
Jenniffer Nelson Clark jenniffer.clark@questar.com
Cameron Sabin cameron.sabin@stoel.com

DIVISION OF PUBLIC UTILITIES
Chris Parker chrisparker@utah.gov
William Powell wpowell@utah.gov
Patricia Schmid pschmid@agutah.gov
Justin Jetter jjetter@agutah.gov

OFFICE OF CONSUMER SERVICES
Michele Beck mbeck@utah.gov
Steven Snarr stevensnarr@agutah.gov
Robert Moore rmoore@agutah.gov
Alyson Anderson akanderson@utah.gov

NUCOR STEEL-UTAH
Damon E. Xenopoulos dex@smxblaw.com
Jeremy R. Cook jcook@cohnekinghorn.com

AMERICAN NATURAL GAS COUNCIL, INC.
Stephen F. Mecham sfmecham@gmail.com
Curtis Chisholm cchisholm@ie-cos.com

US MAGNESIUM, LLC
Roger Swenson Roger.Swenson@prodigy.net

FEDERAL EXECUTIVE AGENCIES
Scott L. Kirk Scott.Kirk.2@us.af.mil
Robert J. Friedman Robert.Friedman.5@us.af.mil
Thomas A. Jernigan Thomas.Jernigan.3@us.af.mil
TSgt Arnold Braxton Arnold.Braxton@us.af.mil
Ebony M. Payton Ebony.Payton.ctr@us.af.mil

/s/ *Phillip J. Russell*

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

Phase II Rebuttal Testimony of Kevin C. Higgins

on behalf of

UAE

Docket No. 19-057-02

December 13, 2019

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DIRECT TESTIMONY OF KEVIN C. HIGGINS

INTRODUCTION

Q. Please state your name and business address.

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

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

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

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

A. Yes, I am.

OVERVIEW AND CONCLUSIONS

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

A. My testimony responds to the Phase II direct testimonies of American Natural Gas Council ("ANGC") witness Mr. Bruce R. Oliver, Division of Public Utilities ("Division" or "DPU") witness Mr. Howard E. Lubow, Federal Executive Agencies ("FEA") witness Mr. Brian C. Collins, and Office of Consumer Services ("OCS") witness Mr. James W. Daniel.

I also provide an update to my recommended class cost-of-service study results, rate spread, and Transportation Service ("TS") rate design at the non-confidential revenue requirement I recommend in my Phase I surrebuttal testimony.

Q. Please summarize your conclusions and recommendations.

A. My testimony offers the following recommendations:

(1) I recommend a 68% design-day / 32% throughput weighting for Allocation Factor 230. Mr. Lubow's proposed 50% / 50% weighting should be rejected because it is not founded on established cost allocation principles.

(2) I recommend that Mr. Lubow's proposal to use actual peak-day usage rather than design-day usage to allocate demand-related costs be rejected because it does not properly allocate cost responsibility for DEU's system as designed.

(3) I recommend that Mr. Lubow's and Mr. Daniel's proposals to allocate peak demand costs to interruptible usage be rejected because interruptible loads do not contribute to DEU's design-day demand costs and would be curtailed on a design-day. Moreover, it is fundamentally inconsistent with the Peak and Average method being used by DEU to allocate Allocation Factor 230 costs to allocate peak demand costs to interruptible customers.

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

(5) It is not necessary to split the TS class as this time. However, I recommend that the TS rate design for Steps 2 and 3 of my proposed phase-in remain subject to further analysis through an extension of this docket to further examine the relationship between TS demand and volumetric charges, as well as to potentially spread the rate increase across the TS class for customers of various sizes more proportionately.

CLASS COST-OF-SERVICE STUDY

Design-Day / Throughput Weighting

Q. Does DEU allocate certain costs using a weighted design-day / throughput allocator?

A. Yes. DEU's Allocation Factor 230 is designed to be a weighted blend of peak-day (design-day) and throughput factors, and is used to allocate feeder system, compressor station, and measuring and regulating station costs, presumably because these facilities are viewed as providing both peak-day and throughput-related services.[1] The weighting proposed by DEU for Allocation Factor 230 is 60% design-day and 40% throughput. DEU also uses Allocation Factor 230 to allocate the FT1-L (Lakeside) revenue credits to customer classes and to allocate the cost share of the TBF discount to other classes.[2]

[1] Throughout my testimony I refer to the facilities allocated on the basis of Allocation Factor 230 as "feeders and related facilities."

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

Q. Please explain your recommendation regarding the weighting of the design-day and throughput components of Allocation Factor 230.

A. I recommend that the throughput weighting for Allocation Factor 230 be based on DEU's system load factor of 32%. This produces a weighting for Allocation Factor 230 of 68% design-day / 32% throughput. This weighting is more consistent with the proper application of the Peak and Average method as described in the Gas Distribution Rate Design Manual ("NARUC Manual") published by the National Association of Regulatory Utility Commissioners.[3]

Q. Does any other party conclude that the throughput weighting for Allocation Factor 230 should be based on DEU's load factor of 32%?

A. Yes. In his Phase II direct testimony, ANGC witness Mr. Oliver also recommends a 68% design-day / 32% throughput weighting.[4] Mr. Oliver and I independently determined that this is the appropriate weighting. As Mr. Oliver points out, if DEU's 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.

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

[4] Direct Testimony of Bruce R. Oliver (ANGC Exhibit 2), pp. 19-20.

Q. Have other parties proposed alternative weightings for Allocation Factor 230?

A. Yes. Division witness Mr. Lubow proposes a 50% / 50% weighting,[5] while FEA witness Mr. Collins proposes that high-pressure feeder-line mains (allocated using Allocation Factor 230) and large-diameter intermediate high-pressure mains be allocated based on 100% design-day demand.[6]

Q. What is your response to Mr. Lubow's recommendation to utilize a 50% / 50% weighting?

A. Mr. Lubow's selection of the 50% / 50% weighting is arbitrary and is not based on any established cost allocation principle. In using the Peak and Average method, the weighting assigned to the average, or "throughput," component should be no greater than the system load factor. This is because the throughput component is intended to allocate costs that are associated with base-load-type usage, and system load factor is a generally-accepted standard for measuring the portion of facilities associated with the provision of base load service. The use of system load factor for this weighting is clearly prescribed in the NARUC Manual.

Mr. Lubow's claim that "Utilities often propose a 50% / 50% assignment where such a factor is employed" should be disregarded, as he was unable to cite to any such utilities in response to discovery.[7] Implementing Mr. Lubow's proposal

[5] Direct Testimony of Howard E. Lubow (DPU Exhibit 6.0 DIR), p. 7.

[6] Direct Testimony of Brian C. Collins (FEA Exhibt 2.0), p. 18.

[7] Division Response to Data Request UAE 1.01, provided in UAE 2.1R.

would increase the costs allocated to the TS class based only on Mr. Lubow's subjective judgement. His proposal should be rejected by the Commission.

Q. What is the magnitude of the cost shift to the TS class that would result from Mr. Lubow's proposed 50% / 50% weighting?

A. At DEU's proposed revenue requirement, using the 50% / 50% weighting proposed by Mr. Lubow instead of DEU's 60% design-day / 40% throughput weighting increases the costs allocated to the TS class by $2.9 million. This translates into an additional 10.3% increase to the TS class on top of the DEU-proposed increase of 45.5%, exacerbating an already significant increase to the TS class without cost-based justification.

Putting the Division's proposal further into context, consider that the overall revenue requirement change proposed by the Division and UAE are reasonably close in magnitude. Then consider that using UAE's cost allocation, setting rates exactly equal to cost (and funding the TBF discount) results in a 2.9% *reduction* in rates for the GS class and a 30.8% increase in rates for the TS class.[8] Yet, despite these significant and disparate class rate impacts, the Division proposes new changes in cost allocation that are designed to heap additional costs onto the TS class.

[8] See Table KCH-1R later in my testimony.

Q. What is your response to Mr. Collins' proposal to allocate feeders and intermediate high-pressure mains based on 100% design-day demand?

A. Mr. Collins' argument aligns well with planning criteria. I agree with him that DEU's feeders must be sized to meet design-day demands. In that sense, using a 100% design-day allocator for feeders and intermediate high-pressure mains has merit. The practical difficulty with that approach, however, is that it would exempt interruptible volumes from any cost allocation for these facilities. And while I also agree with Mr. Collins that the Peak and Average method allocates a disproportionate share of costs to high-load factor (firm) classes, and is inappropriate in many contexts, its volumetric component at least provides a means for allocating a share of feeders and related equipment to interruptible customers. Based on my experience, I have concluded this is a necessary ingredient for addressing cost allocation in this jurisdiction.

Q. What weighting do you recommend for Allocation Factor 230?

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

Actual Peak-Day Versus Design-Day Factor

Q. Please explain Mr. Lubow's proposal to use the actual peak-day rather than design-day for demand cost allocation.

A. Mr. Lubow opposes DEU's development of the peak-day factor based on system design (design-day). Instead, Mr. Lubow proposes to utilize actual peak-day usage, but DEU was unable to provide actual peak-day usage by class. Mr. Lubow therefore recommends that actual peak-day data be utilized in the next DEU filing.[9]

Q. Do you agree with Mr. Lubow's proposal to use actual peak-day usage rather than design-day usage to allocate demand-related costs?

A. No. The peak-related infrastructure put in place by DEU is designed to ensure that firm customers can continue to receive service on an extremely cold day. Given the essential nature of natural gas service – particularly during cold weather – it is critical that this amount of infrastructure, i.e., level of design-day capacity, be in place even if it is not utilized in a typical year, or even for many years in a row. Since the design-day capacity is built to meet firm requirements on extremely cold days, it is entirely appropriate that the peak-related costs of the system be allocated in a manner that reflects the expected usage on the design-day, as DEU has done.

Mr. Lubow's alternative of using actual usage fails to capture properly the relationship between the design-day and expected customer class utilization.

[9] Direct Testimony of Howard E. Lubow (DPU Exhibit 6.0 DIR), pp. 5-6.

According to Mr. Lubow, the actual peak-day demand in 2018 was 1,064,752 Dth, while the demand used to determine the design-day factor computed by DEU is 1,442,192 Dth.[10] On the actual peak-day, DEU still had capacity available – i.e., the system was not at its design-day level of utilization. In contrast, on the design-day, interruptible service would be curtailed.

The difference between the actual 2018 peak-day demand and the design-day demand used by DEU is 377,440 Dth, or 26% of the design-day demand. Significantly, the Division has not proposed in this case to disallow DEU cost recovery for 26% of feeders and related facilities on the basis that it is not needed to meet actual peak demand. Yet Mr. Lubow proposes to ignore design-day demand for the purpose of cost allocation.

The Division's position is logically inconsistent. The 26% of design-day demand that Mr. Lubow ignores for cost allocation purposes is either (a) plant that is not used and useful and therefore should be disallowed from cost recovery, or (b) plant that is necessary to ensure delivery of gas to firm customers during design-day conditions and therefore should be allocated to the temperature-sensitive firm customers for whom this extra capacity was built. Since the Division is not recommending that 26% of feeders and related equipment be disallowed, the costs associated with these facilities should properly be allocated on the basis of design-day usage.

[10] Direct Testimony of Howard E. Lubow (DPU Exhibit 6.0 DIR), p. 5. As described below, Mr. Lubow also proposes to include interruptible usage in the peak-day factor, bringing the firm design-day Dth plus interruptible Dth to 1,486,982 Dth. See DPU Exhibit 6.2.

I recommend that Mr. Lubow's proposal to use actual peak-day usage rather than design-day usage to allocate demand-related costs be rejected because it does not properly allocate cost responsibility for DEU's system as designed.

Including Interruptible Usage in the Peak-Day Factor

Q. What position has DEU taken regarding the inclusion of interruptible usage in the peak-day factor?

A. DEU does not believe that interruptible customers should be assigned peak demand cost responsibility. As explained by DEU witness Mr. Summers:

> [I]n an actual peak-day event, the interruptible customer will be curtailed and will not be contributing to the costs incurred on the peak day. If the interruptible customer chooses not to curtail, they will be assessed penalties that will be credited back to firm customers. If interruptible loads are included in the Design-Day Factor Study, there is a risk that an excessive level of cost will be allocated to interruptible customers.[11]

Therefore, DEU includes only firm demand in its design-day factor. For the transportation classes TS and TBF, the demand included in this allocator is based on the firm contract demand.

Q. Do you agree with DEU that interruptible usage should not be included in the design-day factor?

A. Yes. Interruptible usage should not be assigned peak demand cost responsibility because interruptible usage does not contribute to DEU's design-day demand costs and would be curtailed on a design-day.

[11] Direct Testimony of Austin C. Summers (DEU Exhibit 4.0), p. 9.

Q. Please provide some background on the history of this issue in Utah.

A. In its 2007 rate case, Docket No. 07-057-13, the Company did not allocate peak-day costs to interruptible loads. In that case, Division witness Mr. Glen Gregory proposed to include interruptible loads in the peak-day factor based on average daily interruptible usage.[12] The Company maintained in its rebuttal testimony that interruptible loads do not add anything to the peak requirement and did not modify its class cost-of-service study in response to the Division's proposal in its rebuttal.[13] I also opposed Mr. Gregory's proposal to include interruptible loads in the peak-day factor in my rebuttal testimony, noting that Allocation Factor 230 already contains a throughput component including interruptible volumes.[14] However, the Commission agreed with the Division's proposal, stating:

> [W]e are persuaded by the Division that interruptible customers contribute to peak demand and therefore these customers should receive some allocation of peak demand in the Company's next cost-of-service study.[15]

In the following rate case, Docket No. 09-057-16, the Company continued to disagree that interruptible customers contribute to the design peak-day demand but complied with the Commission's order by proposing that a portion of peak-day costs be allocated to interruptible loads based on the amount that the design

[12] Docket No. 07-057-13, Direct Testimony of Glen Gregory (Division Exhibit 7.0), p. 8.

[13] Docket No. 07-057-13, Rebuttal Testimony of Steven R. Bateson (QGC Exhibit 8.0R), pp. 5-6.

[14] Docket No. 07-057-13, Rebuttal Testimony of Kevin C. Higgins (UAE Exhibit COS 1R), pp. 6-7.

[15] Docket No. 07-057-13, Questar Gas Company 2007 General Rate Case Phase II Order on Cost of Service and Rate Design (Issued: December 22, 2008), p. 31.

peak-day exceeds the average peak requirements of firm customers.[16] Docket No. 09-057-16 was resolved through a settlement stipulation that spread the revenue requirement to all service schedules except for FT-1 through a uniform percentage increase without adopting any specific cost-of-service approach.[17]

In its 2013 rate case filing, Docket No. 13-057-05, the Company reiterated that interruptible customers should not be assigned peak demand responsibility and did not include interruptible usage in its peak-day factor.[18] That case was resolved through a partial settlement stipulation that included movement of the TS class toward cost, based on a class cost-of-service study that did not include interruptible load in the peak-day factor.[19] According to the Commission, approval of the Revenue Stipulation was not intended to alter existing Commission policy or to establish Commission precedent.[20]

In its 2016 rate case filing, Docket No. 16-057-13, DEU again did not allocate peak-day costs to interruptible loads.[21] That case was subsequently withdrawn.

[16] Docket No. 09-057-16, Direct Testimony of Steven R. Bateson (QGC Exhibit 4.0), pp. 9-10.

[17] Docket No. 09-057-16, Report and Order (Issued June 3, 2010).

[18] Docket No. 13-057-05, Direct Testimony of Austin C. Summers, pp. 7-8.

[19] Docket No. 13-057-05, Report and Order (Issued February 21, 2014), p. 7. Partial Settlement Stipulation filed December 13, 2013, Exhibit B (Settlement Stipulation Model).

[20] Docket No. 13-057-05, Report and Order (Issued February 21, 2014), p. 17.

[21] Docket No. 16-057-13, Direct Testimony of Austin C. Summers (QGC Exhibit 4.0), pp. 8-9.

Q. Have parties to this case proposed that interruptible usage be included in the peak-day factor?

A. Yes. Both Mr. Lubow[22] and OCS witness Mr. James W. Daniel[23] propose that interruptible loads be included in the peak-day factor based on interruptible usage on the actual peak-day. Mr. Daniel argues the DEU has not adequately supported departing from the Commission's order in Docket No. 07-057-13 regarding the allocation of costs to interruptible customers, and notes that interruptible customers have infrequently been required to interrupt during peak demand periods.[24] Mr. Lubow (incorrectly) asserts that DEU has deviated from its prior study by excluding interruptible volumes in the peak demand allocation factor. He argues that interruptible customers have historically had gas deliveries during actual peak day conditions.[25]

Q. Did DEU's most recent cost-of-service studies allocate peak-day costs to interruptible volumes?

A. No. As I explained above, DEU did not include interruptible loads in its peak-day factor in Docket No. 16-057-13, which was withdrawn, or Docket No. 13-057-05, which was resolved through a partial settlement stipulation.

[22] Direct Testimony of Howard E. Lubow (DPU Exhibit 6.0 DIR), pp. 6-7.

[23] Direct Testimony of James W. Daniel (OCS-4D), pp. 7-9.

[24] *Id.*

[25] Direct Testimony of Howard E. Lubow (DPU Exhibit 6.0 DIR), p. 3, p. 6.

Q. What about Mr. Lubow's and Mr. Daniel's argument that there have been years in which interruptible customers were not interrupted on the peak-day?

A. This argument is beside the point. If the peak-day turns out to be significantly milder than the design-day, there is no reason to interrupt customers gratuitously. Interruptible service allows DEU to construct a system that is smaller than would otherwise be required to serve customers on the design-day.

Q. What is the magnitude of the impact of including interruptible loads in the peak-day factor?

A. Based on DEU's proposed revenue requirement and cost-of-service model (using the 60% design-day / 40% throughput weighting for Allocation Factor 230), including interruptible loads in the peak-day factor increases the costs allocated to the TS class by $2.4 million. Mr. Lubow depicts the increase to the TS class as $2.2 million, calculated at a lower overall revenue requirement including certain Division adjustments.[26]

Mr. Daniel's depiction of the impact as a $54,000 decrease to GS costs is understated because his peak-day factor, presumably inadvertently, excludes TS interruptible loads.[27]

[26] Direct Testimony of Howard E. Lubow (DPU Exhibit 6.0 DIR), p. 7.

[27] Direct Testimony of James W. Daniel (OCS-4D), p. 9; OCS Exhibit 4.2D.

Q. Do you continue to recommend that interruptible loads not be included in the peak-day factor?

A. Yes. Although some parties maintain that interruption events have occurred relatively infrequently, they nonetheless occur. Moreover, irrespective of the relative frequency of interruption, the fact is that DEU does not include interruptible loads in its design-day for planning purposes, and thus does not size its system to serve these loads on the design-day. Doing so would require a much larger system than the one that has been built, with consequent higher system costs and economic inefficiency. Since interruptible loads do not cause DEU's peak demand-related costs, they should not be allocated a share of these costs.

Moreover, as I discussed above, the very selection of the Peak and Average method in the first place represents a determination that the share of feeders and related facilities that is properly allocable to interruptible load is the group's share of throughput weighted by the system load factor. "Doubling down" by also allocating a share of design-day costs to interruptible load is inconsistent with the logical basis of the method and is essentially a misapplication of it. Moreover, "doubling down" in this way, as Mr. Lubow and Mr. Daniel propose, allocates costs to interruptible TS service in a manner that is nearly indistinguishable from the allocation of costs to firm TS service. It effectively defeats the purpose of utilizing interruptible service to optimize system design.

Class Cost-of-Service Study Results

Q. In your Phase II direct testimony, you presented the class cost-of-service study results at the non-confidential revenue requirement from your Phase I direct testimony. Have you updated these results to reflect UAE's non-confidential revenue requirement from your Phase I surrebuttal testimony?

A. Yes. In my Phase I surrebuttal testimony, I reduce my recommended revenue requirement reduction by approximately $4.2 million. Table KCH-1R, below, is an update to Table KCH-2 presented in my Phase II direct testimony. Columns (c) and (d) present the DNG rate revenue change by class that would be necessary for each class to earn an equalized rate of return at the revenue requirement incorporating the non-confidential adjustments I recommend in my Phase I surrebuttal testimony. Columns (e) and (f) include the impact of the TBF discount.

Table KCH-1R
Cost-of-Service Study Results
With UAE Recommended Allocation Factor 230 Weighting
At UAE Non-Confidential Phase I Surrebuttal Revenue Requirement

		DNG Revenue Change to Achieve Equalized ROR		DNG Revenue Change Plus TBF Discount	
Class (a)	Current DNG Revenue (b)	$ Increase/ (Decrease) (c)	% Increase/ -Decrease (d)	$ Increase/ (Decrease) (e)	% Increase/ -Decrease (f)
GS	$343,208,444	($12,051,414)	-3.5%	($10,103,170)	-2.9%
FS	$2,669,970	($32,024)	-1.2%	$1,633	0.1%
IS	$185,961	($48,113)	-25.9%	($47,468)	-25.5%
TS	$28,164,455	$8,149,018	28.9%	$8,679,524	30.8%
TBF	$1,513,475	$3,424,064	226.2%	$908,836	60.0%
NGV	$2,633,852	$79,563	3.0%	$81,740	3.1%
Total	$378,376,157	($478,906)	-0.1%	($478,906)	-0.1%

RATE SPREAD

Q. What does Mr. Lubow propose with regard to rate spread?

A. Mr. Lubow discusses his rate spread recommendation by referencing what he calls the "Overland Base Case," which includes some (though not all) Division revenue requirement adjustments and does not include his recommended cost-of-service adjustments.[28] Based on these results, Mr. Lubow recommends a $10,141,180 increase to the TS class and a $559,131 increase to the TBF class at this time, which he depicts as 35% increases. Mr. Lubow recommends a $9,437,984 decrease to the General Service ("GS") class, which he depicts as a 2.67% decrease.[29] He recommends no change in rates for the Firm Sales, Interruptible Sales, or Natural Gas Vehicle rate classes.

Q. What does Mr. Daniel propose with regard to rate spread?

A. Mr. Daniel recommends that customer class revenue levels be set equal to their allocated cost of service. Based on the OCS revenue requirement and Mr. Daniel's class cost-of-service results (which understates the costs that would be shifted to TS under his recommendations), his proposal results in a $9,293,026, or

[28] Direct Testimony of Howard E. Lubow (DPU Exhibit 6.0 DIR), p. 11.

[29] I am unable to determine how Mr. Lubow calculated the 35% increases to TS and TBF and the 2.67% decrease to GS based on his proposed revenue changes. DPU did not provide me with complete workpapers supporting Mr. Lubow's calculations despite several informal requests. I estimate that his proposed rate changes represent a 36.0% increase to TS, a 37.1% increase to TBF, and a 2.8% decrease to GS, based on current revenue calculated using DEU Exhibit 4.18-Summers-Rate Case Model, as adjusted for Division's recommended lead-lag factor of (0.828) and ROE of 9.25%.

33.0%, increase to the TS class, a $640,687, or 42.5%, increase to the TBF class, and a $25,008,602, or 7.3%, decrease to the GS class. [30]

Q. What is your response to Mr. Lubow's and Mr. Daniel's rate spread proposals?

A. The rate spreads proposed by Mr. Lubow and Mr. Daniel should not be adopted. Instead, I continue to recommend that class costs be determined using my recommended Allocation Factor 230 weighting and DEU's design-day factor which does not include interruptible usage. Further, I recommend implementing the full cost-based increase to the TS class (plus TS's cost-share of the TBF discount) and the target increase to the TBF class in three annual steps.

Since the rate effective date of this case is anticipated to be March 1, 2020, I propose that the subsequent two increases to the TS and TBF classes (and concurrent decreases to other classes) occur on March 1, 2021, and March 1, 2022.

While the differing overall revenue requirements used by the parties make comparability difficult, the cost-based increase to the TS class and the target increase to TBF class are significant. My proposal will move TS to its full cost of service and TBF to its target revenue requirement by March 1, 2022, but will mitigate the immediate impact to these classes that would occur if the increases were implemented in a single step.

[30] Direct Testimony of James W. Daniel (OCS-4D), p. 13. These numbers do not reflect any adjustment to the TBF discount.

Q. Have you updated your three-step phase-in proposal based on your Phase I surrebuttal revenue requirement?

A. Yes. Table KCH-2R, below, is an update to Table KCH-5 presented in my Phase II direct testimony. Table KCH-2R reflects the non-confidential revenue requirement adjustments I recommend in my Phase I surrebuttal testimony. As in my Phase II direct testimony, I am proposing a slightly smaller first step increase (25% of the total increase) to TS and TBF in order to provide some time to address rate design issues within the TS class for implementation in Steps 2 and 3, which I discuss further below.

Table KCH-2R
UAE Recommended Three-Step Phase-In
With UAE Recommended Allocation Factor 230 Weighting
At UAE Non-Confidential Phase I Surrebuttal Revenue Requirement

		Step 1 DNG Rev. Change		Step 2 DNG Rev. Change from Step 1		Step 3 DNG Rev. Change from Step 2	
Class	Current DNG Revenue	$ Increase/ (Decrease)	% Increase/ -Decrease	$ Increase/ (Decrease)	% Increase/ -Decrease	$ Increase/ (Decrease)	% Increase/ -Decrease
GS	$343,208,444	($3,044,075)	-0.9%	($3,529,548)	-1.0%	($3,529,548)	-1.0%
FS	$2,669,970	$123,583	4.6%	($60,975)	-2.2%	($60,975)	-2.2%
IS	$185,961	($45,131)	-24.3%	($1,169)	-0.8%	($1,169)	-0.8%
TS	$28,164,455	$2,169,881	7.7%	$3,254,822	10.7%	$3,254,822	9.7%
TBF	$1,513,475	$227,209	15.0%	$340,813	19.6%	$340,813	16.4%
NGV	$2,633,852	$89,626	3.4%	($3,943)	-0.1%	($3,943)	-0.1%
Total	$378,376,157	($478,906)	-0.1%	$0	0.0%	$0	0.0%

TS RATE DESIGN

Q. Have you updated your recommend TS rate design to reflect your Phase I surrebuttal revenue requirement?

Yes. UAE Exhibit 2.2R is an update to UAE Exhibit 2.4 provided with my Phase II direct testimony. In this exhibit, I present the Step 1 rate design I recommend for TS at the UAE revenue requirement including my non-confidential Phase I surrebuttal adjustments, as well as placeholder rates for Step 2 and Step 3 using the same equal percentage increase across the volumetric blocks.

Q. Multiple parties to this case suggest that the TS class should be split into smaller-customer and larger-customer groups, either now or in the next rate case.[31] What is your response to these proposals?

A. It is not necessary to split the TS class as this time. However, I recommend that the TS rate design for Steps 2 and 3 of my proposed phase-in remain subject to further analysis through an extension of this docket to further examine the relationship between TS demand and volumetric charges, as well as to potentially spread the rate increase across the TS class for customers of various sizes more proportionately. It should be recognized that under both DEU's proposed rate design and the first step of my proposed rate design, smaller TS customers will receive a smaller percentage increase than larger customers, all

[31] Direct Testimony of Howard E. Lubow (DPU Exhibit 6.0 DIR), p. 10; Direct Testimony of James W. Daniel (OCS-4D), p. 22; Direct Testimony of Bruce R. Oliver (ANGC Exhibit 2), p. 67.

things being equal, in light of the significant reduction in the administration charge from $4,500 per year to $3,000 per year.

Q. Does this conclude your Phase II rebuttal testimony?

A. Yes, it does.