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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF DOMINION ENERGY UTAH TO INCREASE DISTRIBUTION RATES AND CHARGES AND MAKE TARIFF MODIFICATIONS	**Docket No. 19-057-02**

PREFILED SURREBUTTAL TESTIMONY OF KEVIN C. HIGGINS

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

DATED this 6th day of January, 2020.

Respectfully submitted

By: 

Phillip J. Russell
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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 6th day of January, 2020, on the following:

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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

Phase II Surrebuttal Testimony of Kevin C. Higgins

on behalf of

UAE

Docket No. 19-057-02

January 6, 2020

TABLE OF CONTENTS

SURREBUTTAL 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 and rebuttal 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 surrebuttal testimony in this proceeding?

A. My testimony responds to the Phase II rebuttal testimonies of Dominion Energy Utah ("DEU" or the "Company") witness Mr. Austin C. Summers, Office of Consumer Services ("OCS") witness Mr. James W. Daniel, and American Natural Gas Council ("ANGC") witness Mr. Bruce R. Oliver on the topics of class cost-of-service, rate spread, and Transportation Service ("TS") rate design.

Q. Please summarize your conclusions and recommendations.

A. My testimony offers the following recommendations:

(1) I continue to recommend a 68% design-day / 32% throughput weighting for Allocation Factor 230, which has been accepted by the Company in its rebuttal. Mr. Daniel's proposal to use a 50% / 50% weighting should be rejected because it is not based on any established cost allocation principle and would arbitrarily increase costs allocated to the TS class.

(2) I continue to recommend that design-day usage be used to allocate demand-related costs. 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.

(3) I continue to support my recommended schedule to phase-in the full cost-based increase to the TS class and the target increase to the Transportation Bypass Firm ("TBF") class in three annual steps. However, I believe that DEU's proposed schedule to phase-in the TS increase is also within the range of reasonableness. I disagree, however, with DEU's proposal to implement the target increase to the TBF class in one step, and I continue to recommend a phase-in of the target increase to the TBF class.

(4) It is not necessary to split the TS class into small and large customer groups at this time. Given the discordant analyses and opinions among parties regarding the cost relationships between small and large TS customers, I recommend maintaining

a single TS class in this case so as to minimize the disruption to TS customers while further analysis is conducted.

(5) In my direct and rebuttal Phase II testimony, I recommended that the TS rate design for Steps 2 and 3 of my proposed phase-in period remain subject to further analysis through an extension of this docket. However, Mr. Summers asserts that extending this docket is not permitted by statute. I am not an attorney, but in my regulatory experience I am familiar with commissions issuing final orders to set rates while also keeping a docket open to address certain specific issues requiring further analysis. In any case, I am less concerned with the formality of which docket is utilized, and more concerned with establishing a process to further examine the relationship between TS demand and volumetric charges, as well as among the volumetric blocks, in setting the Step 2 and Step 3 rate designs.

(6) If the Commission accepts my recommendation to phase-in the TS (and TBF) rate increase, but prefers to determine the Steps 2 and 3 TS rate design in its final order without deferring that decision by extending this docket or opening a new one, then I recommend that the Commission approve the TS rate design approach presented in UAE Exhibits 2.3, 2.4, and 2.2R attached to my Phase II direct and rebuttal testimonies. As shown in these exhibits, I recommend an equal percentage increase to each TS volumetric rate in each step. I recommend that the firm demand charge be increased by an equal amount per Dth of firm contract demand in each of the three steps.

CLASS COST-OF-SERVICE STUDY

Q. In your Phase II direct and rebuttal testimonies, you recommended a 68% design-day / 32% throughput weighting for Allocation Factor 230. Did DEU accept your recommendation in its rebuttal testimony?

A. Yes. Mr. Summers states the proposal to use the system load factor of 32% to determine the throughput weighting makes sense and represents a nationally-recognized standard. The Company accepts the 68% design-day / 32% throughput weighting, combined with a move of the TS class to a full cost of service.[1]

Q. OCS witness Mr. Daniel argues that you are incorrect in characterizing Allocation Factor 230 as based on the Average and Peak method[2] described in the NARUC Manual.[3] What is your response to Mr. Daniel's assertion?

A. Allocation Factor 230 is clearly based on an Average and Peak allocation methodology, and I find it disingenuous to pretend otherwise. DEU's weighted design-day / throughput allocator includes both peak and average (throughput) components, which is the fundamental characteristic of the Average and Peak method. The NARUC Manual prescribes a logical basis for determining the weighting of the throughput component based on the system load factor when such an approach is utilized. This is because the throughput component is intended to allocate costs that are associated with base-load-type usage, and system load factor

[1] Rebuttal Testimony of Austin C. Summers (DEU Exhibit 4.0R), lines 70-78.

[2] Rebuttal Testimony of James W. Daniel (OCS 4R), lines 79-84.

[3] The Gas Distribution Rate Design Manual ("NARUC Manual") published by the National Association of Regulatory Utility Commissioners (June 1989), pp. 27-28, included in UAE Exhibit 2.2. The NARUC Manual specifies that the system's load factor is used to determine the capacity costs associated with average use and apportioned to classes on an annual volumetric basis.

is a generally-accepted standard for measuring the portion of facilities associated with the provision of base load service. Whether DEU or other parties term the method "Average and Peak" is irrelevant, although I realize that disavowing that label may make it easier for some to advocate for arbitrary weightings designed to shift additional costs to the business and institutional customers in the TS class.

Q. In his rebuttal testimony, Mr. Daniel agrees with Division of Public Utilities witness Mr. Howard E. Lubow's 50% / 50% weighting proposal.[4] Do you agree with this recommendation?

A. No. As I explained in my Phase II rebuttal testimony, Mr. Lubow's selection of the 50% / 50% weighting is arbitrary and is not based on any established cost allocation principle. This approach would exacerbate an already significant increase to the TS class without cost-based justification.

Q. Mr. Daniel claims that you failed to use the correct peak demands for the peak component of the Average and Peak factor, since the NARUC Manual refers to using the coincident peak of each class.[5] Please respond to this claim.

A. Mr. Daniel claims that it is incorrect to use design-day demands rather than actual coincident peak demands. I disagree. Both the design-day usage and actual peak-day usage represent measures of coincident peak demand. 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

[4] Rebuttal Testimony of James W. Daniel (OCS 4R), lines 148-151.

[5] Rebuttal Testimony of James W. Daniel (OCS 4R), lines 101-108.

reflects the expected usage on the design-day, as DEU and I have done. Plant that is necessary to ensure delivery of gas to firm customers during design-day conditions should be allocated to the temperature-sensitive firm customers for whom design-day capacity was built.

RATE SPREAD / PHASE–IN

Q. You recommend a three-step phase-in of the full cost-based increase to the TS class and the target increase to the TBF class. Do other parties support a three-step phase in?

A. Yes. Both Mr. Summers and Mr. Daniel propose modified versions of a three-step phase-in. ANGC witness Mr. Oliver also states that a three-step phase-in may be reasonable if certain criteria are met.[6]

Q. Please describe the gradualism approach proposed by Mr. Summers.

A. Mr. Summers states that the Company can accept much of my gradualism proposal but recommends a few changes. Mr. Summers supports an approach whereby 25% of the full increase to the TS class is implemented on the rate effective date from this case of March 1, 2020, as I propose. However, Mr. Summers suggests that the second and third increases occur in conjunction with the Company's annual feeder-line tracker applications in both 2020 and 2021, rather than on March 1st of each year as I recommend. Mr. Summers recommends that

[6] Rebuttal Testimony of Bruce R. Oliver (ANGC Exhibit 2R), lines 92-108.

the second step in fall 2020 be another 25% of the total increase, and the third step in fall 2021 make up the remaining 50%.[7]

Q. What phase-in approach does Mr. Daniel support?

A. Mr. Daniel recommends three equal step increases.[8]

Q. What is your response to these phase-in proposals?

A. I continue to support my recommended phase-in schedule, in which 25% of the TS and TBF increases would be implemented on March 1, 2020, and the second and third steps would each implement 37.5% of the TS and TBF increases on March 1, 2021 and March 1, 2022. This schedule would provide for a gradual phase-in of the TS and TBF increases.

However, I believe that DEU's proposed schedule to phase-in the TS increase is also within the range of reasonableness. Problematically, however, DEU does not propose to phase-in the target increase to the TBF class. Under DEU's proposal, the TBF class would receive the full 64.24% increase in the initial step.[9] I continue to recommend that the TBF target increase be implemented gradually in conjunction with the TS increase. DEU's approach would further distort the relationship between TS and TBF rates.

[7] Rebuttal Testimony of Austin C. Summers (DEU Exhibit 4.0R), lines 207-221.

[8] Rebuttal Testimony of James W. Daniel (OCS 4R), lines 194-200.

[9] Rebuttal Testimony of Austin C. Summers (DEU Exhibit 4.0R), p. 9 table, lines 222-223. This table is presented at DEU's rebuttal revenue requirement increase.

TS RATE DESIGN

Q. Mr. Oliver states that he would support your phase-in proposal only if the TS class were divided into two classes for large and small TS customers and the phase-in were only applied to large TS customers.[10] What is your response to this proposal?

A. It is not necessary to split the TS class at this time. DEU has provided inconsistent information throughout the course of this case regarding the cost relationships between small and large TS customers. In his direct testimony, Mr. Summers explained that part of the reason the TS class is under-performing relative to cost is due to a migration of small customers to the TS class since the last rate case.[11] In discovery, DEU provided its TS cost curve analysis,[12] which indicates a significant decline in cost per Dth for TS customers as customer size increases. This general result is not surprising given the declining marginal cost of delivering incremental volumes of gas. However, DEU's class cost-of-service study does not recognize the declining volumetric cost per Dth. Given the discordant analyses and opinions among parties to this case, I recommend maintaining a single TS class in this case so as to minimize the disruption to TS customers while further analysis is conducted.

[10] Rebuttal Testimony of Bruce R. Oliver (ANGC Exhibit 2R), lines 92-99.

[11] Direct Testimony of Austin C. Summers (DEU Exhibit 4.0), lines 567-579.

[12] DEU response to Data Request OCS 6.09, OCS 6.09 Attachment 1.

Q. What does DEU recommend regarding the issue of splitting the TS class?

A. Mr. Summers states that it is worth considering and analyzing in the next general rate case. DEU recommends implementing a moratorium to prevent customers from moving to TS unless they use 35,000 Dth/year, phasing in the full cost-based increase to TS, letting the class makeup stabilize, and addressing TS rate design in the next general rate case.[13]

Q. What is your response to DEU's position that the issue of splitting the TS class should be considered in the next general rate case?

A. I agree that it should not be implemented in this case. Since significant changes to TS rates are proposed in this case which will impact the rates of return earned by small and large TS customers, it makes sense to consider whether splitting the class is appropriate in the next general rate case. As I explained in my rebuttal testimony, 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 things being equal, in light of the significant reduction in the administrative charge from $4,500 per year to $3,000 per year.

[13] Rebuttal Testimony of Austin C. Summers (DEU Exhibit 4.0R), lines 375-388.

Q. Mr. Daniel claims that you presented testimony that large TS customers are being subsidized by smaller TS customers.[14] Did you present such testimony?

A. No. The section of my testimony cited by Mr. Daniel addressed DEU's proposal to prevent customers with usage below 35,000 Dth/year from migrating to the TS class. I stated, "At this juncture, I have seen no convincing evidence that smaller TS customers are creating an intra-class subsidy problem." In response to DEU's proposal, I recommended a moratorium on new migration to TS for customers with usage below 35,000 Dth/year during my recommended phase-in period until full cost of service for TS is reached.[15]

Q. Mr. Oliver opposes your suggested moratorium on the migration of smaller customers to the TS class.[16] What is your response to Mr. Oliver's concerns?

A. I appreciate Mr. Oliver's argument that there is not a compelling reason to prohibit smaller customers from migrating to TS but allow larger customers to do the same. My recommendation was designed to address potential concerns about migration to the TS class while the class as whole is below full cost of service (i.e., during the phase-in period).

[14] Rebuttal Testimony of James W. Daniel (OCS 4R), lines 279-282.

[15] Direct Testimony of Kevin C. Higgins (UAE Exhibit 2.0), lines 299-307.

[16] Rebuttal Testimony of Bruce R. Oliver (ANGC Exhibit 2R), lines 472-500.

Q. You recommended that the TS rate design for Steps 2 and 3 of your proposed phase-in period remain subject to further analysis through an extension of this docket, but Mr. Summers argues that extending this docket is not permitted by statute.[17] What is your response to Mr. Summers on this point?

A. Mr. Summers states that extending this docket is not permitted because Utah Code Ann.§ 54-7-12 mandates that the Commission issue an order within 240 days or the Company's proposed rates become final. I am not an attorney, but in my regulatory experience I am familiar with commissions issuing final orders to set rates while also keeping a docket open to address certain specific issues requiring further analysis. In any case, I am less concerned with the formality of which docket is utilized, and more concerned with establishing a process to further examine the relationship between TS demand and volumetric charges, as well as among the volumetric blocks, in setting the Step 2 and Step 3 rate designs.

Mr. Summers states that the Company is concerned that opening a new docket could result in prohibited single-issue ratemaking, but the Company welcomes a collaborative process to resolve the issues. UAE has no objection to a collaborative process, but it seems to me that it should be in the context of the Commission ultimately exercising its decision-making authority over Step 2 and Step 3 rates.

[17] Rebuttal Testimony of Austin C. Summers (DEU Exhibit 4.0R), lines 235-244.

Q. What do you recommend if the Commission approves your proposal for a three-step phase-in for TS rates, but prefers to determine the TS rate design for Steps 2 and 3 in its final order without deferring that decision by extending this docket or opening a new one?

A. In that case, I recommend that the Commission adopt the three-step rate design approach I presented previously in my testimony. Specifically, I present a three-step rate design in UAE Exhibit 2.3 at DEU's direct proposed revenue requirement, in UAE Exhibit 2.4 at UAE's non-confidential direct revenue requirement, and in UAE Exhibit 2.2R at UAE's non-confidential Phase I surrebuttal revenue requirement.

Q. Please explain your recommended approach to TS rate design if the Commission decides to determine Step 2 and Step 3 rates in this case.

A. As shown in UAE Exhibits 2.3, 2.4, and 2.2R, I recommend an equal percentage increase to each TS volumetric rate in each step. I recommend that the firm demand charge be increased by an equal amount per Dth of firm contract demand in each of the three steps. I have accepted DEU's proposed administrative charges and basic service fees.

Q. Do you have any concerns with the TS rate design Mr. Summers provided with his rebuttal testimony?

A. Yes. Mr. Summers provided an updated cost-of-service model and rate design for his three proposed phase-in steps.[18] The rate design approach used by

[18] DEU Exhibit 4.02R (311475DEUExh4.02RMdlCstSrvcRtDsgn12-13-2019).

DEU results in some anomalies, such as the TS Block 4 volumetric rate being lower than the current rate in Steps 1 and 2. It appears that DEU is attempting to target absolute differentials between the various volumetric blocks. Instead, I recommend scaling each volumetric block rate by an equal percentage increase to minimize the disruption to TS customers.

Q. Does this conclude your Phase II surrebuttal testimony?

A. Yes, it does.