BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF DOMINION ENERGY FOR AUTHORITY TO CHANGE ITS DEPRECIATION RATES	Docket No. 19-057-03

DIRECT TESTIMONY OF JORDAN K. STEPHENSON

FOR DOMINION ENERGY

February 1, 2019

QGC Exhibit 1.0

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I. INTRODUCTION

Q. Please state your name and business address.

A. Jordan K. Stephenson, 333 South State Street, Salt Lake City, Utah 84111.

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

A. I am employed by Dominion Energy Utah (DEU or Company) as a Regulatory Affairs Analyst III. My qualifications are detailed in DEU Exhibit 1.1.

Q. What general areas will your testimony address?

A. My testimony will provide some historical background about the depreciation rates, I will introduce the depreciation study that was recently performed by Gannett Fleming, and I will summarize the impact that the proposed rate changes will have on the Company's revenue requirement.

II. BACKGROUND

Q. When was the Company's first depreciation study performed?

A. The Company's first study was conducted in 2005 and was based on 2004 investment. Gannett Fleming was hired to perform the study and it was introduced as part of Docket No. 05-057-T01. In that docket, the depreciation rates were adopted in a rate reduction stipulation. The proposed depreciation rates resulted in a reduction of $8.5 million to Questar Gas customers. As part of the stipulation, the Company agreed it would complete and file with the Commission its next depreciation study no later than December 31, 2008, using 2007 year-end data.[1] This was reaffirmed in the settlement stipulation filed May 16, 2013, in Docket No. 07-057-13 when the parties agreed that "Pursuant to the Stipulation and Order Approving Settlement in Docket No. 05-057-T01, the Company will perform a depreciation study by the end of 2008. The Company agrees to perform new depreciation study every five years on a going-forward basis." [2]

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[1] Docket No. 05-057-T01 Rate Reduction Stipulation filed May 10, 2006, 18.a.
[2] Docket No. 07-057-13 Revenue Requirement Stipulation filed May 16, 2008, paragraph 13.a.

Q. Did the Company perform 2007 and 2012 depreciation studies?

A. Yes. Gannett Fleming performed a study in 2008 based on 2007 data. The results of this study were included as a part of Docket No. 09-057-16. In that docket, the parties agreed to amortize the reserve variance over a ten-year period instead of the remaining life of the assets. The overall decrease to depreciation expense was $3,252,000. The Company hired Gannett Fleming again in 2013 to perform the study based on 2012 accounting data. The results of this study were included as a part of Docket No. 13-057-19. In that docket, the parties agreed to decrease the depreciation expense by $1.2 million.

Q. Did the Company prepare a 2017 study as agreed to in Docket 07-057-13?

A. Yes. In 2018, the Company hired Gannett Fleming to conduct a study based on 2017 accounting data. The entire study is attached in DEU Exhibit 1.2.

III. DEPRECIATION STUDY RESULTS

Q. Please describe the results of the study.

A. DEU Exhibit 1.3 shows the difference between the existing depreciation rates, and the proposed depreciation rates prepared by Gannett Fleming as part of the study. The overall impact of using the proposed rates would be a $9,079,901 increase (column 15, line 85) to the annual depreciation accrual, resulting in an annual accrual amount of $83.9 million (column 14, line 85).

Q. Please summarize the major drivers causing this increase in the expense.

A. There were multiple factors that led to the increase mentioned above. First, the reserve variance decreased from $86.5 million in 2012, to $7.4 million in 2017. This reduction was caused by the $8.6 million per year amortization of the reserve variance and the the overall reserve activity that has occurred in the five years, subsequent to 2012. These changes have minimized the differences between the book and theoretical reserve over the last five years. Second, the net salvage estimates and removal costs materially changed for some accounts, increasing the depreciation rates for Account 376 (Mains) and Account 380 (Services). Of the increase to depreciation expense listed above, $3.4 million is attributable to Mains and $2.2 million is attributable to Service Lines (Exhibit 1.3, column 15, lines 3 and 6). Factored within these amounts is the reserve variance amortization. Finally, the service life for Account 381.21 (Meters – Transponders) decreased from 15 to 13 years. The increase in depreciation expense related to this is $1.9 million (Exhibit 1.3, column 15, line 9). These major changes, along with other minor adjustments, result in the $9.1 million increase to depreciation expense.

Q. What is the reserve variance and how is it calculated?

A. The reserve variance is the difference between the accumulated depreciation on the Company's books and the accrued depreciation calculated in the study. In other words, it is a comparison of what the Company has depreciated for a particular asset class, compared to what should have been depreciated using the rates in the study. For example, if a $400 computer had been depreciated using a four year life, at the end of the third year the Company would have depreciated $100 per year, the accumulated depreciation would be $300 and the net book value would be $100. Assume a depreciation study was performed and it was determined that the Company should have been depreciating the computer over a five year life. Going forward, the Company would depreciate the computer at $80 per year, and it would calculate a reserve variance. That reserve variance would be calculated by comparing the $300 amount of booked accumulated depreciation with the $240 amount that should have been depreciated over the last three years ($80 x 3). The difference would be the reserve variance of $60. This amount would be amortized over a period of time. In this example, the reserve variance would be a reduction to depreciation expense.

While this is a simple example, it illustrates the kind of calculation that was performed in the depreciation study. In Exhibit 1.4, the study shows that as of December 2017 the booked accumulated depreciation was $870,811,424 (column 4, line 85) and the calculated accrued depreciation was $863,423,844 (column 3, line 85), for an over depreciated amount of $7,387,580 (column 5, line 85). The Company is proposing to amortize this amount over the remaining life of the property, for an annual amount of about $1.3 million.

Q. If the reserve variance amortization is a reduction to expense, then why is the Company proposing an overall increase in depreciation expense?

A. While the reserve variance amortization will reduce depreciation expense by $1.3 million per year, the annual reserve variance amortization in the last study was $8.6 million. The Company will be amortizing a smaller reserve variance amount, thus increasing depreciation expense by $7.3 million.

Q. What is the proposed effective date for these recommended depreciation rate changes?

A. The Company is filing this study now in order to give parties sufficient time to review the results of the depreciation study and receive Commission approval for updated rates going forward. The Company proposes that the Commission approve the proposed depreciation rates and reserve amortization amounts from this proceeding and order that they be used in calculating the revenue requirement in the Company's upcoming rate case in Docket 19-057-02. This case is expected to be filed on July 1, 2019. The depreciation rates and reserve amortization amounts would then be updated in the Company's accounting system on the rate effective date of the rate case. This rate effective date is currently expected to be on or near March 1, 2020. This is consistent with how depreciation study results have been implemented in prior years.

IV. SUMMARY

Q. Please summarize your recommendations to the Commission.

A. This depreciation study for 2017 was compiled using the same accounting and engineering principles that were used in the 2007 and 2012 depreciation studies that were previously approved by the Commission. Using the depreciation rates in this study would result in just and reasonable rates. Approval of these depreciation rates for use in the Company's next general rate case is in the public interest. The Company therefore recommends that the Commission approve the depreciation rates and reserve variance amortization amounts proposed in this depreciation study.

Q. Does that conclude your testimony?

A. Yes.

State of Utah)
) ss.
County of Salt Lake)

I, Jordan K. Stephenson, being first duly sworn on oath, state that the answers in the foregoing written testimony are true and correct to the best of my knowledge, information and belief. Except as stated in the testimony, the exhibits attached to the testimony were prepared by me or under my direction and supervision, and they are true and correct to the best of my knowledge, information, and belief. Any exhibits not prepared by me or under my direction and supervision are true and correct copies of the documents they purport to be.

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Jordan K. Stephenson

SUBSCRIBED AND SWORN TO this 1st day of February, 2019.

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Notary Public