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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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| IN THE MATTER OF THE |) | |
| COST OF SERVICE AND |) | Docket No. 20-057-11 |
| RATE DESIGN ISSUES FOR |) | |
| DOMINION ENERGY UTAH |) | |

**FEDERAL EXECUTIVE AGENCIES' COMMENTS ON THE FINAL REPORT
OF THE COST-OF-SERVICE AND RATE DESIGN TASK FORCE**

INTRODUCTION

The Federal Executive Agencies (“FEA”), through its undersigned counsel, respectfully submit these Comments on the Final Report of the Cost-of-Service and Rate Design Task Force (“Task Force”). FEA proffers the following comments for the Commissions’ consideration and would be prepared to present evidence in support of the facts and positions presented herein in a future case or hearing on this matter. The FEA appreciates the work performed by the Task Force as well as the opportunity to submit these comments.

FEA, in particular Hill Air Force Base (“Hill AFB”), is a large consumer of gas on the Dominion Energy Utah (“DEU”) system, purchasing delivery service from DEU for transporting gas that FEA purchases from a third-party supplier. The proper allocation of costs to FEA’s rate classes based on appropriate cost-causation principles for the purpose of setting rates is vitally important. FEA supports class rates based on cost of service as measured on proper cost-causation principles, as this will better ensure that FEA’s military installations are able to accomplish their operational missions within their appropriated budgets and in the most cost-efficient way to Federal taxpayers. As described below, FEA has concerns regarding the assumptions made by the Task Force as well as the results of the Task-Force’s analysis with respect to determining rates for a Transportation Service (“TS”) class split into subclasses (Small, or TSS, Medium or TSM, and Large, or TSL).

BACKGROUND

In Docket No. 19-057-02, DEU’s most recent general rate case, certain parties raised the issue of splitting the TS class to better accommodate different sizes of customers. However, the Public Service Commission of Utah (“Commission”) found there was insufficient evidence to

support any particular split of the TS class. On February 25, 2020, the Commission issued a Report and Order in the Rate Case that included a finding that established this proceeding to evaluate the TS class composition and other cost allocation issues associated with DEU's rate classes.

The Task Force discussions and analysis focused on splitting the TS class. The Task Force considered different approaches and different options for splitting the TS class based on customer size. DEU ultimately analyzed two proposals for splitting the TS class based on annual usage: the DPU proposal and the UAE proposal.

Under the DPU proposal, the TS class split includes customers with annual usage under 25,000 Dth (the TS Small or TSS class), customers with annual usage between 25,000-250,000 Dth (the TS Medium or TSM class), and customers with annual usage over 250,000 Dth (the TS Large or TSL class).

Under the UAE proposal for splitting the TS class, the class split is annual usage under 25,000 Dth (the TSS class), annual usage between 25,000-325,000 Dth (the TSM class), and annual usage over 325,000 Dth (the TSL class).

Despite the two proposals analyzed, the Task Force in this docket did not reach any consensus or settlement on any issue, including how the TS class should be split, or whether the class should even be split at all, and the Task Force makes no recommendations about how the Task Force information is used in any future rate proceeding or what outcome is appropriate in DEU's next general rate case. That being said, FEA provides these comments on the Task Force's final report in order to voice its concerns regarding the analysis and findings of the TS class scenarios included in the Task Force final report. These concerns are described below.

FEA’S COMMENTS

As noted above, the purpose of this workshop was to evaluate the TS class split and/or composition and consider other cost allocation issues. FEA does not agree that the Task Force fairly evaluated and addressed all relevant issues the Commission requested be addressed, because the Task Force analysis of the TS class split/composition did not evaluate “other cost allocations issues” but rather simply accepted as appropriate the use of the Peak & Average (“P&A”) method for allocating main capacity costs within a class cost of service study and whether this capacity allocation allowed for a complete cost-based assessment of whether splitting the TS class is reasonable. The allocation method is relevant and critical in determining the proper allocation of capacity costs on an interclass basis, but also for the intra-class allocation of costs among the three subclasses (TSS, TSM, and TSL) in the TS class. FEA was not allowed to include counter arguments in the Task Force report that the P&A method inappropriately includes a volumetric component in allocating the fixed capacity costs of mains which distorts the proper allocation of the capacity costs incurred and needed to provide firm service to all classes, and within the TS class. As described in further detail below, FEA disagrees that the P&A method best reflects class cost causation on the DEU system.

As a result of the Task Force’s acceptance of the premise of the P&A method, FEA has concerns regarding the findings of the Task Force with respect to the TS class split, the modeled TSL rate design and the rate impacts on the TSL class resulting from the scenarios studied for splitting the TS class.

For example, under the DPU proposal for splitting the TS class as described above, DEU compared the calculated rates for the DPU split proposal against the rates that will be in effect

when the final step of the Three Step increase in base rates resulting from the Commission's order in DEU's most recent Rate Case Docket are put into effect in the Fall of 2021. As shown on slide 10 of Attachment 5 of the Task Force report, all three of the sample customers in the TSL class would experience a rate increase if the calculated rates under the DPU split proposal were implemented, ranging from a 10.5% increase to a 15.4% increase over Step 3 rates. This is on top of a Three Step rate increase from the Rate Case Docket that will culminate in the implementation of a 38.4% average increase for the TS class.

Class cost of service is vitally important to the FEA. The results of the options studied by the Task Force, which accepts the premise of P&A for allocating costs inside the TS class, result in additional large increases on top of the already large increases imposed by the Commission order in the last rate case for large, high load factor natural gas customers in the TS class, including Hill AFB.

In the last rate case (Docket No. 19-057-02), FEA presented evidence that the P&A method for allocating mains costs does not reflect how DEU designs its system of mains and as a result, does not best reflect class cost causation. Rather, FEA maintained in the rate case that DEU's system design is based on Design Day Demand and not volume, and as a result, costs should be allocated on a Design Day Demand basis and not on P&A, which includes a volumetric cost allocation component.

Despite FEA's opposition to the P&A method in the rate case, the Commission set rates at cost of service based on the P&A method. The resulting class revenue increases determined using the P&A method were to be phased in over three steps per the Commission's order.

FEA maintains that how cost of service is determined for DEU's classes should be addressed in the next rate case. Furthermore, FEA maintains that not only should interclass cost of service be examined, the cost of service inside the TS class needs further study before accepting any of the Task Force studied scenarios for splitting the TS class.

In the scenarios studied for splitting the TS class, DEU specifically calculated P&A factors for the TSS, TSM and TSL classes that include a volumetric component. Allocating costs partially on volume is not the proper way to allocate costs inside the TS class. In addition, there is also a cost associated with the length of the mains installed by DEU to provide service to the TS class that is not captured by either a demand or volumetric allocator. As a result, more cost of service work needs to be done inside the TS class.

For example, based on information in Attachment 10 to the Task Force report, the Task Force found that there are approximately 1,164 customers in total in the TS class. Based on the DPU TS class split proposal, the small subclass would consist of 848 TSS customers (or 73% of the total TS class customers), the medium subclass would consist of 276 TSM customers (or 24% of the total TS class customers), and the large subclass would consist of 40 TSL customers (or 3% of the total TS class customers). What is of concern to FEA regarding the Task Force scenario results is that despite the greater length of pipe required to serve the 1,124 small and medium customers as compared to the 40 customers in the TSL large subclass, the TSL subclass rates under the DPU proposal would increase versus the status quo, while the rates for TSS customers would actually decrease, despite the TSL customers consisting of a very small percentage (3%) of the total TS class customers, and despite TSL customers using DEU's system more efficiently to deliver gas, with a higher load factor than both the small and medium TS subclasses.

FEA maintains that the P&A method for allocating main costs does not reflect how DEU designs its system of mains and as a result, does not best reflect class cost causation, on either an interclass or intra-class TS class basis.

CONCLUSION

No consensus was reached on any issue explored by the Task Force or as to how the TS class should be split, or even split at all. For the next general rate proceeding, the Task Force report finds that parties are free to take any position on any issue. This would include class cost of service, both on an interclass basis and on a TS class intra-class basis. As a result, it is FEA's position that the allocation of main costs on both an interclass basis and a TS intra-class basis be further examined before determining a TS class split and resulting rate design, using either of the proposals analyzed in the Task Force report, both which accept the premise of using the P&A method for allocating the costs of mains.

DATED this 10th day of August, 2021.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing was sent on this 10th day of August, 2021 by electronic mail to the individuals listed below:

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