

**ANGC Exhibit 1.1 to Chisholm Direct in Docket No. 22-057-03**

**REBUTTAL TESTIMONY OF BRUCE R. OLIVER**  
**ON CLASS COST OF SERVICE AND RATE STRUCTURE ISSUES**  
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278 dramatic, nature of the changes DEU proposes in its TS rate design should be  
279 obvious to even the most casual observer.

280 Thus, Witness Summers' statement that, "*DEU simply proposes that the*  
281 *TS class, as a whole, be 'percentaged increased' to pay the full cost rates,*"  
282 constitutes a substantial misrepresentation of the Company's proposed TS rate  
283 changes.

284

285 **Q. DPU WITNESS LUBOW RECOMMENDS THAT THE TS CLASS BE SPLIT AT**  
286 **35,000 DTH OF ANNUAL USE AND THAT THE COMMISSION SHOULD**  
287 **FREEZE THE NON-CONFORMING CUSTOMERS. HOW DO YOU**  
288 **RESPOND?**

289 A. Witness Lubow's position is presented without reference to any substantive  
290 support for his position. He cites no evidence to support the appropriateness of  
291 splitting the TS class at 35,000 Dth per year, and no analytic support for his claim  
292 that customers using less than 35,000 Dth per year are "*non-conforming*  
293 *customers.*"<sup>9</sup> Moreover, that representation is particularly troublesome in the  
294 context of the Company's response to DPU Data Request 11.01.

295 In that data request DPU specifically asked the Company to "*prepare a*  
296 *version of the Cost of Service study in which the Transportation Service ("TS")*  
297 *rate group is separated into two distinct subsets of customer classes.*" DPU's  
298 request further specified that: **TS Subset 1** should include customers that **meet a**

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<sup>9</sup> The Direct Testimony of DPU Witness Lubow, lines 313-314.

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299 minimum use requirement of 120,000 Dth per year; and **TS Subset 2** should  
300 include customers that **do not meet** a 120,000 Dth per year minimum usage  
301 threshold. In Attachment 5 to its response to DPU Data Request 11.01,<sup>10</sup> DEU  
302 provided the requested analysis showing separately rates of return and revenue  
303 deficiencies for TSL (i.e., Subset 1) customers for TSS (Subset 2) customers.  
304 Apparently, DPU Witness Lubow either never reviewed the Company's response  
305 to DPU Data Request 11.01 or chose to ignore its results.

306 As explained in my Direct Testimony, and document in AGNC Exhibit  
307 2.02, Attachment 5 to DPU Data Request 11.01 response indicates that the TS  
308 Small (TSS) customers provided the Company with a **6.24%** rate of return at  
309 present rates, while the TS Large (TSL) customers provide the Company with a  
310 rate of return at present rates of only **0.59%**. That attachment also indicates TSL  
311 customers (i.e., customers using more than a 120,000 Dth per year minimum  
312 usage requirement) accounted for a revenue deficiency of \$10.9 million or 88.9%  
313 of the overall revenue deficiency for the TS class. These results clearly depict  
314 the TSL subgroup the "*non-conforming*" component of the overall TS class.  
315 Thus, if a freeze should be placed on any portion of the TS class, it should be a  
316 freeze on the larger TSL customer subgroup.

317

318 **Q. THE ANALYSIS PRESENTED IN RESPONSE TO DPU DATA REQUEST 11.01**  
319 **IS EXAMINES COSTS OF SERVICE FOR TS CUSTOMERS ABOVE AND**

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<sup>10</sup> See ANGNC Exhibit 2.01 which accompanied my Direct Testimony in this Phase II proceeding.

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320           **BELOW A 120,000 DTH THRESHOLD. CAN THAT BE RELIED UPON TO**  
321           **CONCLUDE THAT CUSTOMERS BELOW THE PROPOSED 35,000 DTH**  
322           **USAGE LEVEL ARE NECESSARILY CONFORMING CUSTOMERS?**

323    A.    No, it only shows results for customers above and below the referenced 120,000  
324           Dth usage cut-off. However, DEU's response to UAE Data Request 2.01  
325           presents a similar analysis based on a 35,000 Dth per year demarcation for large  
326           and small TS customers.<sup>11</sup>

327

328    **Q.    WHAT DO THE COST OF SERVICE RESULTS IN DEU'S RESPONSE TO UAE**  
329           **DATA REQUEST 2.01 SHOW?**

330    A.    DEU's response to UAE Data Request 2.01 finds that, when a 35,000 Dth per  
331           year threshold is used to separate TS Small (TSS) customers from TS Large  
332           (TSL) customers, the TSS subclass provides a **9.11%** rate of return at present  
333           rates, while the TS Large (TSL) subclass is found to have a rate of return at  
334           present rates of **0.75%**. Those COS results also indicate that the TSS subclass  
335           has a negative revenue deficiency (i.e., it is over-recovering its allocated costs of  
336           service) at present rates. On the other hand, the TSL subclass is under-  
337           recovering its allocated costs of service by **\$13.1 million**. These results, which  
338           are directly relevant to the 35,000 minimum use requirement that DEU proposes

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<sup>11</sup> See the "COS SUM" worksheet in Attachment 5, to DEU's response to UAE Data Request 2.01, and **ANGC Exhibit 2.02R** (attached to this testimony) which has been extracted from that worksheet. Unfortunately, I was unaware of this response to UAE Data Request 2.01 at the time I prepared my Direct Testimony for this Phase II proceeding.



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339 and DPU Witness Lubow supports, clearly indicate that smaller TS customers  
340 are **NOT** the source of DEU's TS class cost recovery concerns.

341

342 **Q. DO YOU ACCEPT 35,000 DTH PER YEAR AS A REASONABLE USAGE**  
343 **THRESHOLD FOR SEGREGATING LARGE AND SMALL TS CUSTOMERS?**

344 A. Not necessarily. My Direct Testimony demonstrates that DEU's choice of 35,000  
345 Dth as the basis of its proposed minimum annual usage requirement is, at best,  
346 arbitrary and the analyses upon which DEU has relied to propose that minimum  
347 usage threshold is premised are not well developed. Other groupings of TS  
348 customers may better identify customers with similar levels of usage and similar  
349 cost responsibilities. However, from a cost of service perspective, DEU's  
350 response to UAE Data Request 2.01 shows a substantial difference between the  
351 Company's computed rates of return for TS customers using less than 35,000  
352 Dth per year and for TS customers using greater than 35,000 Dth per year.

353

354 **Q. WHAT CHANGES IN RATE DESIGN FOR GS CUSTOMERS ARE RECOM-**  
355 **MENDED BY DPU WITNESS LUBOW?**

356 A. Witness Lubow recommends that no changes in the current rate structure,  
357 including rate blocks, be made for Rate GS in this proceeding.

358

**ANGC Exhibit 1.2 to Chisholm Direct in Docket No. 22-057-03**

**Dominion Energy Utah**

Docket No. 19-057-02

**TS Class RORs and Revenue Deficiencies by Usage Category**

Class Segments Based on Annual Dth

**TS Subclass Rates of Return**

| <u>TS Class<br/>Customer Segment</u>                                     | <u>Net<br/>Operating<br/>Income</u> | <u>Allocated<br/>Rate Base</u> | <u>Rate of<br/>Return on<br/>Rate Base</u> |
|--|-------------------------------------|--------------------------------|--|
| <b>Scenario 1 (DEU Response to UAE Data Request 2.01, Attachment 5)</b>  |                                     |                                |  |
| < 35,000 Dth   | 4,049,290                           | 44,448,142                     | 9.11%                                      |
| > 35,000 Dth   | 1,051,736                           | 140,835,572                    | 0.75%                                      |
| <b>Total TS</b>  | <b>5,101,026</b>                    | <b>185,283,714</b>             | <b>2.75%</b>                               |
| <b>Scenario 2 (DEU Response to DPU Data Request 11.01, Attachment 5)</b> |                                     |                                |  |
| < 120,000 Dth  | 4,420,047                           | 70,476,810                     | 6.27%                                      |
| > 120,000 Dth  | 680,979                             | 114,806,904                    | 0.59%                                      |
| <b>Total TS</b>  | <b>5,101,026</b>                    | <b>185,283,714</b>             | <b>2.75%</b>                               |
| <b>Scenario 3 (DEU Response to USM Data Request 2.01, Attachment 5)</b>  |                                     |                                |  |
| < 800,000 Dth  | 6,199,088                           | 142,013,303                    | 4.37%                                      |
| > 800,000 Dth  | (1,100,558)                         | 43,300,535                     | -2.54%                                     |
| <b>Total TS</b>  | <b>5,098,530</b>                    | <b>185,313,838</b>             | <b>2.75%</b>                               |
| <b>Fully Distributed Results</b>   |                                     |                                |  |
| < 35,000 Dth   | 4,049,290                           | 44,448,142                     | 9.11%                                      |
| > 35,000 Dth < 120,000 Dth   | 370,758                             | 26,028,668                     | 1.42%                                      |
| >120,000 Dth > 800,000 Dth   | 1,779,041                           | 71,536,493                     | 2.49%                                      |
| > 800,000 Dth  | (1,100,558)                         | 43,300,535                     | -2.54%                                     |
| <b>Total TS</b>  | <b>5,098,530</b>                    | <b>185,313,838</b>             | <b>2.751%</b>                              |

**ANGC Exhibit 1.3 to Chisholm Direct in Docket No. 22-057-03**



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22

**II. SUMMARY**

23

24 **Q. DO YOU HAVE A GENERAL RESPONSE TO THE REBUTTAL TESTIMONY**  
25 **THAT HAS BEEN FILED BY OTHER PARTIES TO THIS PROCEEDING?**

26 A. Yes. The general position of DEU and OCS is to once again defer action on  
27 what have been portrayed as pressing issues, particularly with respect to the  
28 design of TS rates, and to ignore the very strong cost of service evidence which  
29 demonstrates that **small TS customers** are **NOT the source** of the Company's  
30 **rate TS cost recovery problems**. Simply moving the TS class to an arbitrary  
31 level that the Company associates with full cost recovery does not ensure  
32 equitable treatment of large and small customers within that class. Moreover, the  
33 Company's proposed rates do more to perpetuate intra-class rate equity issues  
34 than to resolve them, or at least mitigate their magnitude.

35 Although DEU Witness Summers appears intent on moving all classes to  
36 their full costs of service to address interclass rate equity issue, he ignores the  
37 detail of the Company's cost of service analyses when he designs charges to  
38 distribution cost responsibilities among the customers within each rate class. In  
39 doing so he perpetuates, and often exacerbates **intra-class** rate equity  
40 problems. In fact, the rate design proposals offered by DEU and UAE will serve  
41 to further amplify the Company's current **over-recovery** of costs from **TSS**  
42 **customers** (i.e., TS customers using less than 35,000 Dth per year. DEU's

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43 proposals also do little or nothing to reconcile the Company's classified costs by  
44 rate class and by function with its proposed charges by rate class.

45           Witness Summers' Direct Testimony highlights problems in the  
46 Company's existing rates. However, as I have previously noted, DEU had  
47 substantial time and opportunity to analyze and address rate design issues  
48 discussed in prior proceedings before it filed its Application in this proceeding.  
49 Yet, the only proposals DEU has developed for this proceeding are poorly  
50 supported and lack sound cost of service foundations. Deferring major rate  
51 design reforms until the Company's next rate cases provides no assurance that  
52 more thoughtful and well-constructed proposals will be forthcoming at that time.  
53 Moreover, a decision to adopt DEU's TS rate proposals in this proceeding and  
54 defer consideration of TS rate design reform until a future case will only serve to  
55 deny current and potential rate TS customers the opportunity for significant gas  
56 cost savings.

57           As I noted in my Direct Testimony, customers' distribution service  
58 requirements are not substantially altered by decisions to migrate from gas sales  
59 service to transportation service. Thus, the charges customers are assessed for  
60 **distribution service** should essentially be the same regardless of whether they  
61 elect to use gas sales service or gas transportation service. Unfortunately,  
62 DEU's current rates for both gas sales and transportation services do not appear  
63 to reasonably reflect its costs of service for customers within those service  
64 classifications, and setting charges for transportation service based on non-cost-

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65 based gas sales service rates is neither reasonable nor appropriate. However,  
66 the record of this proceeding demonstrates that DEU's current charges for TS  
67 customers provide better cost-recovery results for smaller TS (TSS) customers  
68 than for larger TS (TSL) customers. In this context, there is absolutely no  
69 foundation for the Company's proposals to: (1) impose a 35,000 Dth minimum  
70 annual gas use requirement on TS customers and (2) limit further migration of  
71 customers using less than 35,000 Dth per year to Rate Schedule TS.

72

73 **Q. DOES ANY OF THE REBUTTAL TESTIMONY FILED BY OTHER PARTIES IN**  
74 **THIS PHASE II PROCEEDING ALTER YOU'RE THE POSITION AND**  
75 **RECOMMENDATIONS PRESENTED IN YOUR DIRECT TESTIMONY?**

76 A. No, it does not.

77

78

**III. COST ALLOCATION ISSUES**

79

80 **Q. HAS DEU WITNESS SUMMERS PRESENTED REVISED CLASS COST OF**  
81 **SERVICE ALLOCATIONS WITH HIS REBUTTAL TESTIMONY?**

82 A. Yes. That analysis is found in DEU Exhibit 4.02R.

83

84 **Q. DO YOU HAVE ANY COMMENTS ON THE REVISED CLASS COST OF**  
85 **SERVICE ANALYSIS THAT DEU WITNESS SUMMERS PRESENTS IN**  
86 **EXHIBIT 4.02R?**



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400 **Q. ARE YOU SUPPORTIVE OF THE REVISED THREE-STEP PHASE-IN TO**  
401 **FULL COST-BASED RATES FOR TS CUSTOMERS THAT WITNESS**  
402 **HIGGINS' PRESENTS IN HIS REBUTTAL TESTIMONY?**

403 A. I am supportive of a phase-in of the proposed rate increases for TS and TBF  
404 customers. I am **not** supportive of the specifics of Witness Higgins' proposals.  
405 His proposals, even as modified in his Rebuttal Testimony, fail to reflect the  
406 significantly above system average rate of return for smaller TS customers DEU  
407 identified in response to UAE's Data Request 2.01, Attachment 5. As a result,  
408 Witness Higgins' rate phase-in proposal for the TS class places inappropriately  
409 large increases on those customers who are already paying rates that are well in  
410 excess of their costs of service. In other words, his proposals would cause the  
411 already inappropriately high cost burdens for small TS customers to be further  
412 increased. The three-step phase-in of the revenue increase that I have  
413 presented in ANGC Exhibit 2.05R attached to my Rebuttal Testimony provides  
414 more equitable treatment of large and small TS customers while still  
415 incorporating gradualism considerations in the adjustment of rates.<sup>14</sup>

416 As shown in Witness Higgins' Rebuttal exhibit, UAE Exhibit 2.2R, the  
417 UAE's proposed phase-in of the revenue increase would adjust all of the  
418 volumetric block rates for TS customers proportionally and would nearly double  
419 the TS demand charges. By the end of UAE's proposed phase-in, TS demand

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<sup>14</sup> I note, however, that the existing rate subsidies to Large TS customers have developed over a rather lengthy period time (certainly more than three years), and in that context it is certainly within the Commission's discretion to allow a phased movement toward full cost-based rate for those customers to extend over a period of more than three years. A revenue adjustment process that would extend beyond the Company's next rate case might provide for more reasonable rate impacts.

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420 charges would increase by nearly 96%, placing larger than average increases on  
421 lower load factor TS customers. Given that smaller TS customers are also more  
422 likely to have lower load factor gas use requirements, the Company's Small TS  
423 customers (i.e., TSS customers who already are paying more than their allocated  
424 costs of service) would bear an inappropriately large share of the overall TS  
425 class rate increase. My rebuttal proposal (presented in ANGC Exhibit 2.05R),  
426 that splits the current TS class into separate TSS and TSL rate classes, provides  
427 a more equitable treatment of Small TS customers.

428

429 **Q. OCS WITNESS DANIEL'S REBUTTAL REITERATES THE RECOMMEND-**  
430 **ATION PRESENTED IN HIS DIRECT TESTIMONY THAT "DEU SHOULD BE**  
431 **REQUIRED TO PROPOSE A TRANSPORTATION SERVICE RATE SCHED-**  
432 **ULE FOR SMALLER CUSTOMERS IN THEIR NEXT RATE CASE."<sup>15</sup> DO YOU**  
433 **SUPPORT HIS PROPOSAL?**

434 **A.** No. The evidence I have presented based upon DEU own analyses  
435 demonstrates a substantial difference in the rate of return performance of TSS  
436 and TSL customers where the dividing line for those rate classifications is set at  
437 35,000 Dth of annual gas use. As shown in ANGC Exhibit 2.01R, page 1 of 2;  
438 DEU's COS results show that TSS customers have been providing a well above  
439 system average rate of return, while TSL customers have had a substantially  
440 below system average rate of return. Moreover, I demonstrate in ANGC Exhibit

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<sup>15</sup> The Rebuttal Testimony of OCS Witness Daniel, page 14, lines 309-311.



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441 2.03R and ANGC Exhibit 2.01SR that alternative weightings of design day and  
 442 annual throughput requirements for the allocation of distribution demand costs do  
 443 not substantially alter the relative rates of return for TSS and TSL customers.  
 444 The table below summarizes the TSS and TSL rates of return under the  
 445 alternative demand weightings suggested by ANGC and UAE, OCS, and DEU in  
 446 this proceeding:

447

448

**Table 1SR**

449

**Impact of Alternative Weightings for Design Day Demand  
 And Annual Throughput on TSS and TSL Rates of Return**

450

451

452

453

454

455

456

457

|                    | Design Day/<br>Annual Throughput<br>Weighting | TSS<br>Return on<br>Rate Base | TSL<br>Return on<br>Rate Base |
|--------------------|---|-------------------------------|-------------------------------|
| ANGC and UAE       | 68/32   | 8.99%                         | 1.49%                         |
| DEU                | 60/60   | 9.11%                         | 0.75%                         |
| OCS                | 50/50   | 9.27%                         | -0.03%                        |
| System Average ROR |   | 6.93%                         | 6.93%                         |

458

459

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462

All of these COS results indicate that the TSS rate of return is more than  
 463 200 basis points above the system average rate of return while the TSL rate of  
 464 return is far below the system average rate of return. Delaying the creation of  
 465 TSS and TSL classes may appear to be a reasonable answer for a witness  
 466 whose clients are not directly affected by this issue. It is not a reasonable

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467 answer for smaller TS customers who are directly and adversely impacted by the  
468 Company's TS rate proposals in this proceeding.

469 The data in Table 1SR strongly suggest that if there is a need for a  
470 moratorium on customer additions to the TS class, it is for a moratorium on new  
471 large TS customer (i.e., TSL customer) additions.

472

473 **Q. BOTH DEU WITNESS SUMMERS AND OCS WITNESS DANIEL ARGUE**  
474 **THAT A MORATORIUM ON THE MIGRATION OF ADDITIONAL GS**  
475 **CUSTOMERS TO THE TS CLASS IS NECESSARY TO STABILIZE RATE**  
476 **DESIGN PARAMETERS AND AVOID FURTHER EROSION OF TS CLASS**  
477 **COST RECOVERY. HOW DO YOU RESPOND?**

478 **A.** Again, their concerns are misplaced, and ignore available cost of service  
479 evidence in this proceeding that shows TSS customers (i.e., TS customers using  
480 less than 35,000 Dth per year) providing a well above average rate of return. In  
481 that context, there is **no justification** for proposals that would restrict further  
482 movement of customers using less than 35,000 Dth per year from migrating from  
483 the GS class to transportation service.

484

485 **Q. DO YOU ACCEPT WITNESS SUMMERS' REPRESENTATION (AT PAGE 20,**  
486 **LINES 487-489) THAT APPLICATION OF DEMAND AND ADMINISTRATIVE**  
487 **CHARGES TO THE COMPANY'S LONE MT CUSTOMER "WOULD NOT**  
488 **CHANGE THE AMOUNT PAID BY THAT CUSTOMER"?**