BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

Phase I Rebuttal Testimony of Kevin C. Higgins

on behalf of

UAE

Docket No. 22-057-03

September 21, 2022

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EXHIBITS

REBUTTAL TESTIMONY OF KEVIN C. HIGGINS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Kevin C. Higgins. My business address is 111 East Broadway, Suite 1200, 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 and Phase II direct testimony on behalf of the Utah Association of Energy Users Intervention Group ("UAE") in this proceeding?

A. Yes, I am.

II. OVERVIEW AND CONCLUSIONS

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

A. My testimony responds to several revenue requirement adjustments recommended by the Office of Consumer Services ("Office") and the Division of Public Utilities ("Division"). I also revise the calculation of the pension expense adjustment I recommended in my Phase I Direct Testimony based on information recently provided by Dominion Energy Utah ("DEU') in discovery. In addition, I update the impact of my illustrative adjustment to reflect the median ROE of 9.50% based on the rate base included in my rebuttal revenue requirement.

Q. Please summarize your conclusions and recommendations.

A. My rebuttal testimony offers the following recommendations:

1) I concur with the Office and the Division that the LNG variable electricity costs should be removed from the base revenue requirement.
2) I agree with the Office that it is appropriate to increase the revenue associated with late fees to reflect a three-year average for 2017-2019, prior to the period when late fees were waived.
3) I conceptually agree with the Office that the contingency amounts associated with DEU's forecasted capital expenditures should be removed from rate base.
4) While I am not persuaded that DEU's pension cost capitalization approach is consistent with Generally Accepted Accounting Principles ("GAAP"), I am revising my pension expense adjustment to reflect DEU's purported capitalization treatment.

Q. Have you summarized your recommended revenue requirement adjustments?

A. Yes. Table KCH-1R, below, is an updated version of Table KCH-1 from my Phase I Direct Testimony which reflects the removal of the LNG variable electricity costs, the late fee revenue adjustment, my revised pension expense adjustment, and the updated impact of my median ROE adjustment.

Table KCH-1R
UAE Revenue Requirement Adjustments

Adjustment Description	UT Jurisdiction Adjustment Impact	UT Jurisdiction Deficiency
DEU Requested Increase		$70,511,689
O&M Error Correction	$1,004,579	$71,516,268
FTE Labor Adjustment	($1,642,234)	$69,874,034
Pension Expense Adjustment - **REVISED**	($9,754,469)	$60,119,566
Gain on Sale Adjustment	($518,046)	$59,601,520
Capitalized Financial Incentive Comp Adj.	($332,689)	$59,268,830
LNG Variable Electricity Cost Removal - **NEW**	($2,138,821)	$57,130,009
Late Fee Revenue Adjustment - **NEW**	($863,767)	$56,266,242
Return on Equity Adjustment * - **REVISED**	($14,490,797)	$41,775,445
Total UAE Adjustments	($28,736,244)	
UAE Recommended Increase		$41,775,445

* Reflects Illustrative ROE Adjustment

III. REVENUE REQUIREMENT

LNG Variable Electricity Cost Removal

Q. Please explain the adjustment recommended by the Office and the Division to remove variable electricity costs associated with the LNG facility from the base revenue requirement.

A. Witnesses for the Office[1] and the Division[2] both recommend in their direct testimonies that LNG variable electricity costs be removed from the base revenue requirement because the Commission approved pass-through treatment for these costs in Docket No. 22-057-08.

[1] Direct Testimony of John DeFever, lines 727-736.
[2] Direct Testimony of Eric Orton, lines 117-129.

Q. Do you agree that LNG variable electricity costs should be removed from the revenue requirement?

A. Yes, it is appropriate to remove these costs from the base revenue requirement since the Commission approved DEU's request to recover these costs in its commodity rate.[3] This is also consistent with DEU's recommended treatment of these costs given the approved pass-through treatment.[4]

Q. What is the revenue requirement impact of the adjustment to remove LNG variable electricity costs?

A. The impact of this adjustment is shown in UAE Exhibit RR 3.1. It reduces the Utah revenue requirement by **$2,138,821.**

Late Fee Revenue

Q. Please explain the adjustment recommended by the Office regarding late fee revenue.

A. In his Direct Testimony, Office witness Mr. John DeFever explains that DEU based the amount of other revenue for late fees on the 2021 base period, which includes a period during which late fees were waived. Mr. DeFever recommends basing the test year late fee revenue on the three-year average for 2017-2019.[5]

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[3] Docket Nos. 22-057-08 and 22-057-09, Order Issued July 28, 2022 at 9.
[4] Direct Testimony of Jordan K. Stephenson, lines 388-393.
[5] Direct Testimony of John DeFever, lines 269-304.

Q. Do you agree with the Office's adjustment for late fee revenue?

A. Yes. It is reasonable to base late fee revenue on the three-year average for 2017-2019, prior to the period when late fees were waived. Increasing the amount of other revenue to reflect a normalized amount of late fees appropriately reduces the amount of revenue to be recovered through base rates.

Q. What is the revenue requirement impact of the late fee revenue adjustment you are recommending?

A. The impact of this adjustment is shown in UAE Exhibit RR 3.2. It reduces the Utah revenue requirement by **$863,767**.

Contingency Amounts Included in Rate Base

Q. Please explain the adjustment recommended by the Office regarding contingency amounts.

A. Mr. DeFever explains in his direct testimony that DEU includes a contingency factor in its cost estimates for certain large individual projects.[6] According to DEU, the Company has included contingency amounts for planned capital projects totaling $29,821,762 in the test year.[7] Mr. DeFever recommends that these contingency amounts be removed from the revenue requirement because they are not known expenditures. He calculates his adjustment by removing 50%

[6] *Id.*, lines 90-96.
[7] *Id*., lines 98-102; DEU Response to OCS Data Request 11.06, Attachment 1, included in OCS Exhibit No. 2.2D.

of the total contingency amount from plant in service, based on an average rate base.[8]

Q. Do you agree that contingency amounts should be removed from rate base?

A. Yes. I do not believe it is appropriate to escalate the cost of large plant additions in rate base using a contingency factor. One of the challenges in using a projected test year is to ensure that the amount of projected plant additions is accurate. This challenge can be exacerbated when projections of plant additions include a contingency factor. I thus conceptually agree with the Office that projected contingency costs should be removed from rate base. However, I have not quantified the impact of this adjustment because the information supplied by DEU does not provide the level of detail necessary to ascertain the assumed in-service dates for the various projects that include contingency amounts and the resultant revenue requirement. In the absence of this information, I believe the Office's contingency adjustment is a reasonable estimate.

Pension Expense Adjustment

Q. What recommendation did you make in your direct testimony regarding pension expense?

A. I recommended that pension expense be included in the revenue requirement based on net periodic pension cost rather than setting pension expense to zero for

[8] Direct Testimony of John DeFever, lines 136-143.

ratemaking purposes.[9] I continue to recommend that it is appropriate to recognize DEU's negative pension expense in rates.

Q. What revision to your pension expense adjustment are you making in your rebuttal testimony?

A. My revision concerns the portion of the net periodic pension cost that is treated as an annual expense and the portion that is capitalized (i.e., added to rate base and depreciated over time). I pointed out in my direct testimony that Financial Accounting Standards Board's Accounting Standards Update ("ASU") No. 2017-07 limits the portion of net periodic pension cost eligible to be capitalized under GAAP to the service cost component only.[10] My original adjustment assumed that DEU would capitalize half of the service cost component and expense the remaining portion of its net periodic pension cost.[11]

However, the Company contends in discovery that ASU No. 2017-07 did not impact DEU's capitalization policies and that it has continued to capitalize its overall net periodic pension costs like other employee benefits.[12] DEU explains that it assumed that approximately 52% of its 2023 negative net periodic pension cost would be capitalized, a portion of which the Company asserts is reflected as a reduction to rate base.[13]

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[9] Phase I Direct Testimony of Kevin C. Higgins, pp. 12-20.
[10] Phase I Direct Testimony of Kevin C. Higgins, lines 261-263.
[11] Phase I Direct Testimony of Kevin C. Higgins, lines 377-381.
[12] See DEU Response to UAE Data Request 5.01, included in UAE Exhibit RR 3.5.
[13] *Id.*

While I am not persuaded that DEU's pension cost capitalization approach is consistent with GAAP, I am revising my pension expense adjustment to reflect DEU's purported capitalization treatment.

Q. What is the revenue requirement impact of your revised pension expense adjustment?

A. The impact of my pension expense adjustment is shown in UAE Exhibit RR 3.3. It reduces the Utah revenue requirement by **$9,754,469,** which is $14,133,257 less than the pension expense adjustment in my direct testimony.

Updated Impact of Median ROE Adjustment

Q. Have you updated the impact of your illustrative adjustment to reflect the median ROE based on the rate base included in your rebuttal revenue requirement?

A. Yes. My revenue requirement calculation includes the impact of setting DEU's ROE at the 9.50% median ROE for gas distribution utilities approved by state regulators in the United States for the 12-month period ending July 31, 2022.[14] There is a small impact on the revenue requirement effect of my median ROE adjustment due to the minor rate base components of the adjustments I described above.[15]

[14] Phase I Direct Testimony of Kevin C. Higgins, pp. 24-25; UAE Exhibit RR 1.5.
[15] My quantified median ROE impact does not account for the reduction to rate base from the contingency adjustment because I have not included the contingency adjustment in my revenue requirement calculation.

Q. What would be the revenue requirement impact if DEU's ROE were set at the national median of 9.50%?

A. The updated revenue requirement impact of setting DEU's allowed ROE at 9.50% is presented in UAE Exhibit RR 3.4. It reduces the Utah revenue requirement by approximately **$14,490,797**, which is $1,194 more than the impact shown in my Phase I Direct Testimony.

Q. Does this conclude your Phase I rebuttal testimony?

A. Yes, it does.