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. 22-057-03

REBUTTAL TESTIMONY OF

JORDAN K. STEPHENSON

FOR

DOMINION ENERGY UTAH

September 21, 2022

DEU Exhibit 3.0R

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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

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

4 **Q. Did you file direct testimony in this docket?**

5 A. Yes.

6 **Q. What is the purpose of your rebuttal testimony in this Docket?**

7 A. The purpose of my rebuttal testimony is to address certain issues raised in the Phase I direct
8 testimonies filed by Mr. Defever, Mr. Orton, and Mr. Higgins.

9 **Q. What general areas does your testimony address?**

10 A. My testimony addresses the expected amount of other revenues, operating expenses, and
11 rate base balances used in the 2023 test period in this case. I discuss each adjustment
12 proposed by Mr. Defever, Mr. Orton, and Mr. Higgins, and why each proposed adjustment
13 does or does not best reflect the conditions that will be in place in the Company's 2023 test
14 period.

15 **Q. Based on the analysis and discussion of the items mentioned above, are you proposing**
16 **a change to the revenue requirement proposed in this case?**

17 A. Yes. The Company accepts several adjustments proposed by parties in this case.
18 Specifically, the Company believes that the test period should be adjusted for the
19 following:

20 - The balance in Plant Held for Future Use is removed from rate base as proposed by
21 Mr. Defever.
22 - Other revenues are increased to share a gain on sale of utility property as proposed
23 by Mr. Higgins and Mr. Defever.
24 - Other revenues are increased to reflect a revised level of late fees as proposed by
25 Mr. Defever.
26 - Labor expenses are revised as proposed by Mr. Higgins.

27 - LNG electric costs are removed as ordered by the Commission in Docket 22-057-
28 08.
29 - Remaining LNG O&M costs are reduced as proposed by Mr. Orton.
30 - Lobbying costs are removed from the test period as proposed by Mr. Defever.

31 The Company has prepared a rate case model including these adjustments. The overall
32 impact on the revenue requirement for each adjustment, including any pass-through effects
33 for working capital, income taxes, and bad debt associated with the change in revenue
34 requirement, is summarized in DEU Exhibit 3.35R. The full working updated model is
35 attached as DEU Exhibit 3.36R.

36 After adjustments, the Company's deficiency in the 2023 test period is reduced from
37 $70.5M as filed to $67.3M. I discuss each of these adjustments throughout this testimony.
38 I also discuss why the Company does not support the remaining adjustments proposed by
39 parties in this case.

40 II. RATE BASE ADJUSTMENTS

41 *A. Projected Plant in Service*

42 **Q. Can you summarize your understanding of Mr. Defever's adjustment for capital**
43 **budget contingency amounts?**

44 A. Yes. Mr. Defever proposes that contingency amounts be removed from plant additions in
45 the Company's 2023 test period. He divides the contingency totals in half to reflect an
46 average test period balance. He also accounts for related passthrough impacts to
47 depreciation expense, property tax expense, accumulated depreciation and deferred income
48 tax balances.

49 As support for this adjustment, Mr. Defever argues that it is unknown whether
50 contingencies will occur, that contingencies remove the incentive to manage costs, that the
51 use of contingencies results in a budget buffer, and that contingencies shift the burden of
52 risk from Company to the customer.

53 **Q. Do you agree with Mr. Defever's characterization of the Company's contingencies?**

54 A. No. Mr. Defever's understanding and characterization of contingencies is not reflective of
55 the Company's actual use of contingencies in its budgeting practices. Mr. Defever offers
56 no evidence specific to Dominion Energy that supports his general understanding. The
57 application of contingencies described by Mr. Defever is not considered best practice by
58 the Company and is not how the Company develops its capital budget.

59 The Company designs its capital budgets to account for all expected real project costs –
60 including the contingency component. This is not simply a "budget buffer" added to the
61 expected project costs, it is a necessary part of the expected costs. Contingencies are
62 included in project costs by subject matter experts closest to the work because they are
63 expenses expected to occur based on historical experience. The Company's practice aligns
64 with the industry practice:

> 65 The contingency allowance is designed to cover items of cost which
> 66 are not known exactly at the time of the estimate but which will
> 67 occur on a statistical basis.[1]
> 68
> 69 An amount added to an estimate to allow for items, conditions, or
> 70 events for which the state, occurrence, or effect is uncertain and that
> 71 experience shows will likely result, in aggregate, in additional costs.
> 72 Typically estimated using statistical analysis or judgment based on
> 73 past asset or project experience…Contingency is generally included
> 74 in most estimates, and is expected to be expended.[2]

75

76 It is not accurate to state that "it is unknown whether such costs will occur." Because these
77 amounts represent real, expected costs, including them does not shift risk or provide
78 incentives to mismanage projects any more than including other expected cost categories
79 such as materials, parts, or labor costs. While arbitrarily reducing any of these categories
80 of expected costs may unnecessarily place more pressure on project managers, that
81 manufactured pressure to hit unrealistic targets will inevitably lead to unintended outcomes
82 inconsistent with designing, building, and maintaining a safe, reliable natural gas
83 distribution system. In addition, using an unrealistic capital budget for ratemaking purposes

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1 Frederic C. Jelen, James H. Black, *Cost and Optimization Engineering* (3rd Ed. 1983) at 456-457.
2 *Cost Engineering Terminology*, Recommended Practice 10S-90, AACE International, WV (Rev. Ed. 2007).

84 by stripping out contingency amounts results in an understatement of plant in service
85 balances in the test period contrary to cost recovery principles in utility ratemaking.
86 Furthermore, as discussed below, some contingency amounts have already been approved
87 by the Commission in prior dockets. As such, Mr. Defever's adjustment is contrary to prior
88 decisions by the Commission.

89 **Q. Which capital projects have been included in the proposed contingency adjustment?**

90 A. Approximately half of the total contingency is associated with the Company's
91 infrastructure replacement tracker program (Tracker) projects. The Tracker program allows
92 the Company to spend $77.4M in 2022 and is adjusted for inflation each year going forward
93 to replace a specific set of aging mains throughout the distribution system. The proposed
94 adjustment by Mr. Defever would incorrectly reduce the expected capital spend amount
95 for this program by $14.96M. The Company's total expenditures under this program are
96 generally consistent with its estimates of what it expects to spend in the tracker program.
97 DEU Exhibit 3.37R shows the annual spending compared to the budget since the current
98 program scope was established in 2014.[3] As shown, some years are slightly over budget
99 and some are under, but on average the Company has spent 0.86% more than budgeted per
100 year, even though it includes contingency amounts in individual project budgets. Based on
101 year-to-date spending in 2022, the Company anticipates that it will exceed the total budget
102 for the year, including contingency amounts.[4]

103 Another 12% of the contingency amount comes from the Company's Magna LNG project.
104 The original docket approving this project included a contingency amount in the estimated
105 project spend, which was approved by the Commission. Based on updated spend on this
106 project, the Company currently has a $2.8 million contingency remaining.

107 Another 10% of the contingency amount is related to the rural expansion program that also
108 receives tracker treatment, and the expenditures for the respective projects under this
109 program were approved by the Commission in prior dockets, including the contingency

3 In Docket No. 13-057-05, the Commission approved the budget at $65M per year adjusted for inflation, and approved the master list of intermediate high-pressure and high-pressure mains to be replaced under the program.
4 As established in Docket No. 19-057-03, when the Company spends more than the allowed inflation adjusted budget for the infrastructure replacement tracker program, the tracker surcharge is adjusted to remove that overspend amount so that customer rates are not impacted by the overspend amount.

110 amount. The first community to receive service under this program was Eureka, and this
111 project has used its approved contingency for service line installation costs. Also, due to
112 increases in pipe costs for the Green River project, that project is also expected to exceed
113 its total budgeted cost including contingency.

114 Finally, the remaining balance of contingencies includes a mixture of feeder lines and
115 regulator stations that are non-tracker related. These non-tracker projects are part of the
116 capital work anticipated in the Company's 2022 and 2023 capital spend projections. In this
117 environment of rising costs and supply chain challenges, the Company needs its project
118 contingencies more than ever.

119 **Q. Does the Company normally include contingencies in individual project budgets as**
120 **noted above?**

121 A. Yes. It is standard practice for the Company to include contingencies on the types of
122 projects identified above.

123 **Q. Looking at the total capital budget for past years, would removing contingency**
124 **amounts from the Company's capital budgets improve their accuracy?**

125 A. No. The following table provides the last five years of capital spend. As shown, without
126 any contingency adjustment, the Company's capital budgets including contingency have
127 been within 0.6% of total spend on average. Removing contingency amounts from the
128 Company's capital budgets in any year shown would result in a significant under-recovery
129 of capital investment for that year. This historical evidence supports the accuracy of the
130 Company's budgeting process and suggests that Mr. Defever's description of
131 contingencies is not applicable to Dominion Energy Utah.

	(A)	(B)	(C)	(D)	(E)
Line No.	Year	Budget	Actual Expenditures	Difference	% Spent
1	2017	209,089,766	210,724,039	1,634,273	100.78%
2	2018	208,300,000	212,196,346	3,896,346	101.87%
3	2019	232,357,000	237,112,947	4,755,947	102.05%
4	2020	270,146,133	272,093,027	1,946,894	100.72%
5	2021	252,400,207	246,171,094	(6,229,113)	97.50%
6	Average				100.6%

132 **Excludes the LNG facility.*

133 **Q. Mr. Defever sites a California Public Utilities Commission order in a Southern**
134 **California Edison docket as support for his proposal in this case. Should that**
135 **California order apply in this docket?**

136 A. No. The Southern California Edison docket features a significantly different rate case
137 procedure, proposed test period horizon, project type, and company with its own practice
138 and history that are irrelevant to this docket. Contingencies as a budgeting tool can be used
139 in a wide variety of fashions, including the fashion described by Mr. Defever. As I have
140 explained above, in DEU's case, budget contingencies are part of the expected capital
141 expenditures that support an overall accurate and reasonable forecast of capital spend.
142 Moreover, the Commission has previously approved many of the contingency amounts Mr.
143 Defever tries to exclude.

144 **Q. Do you have any other concerns about the way Mr. Defever calculated his**
145 **adjustment?**

146 A. Yes. The depreciation expense component of Mr. Defever's calculation was derived using
147 a depreciation rate of 3.88%, which he calculated by dividing total annual depreciation
148 expense by total *net* utility plant. Depreciation expense is based on *gross* utility plant, not
149 the net utility plant. In addition, the projects that include contingency pertain to the LNG
150 facility with a 2.5% depreciation rate, mains with a 1.93% depreciation rate, and regulator
151 stations with a 3.48% depreciation rate. Weighting each category based on the contingency
152 amount results in a weighted depreciation rate of 2.03%, as follows:

FERC Account	Description		Contingency Amount	DPR Rate	
364	Magna LNG		$ 3,700,000	2.50%	$ 92,500.00
376	Mains		$ 25,641,051	1.93%	$ 494,872.28
378	Reg Stations		$ 480,711	3.48%	$ 16,728.74
			$ 29,821,762		$ 604,101.03
			Weighted DPR Rate		2.03%

153

154 By using a 3.88% depreciation rate, Mr. Defever overstates the impact of his proposed
155 adjustment. I believe that 2.03% is a more appropriate depreciation rate given the types of
156 assets he is adjusting.

157 ***B. Incentive Compensation in Rate Base***

158 **Q. Mr. Defever and Mr. Higgins argue that the O&M adjustment for incentive costs**
159 **should also be applied to the capitalized portion of incentive costs. Can you explain**
160 **the accounting behind the financial based incentive O&M and capital amounts?**

161 A. Yes. The Company's incentive program is a component of the Company's total labor costs.
162 Total labor costs (including direct labor, benefits, and various labor overhead components
163 including the pension credit) are booked to either O&M or to capital based on activities in
164 which employees are engaged. Employees who work on capital projects book their time
165 accordingly so that the assets on the Company's balance sheet ultimately reflect their true
166 cost.

167 From an accounting standpoint, there is a significant difference between activity treated as
168 capital assets and activity treated as O&M. Historically, the Company has viewed asset
169 costs (including capitalized labor costs) as separate and distinct from annual O&M costs
170 when preparing its regulatory adjustments.

171 **Q. As a component of total labor costs, the pension credit cost also has an O&M and**
172 **capital impact based on coded time. Did Mr. Defever or Mr. Higgins propose that the**
173 **capitalized portion of the pension credit should be adjusted similar to the O&M**
174 **portion?**

175 A. No. The accounting treatment for the pension credit is similar to the process I described
176 above as it is a component of total labor costs. The pension credit ultimately settles to either
177 capital or to O&M based on where employees spend their time. In making its regulatory
178 adjustments, the Company has treated the financial incentive adjustment and the pension
179 credit consistently in that it has only adjusted the O&M portion of the costs. The Company
180 has not removed the capitalized portion of either the pension credit or the financial based
181 incentive from rate base.

182 **Q. If the Commission rules that the capital portion of the incentive payment should be**
183 **adjusted, should the same apply to the pension credit?**

184 A. Yes. The financial incentive and the pension credit are both portions of total labor costs
185 that impact O&M and capital. The same rationale put forth by the Office and the UAE to

186 adjust the capital portion of financial incentive payments applies to the pension credit
187 adjustment as well. As such, it would be wrong to allow them to be treated in an
188 inconsistent manner.

189 **Q. What is the impact of this adjustment if the pension credit is adjusted as well?**

190 A. The total pension credit in the 2023 test period is summarized as followed:

191	2023 Forecasted Pension Cost	($21,121,355)
192	Pension Cost Expensed	($10,044,611) see MDR_22 B.04
193	Pension Cost Capitalized	($11,076,744)

194 As filed, the pension credit adjustment removed the $10.04M credit to expense in the 2023
195 test period. It did not remove the $11.08 million credit to capital. This credit is a reduction
196 to the 2023 capital budget used in the 2023 test period. Should labor related adjustments
197 apply to both O&M and rate base, the total 2023 test period capital budget should be
198 increased by $11.08 million to account for the pension credit removal as well.

199 **Q. Is there a reason that capital costs should be treated differently and distinctly from**
200 **O&M costs for regulatory purposes?**

201 A. Yes. From both a financial accounting and ratemaking perspective there are significant
202 differences between annual operating expenses and the capitalized cost of assets on the
203 Company's balance sheet. The rationale behind an O&M adjustment does not necessarily
204 apply to the cost of an asset.

205 For example, when the Commission originally considered the financial incentive
206 adjustment, it was evaluating some highly volatile factors that could swing revenues
207 significantly from year to year (such as weather). This volatility could flow through O&M
208 costs in the form of financial based incentive payments, and ultimately to customer rates.
209 The same dynamic does not apply to capitalized amounts.[5]

5 Interestingly, these same conditions are largely negated today due to the weather normalization adjustment as well as the Conservation Enabling Tariff.

210 Because of the inherent differences between O&M and capital, the Company does not
211 believe that capital amounts should be adjusted solely based on rationale put forward
212 regarding an O&M adjustment. Additionally, because these are balance sheet costs that are
213 carried forward for decades and impact numerous rate-base related accounts and costs
214 (such as depreciation expense, accumulated depreciation, deferred income taxes, property
215 taxes), these adjustments would be administratively burdensome to calculate. That said, if
216 the Commission deems an adjustment necessary, such an adjustment should apply to both
217 the pension credit and financial incentive as components of capitalized and O&M labor
218 adjustments.

219 ***C. Cash Working Capital***

220 **Q. Mr. Defever proposes an adjustment to the 2020 lead-lag study to use only 2019 for**
221 **calculating collection lag days. Does the Company agree with this treatment?**

222 A. No. Mr. Defever's adjustment implicitly assumes that postal delivery times in 2023 will
223 revert to the times experienced in 2019. The 2021 data is more recent, and the Company
224 believes it more closely reflects conditions that will be in place in the 2023 test period. For
225 this reason, the Company mitigated potential impacts of the pandemic by averaging 2019,
226 2020, and 2021. Certain pandemic impacts have proven to endure longer than just the 2020
227 or 2021 periods, and ripple effects carry into 2022 and will likely carry into 2023. In fact,
228 late last year, the postal service announced that it would be slowing delivery times to save
229 money.[6] For this reason, the Company believes a 3-year average of collection lag days is
230 appropriate.

231 **Q. Are there other areas of Mr. Defever's cash working capital adjustment that you**
232 **would like to address?**

233 A. Yes. In addition to modifying the collection lag, it appears as though the OCS also
234 modified certain dollar amounts on the summary calculation exhibit (see OCS Exhibit
235 2.1D, schedule B-2, page 2 of 4). Specifically, Other Revenues and the O&M from

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6 The Postal Service is slowing the mail to save money. Critics say it's a death spiral: NPR.
https://www.npr.org/2021/10/08/1044016873/postal-service-slow-mail-save-money

236 Affiliates & Misc Vouchers amounts appear to have been adjusted for the test period 2023
237 adjustments the OCS has recommended in this case.

238 The 2020 lead-lag study uses 2020 dollar amounts and lead-lag day calculations to derive
239 a total lead-lag factor. This factor is then applied to test period data. The sole exception to
240 this is the collection lag calculation that used 2019 and 2021 data mentioned above. The
241 Company does not believe it is appropriate to mingle 2023 test period adjustments with the
242 2020 lead lag study in deriving the lead-lag day final result.

243 Leaving costs consistent at 2020 levels and applying the 2019 lag days for collection time
244 results in a lag day factor of 6.698 days, as opposed to the 6.65 factor shown in OCS Exhibit
245 2.1D, schedule B-2, page 2.

246 ***D. Plant Held For Future Use***

247 **Q. Mr. Defever suggests an adjustment of -$5,037 to plant held for future use. Do you**
248 **accept this adjustment?**

249 A. Yes. The Company accepts the adjustment of Plant Held For Future Use to $0 in the 2023
250 Test Period.

251 ***E. LNG Prepayments***

252 **Q. Does the Company have a response to the adjustment for LNG prepayments proposed**
253 **by Mr. Ware and incorporated by Mr. Defever?**

254 A. Yes. Mr. Mendenhall will address this issue in his rebuttal testimony filed as DEU Exhibit
255 1.0R.

256 **III. OTHER REVENUE AND O&M ADJUSTMENTS**

257 ***A. Late Fees Adjustment***

258 **Q. Mr. Defever proposes an adjustment to Other Revenues due to lower than normal**
259 **late fees collected in 2021. Do you agree that other revenues should be adjusted for**
260 **late fees?**

261 A. Yes. Because 2021 was partially impacted by suspending late fee collections during the
262 pandemic, I agree that an adjustment is warranted for Other Revenues to reflect a higher

263 level in 2023. I accept Mr. Defever's proposed adjustment as more accurately reflecting an
264 ongoing level of late fee collections and other revenues.

265 ***B. Gain on Property Sale***

266 **Q. Mr. Higgins and Mr. Defever both propose an adjustment to the 2023 revenue**
267 **requirement based on a gain on the sale of the Bluffdale Office. Can you summarize**
268 **these proposed adjustments?**

269 A. Yes. As pointed out by both Mr. Higgins and Mr. Defever, the Company sold its Bluffdale
270 Office in 2020. That year the Company recognized a gain in relation to the sale of
271 $2,332,765. Mr. Defever recommends that the full gain be passed on to customers over
272 three years by reflecting $777,588 in Other Revenues, thereby reducing the 2023 revenue
273 requirement.

274 Mr. Higgins recommends that a portion of the gain be passed on to customers by reducing
275 the 2023 revenue requirement by $518,046. Over a three-year period, this would amount
276 to a total of $1,554,138 passed on to customers.

277 **Q. Does the Company agree to make an adjustment for the gain on the Bluffdale Office**
278 **sale?**

279 A. Yes. While it could be argued that the gain should not be included in this case because it
280 occurred outside of the test period, the Company accepts a reduction to the 2023 revenue
281 requirement of $518,046, as proposed by Mr. Higgins. A sharing of the gain recognizes the
282 fact that gains on the sale of property are enabled by up front capital invested by the
283 Company, subject to volatility in between rate cases with no guarantee for recovery,
284 prudent decisions by management in maintaining and assessing the value/opportunities for
285 the property on its books, and the supporting revenues contributed by customers while the
286 asset is part of rate base. Allowing the Company to maintain a portion of gain on property
287 sales will help incentivize careful consideration of opportunities to realize value in utility
288 property as circumstances may allow.

289 ***C. Directors and Officers Liability Insurance***

290 **Q. Should 75% of Directors and Officers Liability Insurance be removed in this case, as**
291 **proposed by Mr. Defever?**

292 A. No. Directors and Officers Liability Insurance (D&O Insurance) is standard within the
293 utility industry (and the broader market as well) and is absolutely necessary to attract and
294 retain qualified candidates willing to serve on the Company's board. Mr. Defever attempts
295 to justify the removal of 75% of this expense by referencing the cash flows or proceeds in
296 the event of lawsuits against the board. But this justification fails to account for the critical
297 role that D&O Insurance plays in attracting and retaining high quality board members.
298 Simply stated, neither the Company, nor any legitimate corporation, would be able to
299 maintain an effective board if the board members had no protection from liability. As such,
300 this is a necessary expense that should be included in the revenue requirement in this case.

301 ***D. Insurance Expense***

302 **Q. Can you summarize Mr. Defever's adjustment to test period insurance expenses?**

303 A. Yes. Mr. Defever adjusts Workers Compensation insurance and Other Insurance from the
304 2021 base period total to a 5-year average amount.

305 **Q. Should a 5-year average be used to estimate insurance expenses in the 2023 test period**
306 **in this case?**

307 A. No. Insurance costs/ programs, along with other types of shared services, have been
308 volatile over a five-year period mainly due to re-organizational efforts, accounting system
309 changes, and process migration following the 2016 merger with Dominion Energy. After
310 the merger approval, the Company embarked on a disruptive undertaking to transition
311 personnel, processes, and systems as a company. For periods during this transition, the
312 Company received no allocated expenses from Dominion Energy Services (DES). Over
313 time as systems were transitioned across functions and departments, the processes have
314 stabilized. As a result, insurance costs in more recent years are a more appropriate starting
315 point for insurance costs.

316 Workers Compensation has been stable for the past two years, and the Company believes
317 2021 is a reasonable starting point to estimate 2023, adjusted for inflation. "Other

318 insurance" is made up primarily of broker fees, which are expected to remain steady from
319 year to year going forward. When DES rolled Questar Gas into the Dominion Energy
320 insurance programs, it eliminated the broker fees Questar was paying at the time then re-
321 set and allocated them across all affiliates, which contributed to volatility during early
322 years. Dominion Energy Services generally expects these expenses to be fairly stable going
323 forward, adjusted for inflation.

324 Due to the impacts of the merger, it would not be appropriate to weigh early years following
325 the merger into the calculation of the 2023 test period costs. No adjustment should be made
326 for insurance expense.

327 ***E. Economic Development***

328 **Q. Should economic development expenses be removed from the test period, as proposed**
329 **by Mr. Defever?**

330 A. No. The economic development activity consists largely of contributions made to the
331 Economic Development Company of Utah (EDCU). Through such contributions, the
332 EDCU serves the state of Utah as a partner to the Governor's Office of Economic
333 Opportunity. The EDCU plays a pivotal role in attracting investment in the state and
334 bringing corporations and jobs to sites across the Company's service territory. Siting
335 locations and attracting these corporations requires analysis and coordination across
336 electric, gas, water, and government infrastructure, and significant ongoing collaboration
337 with various stakeholders. The Company's contributions make such work by the EDCU
338 possible. That is why, as a founding member, the Company has consistently contributed to
339 this organization since 1987.

340 In return, the Company benefits by receiving useful and timely
341 information about where new development is planned to take place. This information
342 provides the Company with useful insight into the growing communities it serves and
343 informs its system planning and analysis. In addition, as new entities are attracted to invest
344 in Utah, their natural gas usage helps contribute to fixed utility costs, which benefits
345 customers by reducing rates for existing customers on the distribution system.

346 Mr. Defever states that the "Company's donations are not providing any benefits to
347 ratepayers." I strongly disagree with that statement. The Company pointed out the benefits
348 to "residents of the state of Utah" in its response to OCS interrogatories concerning the
349 EDCU contributions. By that statement, the Company was also referring to its own
350 customers. The contributions to the EDCU are beneficial to both the Company and its
351 customers and should be included in the 2023 test period revenue requirement.

352 ***F. Labor***

353 **Q. Mr. Higgins computes an upward adjustment to labor expense of approximately $1**
354 **million. Do you accept this adjustment?**

355 A. Yes. Mr. Higgins' adjustment accounts for two corrections required in the Company's
356 original rate case model filed as DEU Exhibit 4.20. The first corrects a miscategorization
357 between labor and non-labor expense in the historical 2021 amounts in the "Projected
358 Expenses" tab of the model. Specifically, the correction increases labor expenses in FERC
359 account 923 by $755,114 in 2021 in the projected expenses tab.

360 The second correction updates the "Labor Forecast" tab to reflect the correct 2021 starting
361 point by reducing the affiliate labor and affiliate labor overhead amounts by a total of
362 $950,524. Including the correct amount in the labor forecast tab increases the annual labor
363 increase percentage that is used to adjust base period labor to 2022 and 2023 levels. Prior
364 to this correction, the labor expense in 2023 was understated due to the incorrect starting
365 2021 amount. The result of both corrections is an increase to the total revenue requirement
366 in 2023 of $1.004 million. DEU Exhibit 3.38R is an updated model reflecting these
367 corrections, with all else being equal to the original filing by the Company.

368 **Q. Can you explain the additional downward adjustments to labor expense proposed by**
369 **Mr. Defever and Mr. Higgins?**

370 A. Yes. Mr. Defever and Mr. Higgins each propose adjustments to total labor expense in the
371 test period by comparing an actual historical employee count to the forecasted 2023
372 employee count. Mr. Defever's adjustment is based on the total headcount in place as of
373 May 2022. He calculates his proposed adjustment by computing the total 2023 labor cost

374 per employee multiplied by the delta between the test period forecast and the actual
375 headcount as of May 2022. This is computed as follows:

376 Total 2023 Cost per Employee: $79,494,852 / 824 = $86,033 per employee

377 Delta (Test Period headcount – May Actual): 924 – 865 = 56[7]

378 Total Adjustment (reduction to O&M): 56 X $86,033 = $4,673,312

379 Mr. Higgins computes his proposed downward adjustment by comparing the test period
380 full time equivalent (FTE) forecast of 955 to the historical 13-month average FTE through
381 June 2022 of 919.3. After calculating a -3.7% difference between the two numbers
382 (919.3/955 - 1), he applies this percentage to certain components of test period O&M likely
383 to fluctuate with total FTE count. The final result is a reduction in total test period O&M
384 of $1,699,270, and $1,636,408 in Utah.

385 **Q. Do Mr. Higgins or Mr. Defever assume any forward-looking growth in company**
386 **headcount in their adjustments?**

387 A. No. Mr. Defever's adjustment assumes that 2023 test period headcount will equal the level
388 in May 2022. Mr. Higgins assumes that the 2023 test period FTE level will equal the 13-
389 month average FTE as of June 2022. Both assumptions include no consideration of growth
390 in total headcount, despite the trends present in the data used for their adjustments and the
391 Company's expected headcount growth.

392 **Q. Has employee count continued to grow since the timeframes used by Mr. Higgins and**
393 **Mr. Defever?**

394 A. Yes. DEU Exhibit 3.39R provides total employee headcount by department as of August
395 2022. As shown, actual employee headcount has reached 897 employees, with an
396 additional 26 positions currently posted, for a total of 923. This compares to the 924 total
397 used in the 2023 test period forecast. The Company has added 10 employees per month
398 dating back to May 2022. As such, the Company's use of 924 as the test period figure is a
399 reasonable level considering this pace of growth and the current level of headcount through
400 August.

7 There appears to be a typographical error on line 514 of Mr. Defever's testimony that refers a difference of 48 employees. I believe this should state 56 employees.

401 By relying on headcount levels as of a fixed point in time in the past while ignoring growth
402 trends in the data, Mr. Defever and Mr. Higgins have proposed unreasonable adjustments
403 that would materially understate 2023 test period labor costs.

404 As explained in my direct testimony, the Company is restoring its headcount to pre-
405 pandemic levels.[8] The budgeted level of 924 employees for the 2023 test period is both
406 reasonable and supported by current headcounts. As such, no reduction should be made to
407 test period expenses for headcount.

408 **Q. Mr. Defever calculates a five-year vacancy average from 2017-2021. Does this average**
409 **accurately represent conditions anticipated in the 2023 test period?**

410 A. No. The 20-vacancy average amount calculated by Mr. Defever from 2017-2021 is driven
411 by two main events: the merger and subsequent reorganizations which impacted 2017
412 employee counts, and the Covid-19 pandemic which impacted both 2020 and 2021
413 employee counts. In 2017, following the approval of the Dominion Energy, Inc. and
414 Questar Corporation merger, the Company offered severance to certain shared service
415 groups of employees that were impacted by the merger. Merger reorganizations caused
416 actual employee counts to decrease compared to the pre-merger budget levels of
417 employment. Regarding 2020 and 2021, the pandemic that immediately followed an early
418 retirement incentive program restricted the pace at which the Company could restore
419 employee counts to optimal ongoing levels.

420 Because of these unique circumstances, 2017 and 2020-2021 are not representative of
421 ongoing conditions expected in 2023. Averaging the 2018 and 2019 data provided by Mr.
422 Defever shows that the Company's headcount averaged 0.55 full time employees more
423 than budget. These two years are most appropriate for use for the 2023 test period as they
424 conform to the Company's headcount expectation.

---

8 The twelve-month average headcount ending June 2019 was 934. This 12-month period immediately preceded an early retirement incentive program. The savings related to the early retirement incentive program were reflected as a reduction in O&M in the 2019 general rate case.

425 **Q. Mr. Higgins states that the Company's 2022 labor budget is not transparent and that**
426 **he would rather see clear adjustments to the 2021 actual labor expense. What is the**
427 **Company's response?**

428 A. For the 2022 labor amounts, the Company relied on the actual output from its granular
429 internal budgeting process rather than preparing high-level adjustments to the broader labor
430 expense in 2021. To summarize simply, there are two main drivers to the labor costs in this
431 case: headcount increases and underlying labor cost inflation. The 2023 test period labor
432 can be approximated by adjusting 2021 actuals for these two main cost drivers. This
433 approach would look something like this:

434 Headcount adjustment: The 2021 base period averaged 846 total employees while the
435 Company plans for 924 employees in the 2023 test period. This represents a 9% increase
436 in headcount.

437 Labor Cost Inflation adjustment: Each year the Company generally expects increases in
438 labor costs of approximately 2.5%-3%, caused by inflation in various labor costs and wage
439 increases based on competitive market survey data. What this means is that holding the
440 employee count constant (no growth from 2021), the labor costs would typically be
441 expected to increase between 5%-6% over a two-year span.

442 Assuming the lower end of the inflation adjustment, or 2.5% per year, adding these two
443 adjustments together would account for a 14% total change in labor costs from 2021 to
444 2023 (5% inflation + 9% headcount). The Company's actual proposed change equates to
445 13.79%.[9]

446 In its filing, the Company chose to provide the actual budget for 2022, which is based on
447 a much more granular, department by department analysis built from the bottom up by
448 department managers. While this is not as simple as the high-level two-step approach
449 summarized above, it reflects the Company's true budget expectations more accurately and
450 is consistent with how the Company estimates employee headcount.

451 Regardless of which approach is taken, I believe that the pertinent areas of focus would
452 have been the same. As stated in my direct testimony, headcount is the primary driver for

9 *See* DEU Exhibit 3.6, total 2023 labor versus total 2021 labor.

453 the labor cost increase in this case. I believe that the Company has provided transparent
454 information about how it conducted its headcount calculation and that the parties have been
455 able to conduct their analysis and form their opinions adequately regarding the Company's
456 headcount.

457 **Q. Are there other factors that show the Company's expected 2023 level of employees is**
458 **reasonable?**

459 A. Yes. One useful metric to analyze employee headcount is the total number of employees
460 per customer. The twelve-month average headcount ending June 2019 was 934. This is an
461 important timeframe because it immediately precedes the unique circumstances caused by
462 the Company's retirement incentive program directly followed by the pandemic. This level
463 compares to 924 proposed in the 2023 test period.

464 The 2019 customer count over this same 12-month period was 1,058,159. For every 10,000
465 customers the Company served, it employed 8.8 employees to serve those customers. (934
466 / (1,058,159/10,000)).

467 In 2023, the Company will employ an average of 924 total employees to serve a projected
468 average of 1,184,363 customers. For every 10,000 customers served, the test period
469 includes 7.8 employees to serve those customers. A reduction of 1 employee, or 11%, per
470 10,000 customers.

471 As a final point of interest, overall adjusted labor expense (accounting for the pension and
472 incentive adjustments) as compared to the 2020 test period has increased by just 0.5% per
473 year on average. These are useful data points to consider in assessing the total labor expense
474 in this case and further support the reasonableness of the Company's anticipated labor costs
475 for the 2023 test period. As such, no adjustment should be made to reduce the test period
476 labor expense.

477 ***G. Supplemental Executive Retirement Plans (SERP)***

478 **Q. Mr. Defever argues that IRS code limits should serve as a guide in removing SERP**
479 **expenses for ratemaking purposes. Do you agree?**

480 A. No. IRS code limits are not applicable to determining the appropriate treatment of SERP
481 expenses for ratemaking. SERP is an important component of the Company's executive

482 benefits package and is offered based on competitive offerings in the marketplace. The
483 level of SERP benefits offered by the Company is not guided by the IRS code but is based
484 on what is necessary to offer a competitive benefits package to attract and retain high
485 quality candidates for essential roles.

486 **Q. Has the Utah Public Service Commission addressed SERP expenses in the past?**

487 A. Yes. The Commission has allowed SERP expenses in rates in two Rocky Mountain Power
488 dockets.[10] In its order in Docket No. 99-035-23, the Commission summarized arguments
489 that had been made to remove SERP expenses that were similar to those made by Mr.
490 Defever in this case:

491 …the Committee has proposed an adjustment disallowing all SERP
492 expense for the test year. It argues that this plan is a non-qualified
493 plan available to a select group of executives, is excessive, and the
494 costs should not be passed on to ratepayers.[11]
495
496 Ultimately the Commission allowed SERP expenses as a necessary part of executive
497 compensation to attract and retain qualified executives:

498 Although it has been argued that the SERP plan is extra
499 compensation to executives who did not perform well during the test
500 year, it is our opinion that a SERP plan is an essential part of
501 executive compensation in recruiting and retaining qualified
502 executives, and we therefore reject the Committee's adjustment…[11]
503
504 ***H. Other Various Workforce Benefit Expenses***

505 **Q. Mr. Defever proposes that test period expense should not include costs related to**
506 **fitness facilities, the caregiver program, or the employee cafeteria. Do you agree with**
507 **these adjustments?**

508 A. No. Each of these expenses is minor compared to the core costs of providing service, but
509 each serves an important role in helping Dominion Energy attract and maintain high quality
510 candidates for employment. This is more important than ever, as in today's competitive
511 labor environment, cost effective benefit offerings such as these are necessary to attract
512 and retain knowledgeable employees. Customers benefit when the Company can achieve

10 See Docket No. 09-035-23 and Docket No. 99-035-10
11*Rocky Mountain Power*, Docket No. 99-035-10 (Comm'n Order, issued May 24, 2000).

513 this purpose, and for this to happen, the Company must incur some level of expense to do
514 so. The level of expense the Company is incurring for these programs is both measured
515 and reasonable. Removing these benefits to slightly reduce costs would only aggravate the
516 labor challenges. As such, these adjustments should be rejected.

517 **Q. Mr. Defever provides some examples of other jurisdictions that have removed some**
518 **of these expenses from rates. Should those decisions govern decisions in this case?**

519 A. No. Other jurisdictions considered a different set of facts for different utilities at a different
520 time. Decisions in this case should be made in view of the circumstances applicable to
521 Dominion Energy Utah at this point in time. As pointed out above, in this case, Dominion
522 Energy Utah is prudently offering a measured and reasonable set of workforce benefits at
523 time when there is significant competition for labor. These expenses are appropriate in this
524 case and should be allowed to continue at current levels.

525 ***I. Lobbying***

526 **Q. Should lobbying costs be removed from 2023 test period expense as proposed by Mr.**
527 **Defever?**

528 A. The Company supports an adjustment to remove the lobbying expenses proposed by Mr.
529 Defever.

530 ***J. LNG O&M***

531 **Q. Mr. Orton and Mr. Defever observe that $2.1M in electric O&M costs at the**
532 **Company's LNG facility have been approved in the Company's passthrough**
533 **mechanism and should be removed from the test period in this case. Do you agree?**

534 A. Yes. Now that the Commission has approved the recovery of these costs through the 191
535 pass-through mechanism, the Company agrees that the electric O&M costs should be
536 removed from the 2023 test period.

537 **Q. Mr. Orton also proposes an adjustment to remove $669,934 of test period O&M**
538 **expense related to the LNG facility based on an updated forecast from the Company.**
539 **Do you agree with this adjustment?**

540 A. Yes. Based on an updated forecast of expected LNG costs, the Company agrees with Mr.
541 Orton that test period O&M expenses should be reduced by $669,934 total. This is in
542 addition to the $2.1 million reduction for the electric costs for the LNG facility.

543 ***K. Pension Adjustment***

544 **Q. Please summarize Mr. Higgins arguments related to the pension adjustment.**

545 A. Mr. Higgins argues that the Company's pension accounting does not appear to comport
546 with FASB rules. He recommends that the pension asset should not be included in rate
547 base, the pension credit should be included in the revenue requirement calculation, and
548 that, if the Commission determines that pension expense should be zero in this case, then
549 pension expense should be excluded from future cases. He also recommends that DEU not
550 be permitted to add any capitalized portion of its pension service cost to rate base on a
551 going-forward basis.

552 **Q. Why does Mr. Higgins assume the Company has not followed FASB guidance on**
553 **pension accounting?**

554 A. Mr. Higgins cites FASB Accounting Standards Update No. 2017-07 that limits the portion
555 of net periodic pension cost eligible to be capitalized to the service cost component only.
556 Based on his interpretation of this standard, he argues that only the $6,953,800 of service
557 costs should be capitalized instead of the -$11,076,744 that is currently in the test period.

558 **Q. You mentioned that the Company's pension accounting is in compliance with**
559 **accounting standards?**

560 A. Yes. DEU adopted ASU 2017-07 effective January 1, 2018; however, the ASU did not
561 result in a financial statement impact at DEU because DEU accounts for its participation
562 in the parent company's pension plan in accordance with multi-employer pension
563 accounting (ASC 715-30-55-64). Under multi-employer pension accounting, the pension
564 costs allocated by a parent to a subsidiary are treated as employee benefit costs and
565 classified with similar benefit costs in the subsidiary's financial statements. As a result,

566 DEU does not separately record pension expense with a service and non-service
567 component, and the ASU did not impact DEU's regulatory recovery. As such, the ASU did
568 not impact DEU's capitalization policies.

569 **Q. Is there any other guidance on this issue that would be useful to the Commission?**

570 A. Yes. In response to the FASB's ASU 2017-07, the Federal Energy Regulatory Commission
571 (FERC) issued Docket No. AI18-1-000 dated December 28, 2017. After discussing the
572 requirements stated in ASU 2017-17, the FERC instructions state in part:

> 573 Question: Is it appropriate for jurisdictional entities to capitalize
> 574 pension and PBOP costs using the method prescribed under ASU
> 575 No. 2017-07?
> 576
> 577 Response: Provided that the pension and PBOP costs are based on
> 578 appropriate labor costs and have a definite relation to construction
> 579 as required under Electric Plant Instruction No. 4, Gas Plant
> 580 Instruction No. 4, and Service Company Property Instruction No.
> 581 367.52, jurisdictional entities may continue to capitalize the service
> 582 cost component and non-service cost components of pension and
> 583 PBOP costs as it has traditionally been the widely accepted practice,
> 584 or they may elect to capitalize only the service cost component of
> 585 pension and PBOP costs, as prescribed by ASU No. 2017-07. Both
> 586 methods are appropriate and are not precluded by the Commission's
> 587 accounting requirements.[12]

588

589 **Q. Are there additional relevant considerations related to Mr. Higgins proposal to**
590 **remove the pension credit from rate base and include it in O&M expense?**

591 A. If Mr. Higgins' adjustment to remove part or all of the pension credit from rate base to
592 O&M expense were approved by the Commission, under the current approved
593 methodology, it would result in an increase in revenue requirement, because the
594 adjustments would increase rate base, and the corresponding credit to O&M would be
595 removed from the revenue requirement calculation, consistent with Commission order in
596 Docket 19-057-03.

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12 *Federal Energy Regulatory Commission*, Docket No. AI18-1-000, instructions dated December 28, 2017.

597 **Q. Mr. Higgins argues that the pension asset should not be included in rate base. Has the**
598 **Company proposed to include the pension asset in rate base in this case?**

599 A. No. As I explained in my direct testimony, the Company is proposing to remove the
600 pension credit, pension asset, and pension related deferred income taxes from the case.

601 **Q. Mr. Higgins states that, to the best of his knowledge, a prepaid pension asset has never**
602 **been included in rate base. Has the Commission ever allowed this in a prior case for**
603 **the Company?**

604 A. Yes. In Docket 99-057-20, the Company included a $2,399,941 prepaid pension asset in
605 rate base. In that case, the parties ultimately agreed to an adjustment of $233,680 to rate
606 base with the remaining balance of the pension asset of $2,166,261 included in rates.

607 **Q. Mr. Higgins recommends that the pension credit be included in the revenue**
608 **requirement calculation. Please summarize the Company's current ratemaking**
609 **treatment of pension costs and related rate base amounts.**

610 A. As a matter of symmetrical ratemaking, which is consistent with the Commission's final
611 order in DEU's last rate case (Docket No. 19-057-02), the Company has removed the
612 following items from consideration in developing base rates: (a) removal of a pension
613 credit from operating expense resulting in zero pension expense; (b) removal of the prepaid
614 pension asset from rate base; and (c) removal of the pension-related ADIT from rate base.
615 This is an appropriate and symmetrical approach to ratemaking.

616 **Q. Does UAE witness Higgins agree with the Company's position on the pension-related**
617 **issues?**

618 A. No. UAE witness Higgins completely ignores both symmetrical ratemaking treatment for
619 the three pension-related items, ignores the Commission's holding in the Company's 2019
620 rate case, and selects only pension-related adjustments that are results oriented to reduce
621 rates. In this rate case, two of the three components reduce revenue requirements
622 (negative pension expense or a pension credit, reducing operating expense, and pension-
623 related ADIT, reducing rate base). Mr. Higgins has selectively chosen to include these two
624 components in his recommendation while ignoring the prepaid pension asset that produced
625 the lower level of pension costs.

626 **Q. Is Mr. Higgins' proposal on pension-related costs the same as his proposal in DEU's**
627 **2019 base rate case?**

628 A. Yes.

629 **Q. How did the Commission rule on UAE's proposal in that fully litigated 2019 base rate**
630 **case?**

631 A. The Commission's Order[13] on pages 20-21 states:

632 OCS and UAE disagree with DEU's treatment of pension-related
633 costs. OCS proposes the PSC "continue to recognize pension costs
634 in rates based on the long-standing accrual method of accounting,"
635 by reducing Utah's pension expense by $5.4 million.
636
637 UAE proposes an alternative: adjusting pension expense to $0, as
638 proposed by DEU in this case, on the condition that DEU agrees to
639 exclude any positive or negative pension expense permanently from
640 revenue requirement going forward.
641
642 We find that with or without the adjustment proposed by OCS, DEU
643 ratepayers will benefit from the $75 million pension contribution
644 through a lower cost of service.[14] We further find that DEU's
645 proposal to exclude the prepaid pension asset and cancel the Test
646 Year pension expense by setting it to $0 benefits ratepayers by
647 reducing annual costs.
648
649 We typically support accrual accounting for pensions, and these
650 findings do not modify that precedent. In this instance, however,
651 given that ratepayers are benefitting from Dominion Energy, Inc.'s
652 $75 million pension contribution, we find DEU's pension
653 adjustment to result in just and reasonable rates. We decline to order
654 the adjustments recommended by OCS and UAE.
655

656 **Q. Have state regulators in other jurisdictions where DEU's affiliates operate addressed**
657 **the pension issue in a similar manner?**

658 A. Yes. Subsequent to the 2019 Utah base rate case, DEU's affiliate, Dominion Energy
659 Wyoming ("DEWY"), concluded a base rate case whereby the Public Service Commission
660 of Wyoming ruled in a similar fashion on a stipulation that included specific ratemaking

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13 *Dominion Energy Utah*, Docket No. 19-057-02 (Comm'n Order, Feb. 25, 2020).
14 This finding is supported by the testimony of DEU. Rebuttal Test. of A. Elsenham filed Nov. 14, 2019 at 7:169-184.

661 treatment on these pension-related issues. In that case, DEWY removed all pension-related
662 rate base (ADIT and pension asset) and expense items (pension credit) from the test period
663 – consistent with the same approach in DEU's case before this Commission. While the case
664 was resolved by settlement, what is noteworthy is the statement made by the Office of
665 Consumer Advocate in Wyoming recognizing the need for symmetrical ratemaking
666 treatment:

667 The primary issue that helped sway this decision related to pension
668 expense was the realization that the pension expense credit at
669 question represents a non-cash accounting transaction. What this
670 means is that even though the Company's actuarial reports indicated
671 it is in a net positive position for its pension trust account (as
672 represented by the pension credit), the Company does not actually
673 receive any type of cash or revenues for this credit. This credit
674 simply allows the Company to defer making any additional cash
675 infusions into its pension trust account for a period of time while it
676 remains in a net positive position. This, in and of itself, provides a
677 benefit to customers by reducing the pension expense traditionally
678 paid for through base rates to $0. If the pension expense is included
679 as part of the revenue requirement in this filing, it is my opinion that
680 this credit would erode the Company's opportunity to fully recover
681 its otherwise prudent and recurring operating costs. [15]
682

683 Likewise, DEU's affiliate, Dominion Energy West Virginia ("DEWV" or "Hope Gas"),
684 concluded a base rate case whereby the Public Service Commission of West Virginia ruled
685 in a similar fashion:

686 Hope and Staff agree that the test year negative pension expense
687 cannot be used to reduce the cost of service because (i) Hope has not
688 made a contribution to the pension trust in recent years and does not
689 expect to make a future contribution, (ii) the negative pension
690 expense does not provide cash to Hope, and (iii) the earnings on the
691 pension trust are restricted and can only be used to pay pension
692 benefits to Hope's retirees. The Commission agreed with this
693 rationale in the 2008 rate case.
694

695 CAD argued that ratepayer contributions over the years helped fund
696 the pension account and shareholder contributions do not drive

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15 IN THE MATTER OF THE APPLICATION OF QUESTAR GAS COMPANY d/b/a DOMINION ENERGY WYOMING FOR APPROVAL TO INCREASE DISTRIBUTION RATES AND CHARGES FOR NATURAL GAS SERVICES BY $3.5 MILLION PER ANNUM, A RATE OF RETURN OF 7.46% AND ASSOCIATED TARIFF AMENDMENTS, MEMORANDUM OPINION, FINDINGS OF FACT, DECISION AND ORDER Issued August 21, 2020, Docket No. 30010-187-GR-19 (Record No. 15383).

697 prepaid pension asset balances. By zeroing out the negative expense
698 for ratemaking purposes the ·commission has effectively allowed
699 Hope solely to receive the full benefit of the pension income, i.e., a
700 significant amount of pension income is recorded on Hope's books
701 each year, which reduces pre-tax expenses and increases earnings
702 for shareholders. CAD urged the Commission to reflect the negative
703 pension expense in rates by reducing operating expense to provide
704 a reasonable mechanism for contributions that are no longer
705 necessary to sustain the pension expense to be returned to the
706 ratepayers without jeopardizing the integrity of the pension
707 account."
708
709 Hope witness Elsenham asserted that CAD wanted to give
710 ratepayers a benefit by using the income from the pension asset to
711 reduce the cost of service, but then exclude the prepaid pension asset
712 from rate base. He testified that the Commission should use a
713 symmetrical approach and exclude the pension asset from rate base
714 and the pension cost from operating expenses.
715
716 *Commission decision:* The Commission agrees with Hope and Staff
717 that the negative pension expense is not an appropriate item to
718 include in ratemaking revenue requirements. [16]
719
720 The point here is that DEU's position of excluding all pension costs
721 is consistent with other regulatory jurisdictions.
722
723 **Q. Mr. Higgins compares the pension credit to depreciation expense, suggesting that, as**
724 **non-cash items, the two are comparable. Is this a valid comparison?**

725 A. No. Depreciation expense and the pension credit are fundamentally different and should be
726 considered separately for ratemaking. Depreciation expense is often referred to as a return
727 of capital in ratemaking. Annual depreciation expense follows the Company's upfront
728 outlay of cash when investing in property, plant, and equipment. Through depreciation
729 expense, the Company recoups that upfront investment over time from customers. The
730 underlying assets are recorded on the Company's balance sheet and included in rate base.
731 They are subsequently offset gradually by accumulated depreciation expense until the net
732 balance equals zero, at which point they no longer have an impact on rate base.

16 COMMISSION ORDER ON RULE 42T TARIFF FILING TO INCREASE RATES AND CHARGES, APPLICATION TO CHANGE DEPRECIATION RATES & REVISION OF INFRASTRUCTURE RATES CASE NO. 20-0746-G-42T; HOPE GAS INC., dba DOMINION ENERGY WEST VIRGINIA, a public utility, Clarksburg, Harrison County. Rules 42T application to increase rates and charges. July 27, 2021.

733 The pension credit, however, is the result of a return on plan assets that stays within the
734 pension fund and adds to the balance of plan assets. Rather than slowly netting against the
735 asset balance until it reaches zero, like depreciation expense and accumulated depreciation,
736 a return on plan assets continues to add to the balance of the fund going forward. The
737 pension credit results in no cash flow to the Company. The underlying pension asset is the
738 result of cumulative cash contributions in excess of pension expense over the life of the
739 pension, including the $75 million contribution by Dominion Energy shareholders as part
740 of the Questar Corporation merger with Dominion Energy, Inc. Including the pension
741 credit in rates would not act as a "return of capital" like depreciation expense, but would
742 rather act as a cash penalty to the Company on top of the significant cash contributions
743 already made into the pension fund. This punitive regulatory treatment would remove from
744 the utility an opportunity to recover its overall cost of service.

745 **Q. Does UAE Witness Higgins suggest a condition whereby DEU's pension credit could**
746 **be excluded from the overall revenue requirement?**

747 A. Yes. In his testimony on page 18 he states:

> 748 I acknowledge, based on the Commission's decision in the last DEU
> 749 rate case, that the Commission may be reluctant to recognize a
> 750 negative pension cost in the DEU revenue requirement. However,
> 751 unless customers are similarly released from the obligation to pay
> 752 for positive FAS pension costs in the future, I continue to maintain
> 753 that recognition of the negative pension cost in rates is appropriate.

754

755 **Q. How do you respond?**

756 A. Mr. Higgins seems to accept the Commission decision in the last case that all pension items
757 be removed but asks the Commission to order on a hypothetical future scenario where the
758 Company is incurring a pension expense. The Company is not proposing to include pension
759 expenses in this case and therefore it is not an issue that needs to be determined by the
760 Commission in this case. Based on the value of the prepaid pension asset, which was
761 received through shareholder contributions, it is DEU's expectation that its pension
762 accounting situation will continue indefinitely into the future. That is, Utah customers will
763 continue to benefit from a lower overall cost of service by not incurring any future costs
764 associated with DEU's pension obligations to its workforce. Nonetheless, these accounting

765 items – pension costs, pension-related ADIT, and prepaid pension asset – will continue to
766 be reflected on DEU's books and records and will continue to be reviewed and audited by
767 the Commission and the Division. Therefore, the current approach to its ratemaking
768 treatment and regulatory accounting adjustments remains appropriate.

769 **IV. PROJECTED DEFICIENCY**

770 **Q. Have you recalculated the projected deficiency based on the adjustments outlined in**
771 **this testimony?**

772 A. Yes. DEU Exhibit 3.35 provides a summary of the impact of the above-referenced
773 adjustments on the deficiency. As shown, application of the adjustments discussed above
774 results in the original deficiency of $70.5 million being reduced to $67.3 million.

775 **Q. Have you prepared an updated electronic model that incorporates these changes?**

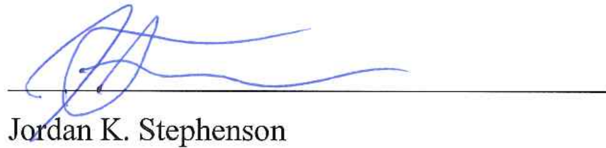
776 A. Yes. Attached as DEU Exhibit 3.36R is the updated electronic model.

777 **Q. Does that conclude your testimony?**

778 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.



Jordan K. Stephenson

SUBSCRIBED AND SWORN TO this 21 day of September, 2022.

Notary Public