

OCS Errata Exhibit B:

**Redline of pages 25-26 of James W. Daniel's
Direct Testimony (exhibit 4D in Docket 22-057-03)
showing the changes implemented in the revised
version provided in OCS Errata Exhibit A.**

520 A. Yes. The CET is considered a full revenue decoupling mechanism and the WNA
521 is considered a partial decoupling mechanism.

522 **Q. DOES FULL REVENUE DECOUPLING LOWER INVESTORS' RISK WITH**
523 **UTILITIES?**

524 A. Yes. Decoupling allows utilities to automatically adjust its rates if it does not
525 collect its approved base revenue per customer. It is widely accepted that
526 decoupling rate adjustment mechanisms reduce the utilities' risk to investors.

527 ~~Q. HAS DEU REDUCED ITS PROPOSED RATE OF RETURN ON EQUITY~~
528 ~~("ROE") TO REFLECT THIS LOWER RISK?~~

529 ~~A. No.~~

530 ~~Q. IN DEU'S PRIOR RATE CASE IN DOCKET NO. 19-057-02 WHAT WAS ITS~~
531 ~~CLAIMED RATIONALE FOR NOT REDUCING ITS ROE FOR THE LOWER~~
532 ~~RISK ATTRIBUTABLE TO REVENUE DECOUPLING?~~

533 ~~A. DEU's claimed rationale for not making a downward adjustment to its proposed~~
534 ~~ROE is that the lower risk had already been considered in its ROE analysis and~~
535 ~~recommendation. The basis for this claim is that the proxy group of utilities that~~
536 ~~DEU used in its ROE analysis included mostly gas utilities with revenue~~
537 ~~decoupling.~~

538 ~~Q. HAS DEU MADE A SIMILAR ARGUMENT IN THIS CASE FOR NOT~~
539 ~~REDUCING ITS ROE?~~

540 ~~A. No. Further, I do not believe DEU can support making a similar argument in this~~
541 ~~case.~~

542 ~~Q. PLEASE EXPLAIN.~~

543 ~~A. In this case, DEU has a new witness for determining its proposed ROE. The new~~
544 ~~ROE witness's proxy group mostly includes gas utilities that do not have full~~
545 ~~revenue decoupling. As shown on the fifth column of DEU Exhibit 2.07 of the~~
546 ~~direct testimony of DEU witness Jennifer Nelson, only three of the twenty-four~~
547 ~~LDC operating subsidiaries in her proxy group has full revenue decoupling. The~~
548 ~~other twenty-one LDCs have either partial revenue decoupling or no decoupling.~~

549 **Q. ARE FULL DECOUPLING AND PARTIAL DECOUPLING SIMILAR?**

550 A. No. Full decoupling separates the utility's margins or revenues from its gas
551 volumes. Partial decoupling does not do this. Instead, it either allows some rate
552 adjustments for things such as weather normalization or it provides a rate design
553 that recovers less fixed costs in commodity or volumetric rates.

554 ~~Q. DOES DEU EXHIBIT NO. 2.07 ALSO IDENTIFY LDCs WITH "FORMULA~~
555 ~~BASED RATES/ANNUAL RATE REVIEW MECHANISMS?"~~

556 ~~A. Yes. However, two of the LDCs used, Atmos Energy Texas and Texas Gas~~
557 ~~Service, are somewhat misleading. Those two LDCs have several distinct rate~~
558 ~~areas in the state, i.e., they do not have system-wide or statewide rates. Only~~
559 ~~some of their rate areas have annual rate review mechanisms.~~

560 **Q. WHAT ARE YOUR RECOMMENDATIONS REGARDING THE CET?**

561 A. I recommend the following:

562 ~~(1) OCS rate of return witness Dan Lawton discusses the lower risk to~~
563 ~~DEU investors due to all of the rate adjustment and rate tracker~~
564 ~~provisions. Based on the above and Mr. Lawton's testimony, the~~
565 ~~Commission should approve a ROE on the lower end of Mr.~~
566 ~~Lawton's range,~~