

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

Application of Dominion Energy Utah to)	
)	Docket No. 22-057-03
Increase Distribution Rates and Charges)	
)	Phase II Rebuttal Testimony of
)	James W. Daniel
and Make Tariff Modifications)	On behalf of the
)	Office of Consumer Services

October 13, 2022

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1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is James W. Daniel. My business address is 919 Congress Avenue,
3 Suite 1110, Austin, Texas, 78701.

4 **Q. ARE YOU THE SAME JAMES DANIEL THAT PROVIDED PHASE II DIRECT**
5 **TESTIMONY ON BEHALF OF THE OFFICE OF CONSUMER SERVICES**
6 **(“OCS”)?**

7 A. Yes.

8 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

9 A. The purpose of my rebuttal testimony is to respond to certain claims and proposals
10 made by the intervenors and the Division of Public Utilities (“DPU”) witness in
11 Phase II of this proceeding. In particular, I address issues raised in the Phase II
12 direct testimony of Federal Executive Agencies (“FEA”) witness Brian Collins,
13 Nucor Steel-Utah, A Division of Nucor Corporation (“Nucor”) witness Bradley
14 Mullins, Utah Association of Energy Users (“UAE”) witness Kevin Higgins, and
15 DPU witness Abdinasir Abdulle.

16 ***Design-Day vs. Actual Peak-Day Demand Allocation Factor***

17 **Q. IN YOUR DIRECT TESTIMONY DID YOU SUPPORT THE USE OF ACTUAL**
18 **TEST YEAR PEAK-DAY USAGE FOR DEVELOPING CERTAIN DEMAND**
19 **ALLOCATION FACTORS?**

20 A. Yes. On pages 6 through 8 of my direct testimony I discuss why the use of actual
21 peak-day demands is superior to the use of estimated design-day demands.
22 Division of Public Utilities (“DPU”) witness Abdinasir Abdulle also supported the
23 use of actual peak-day demands in his direct testimony.

24 **Q. DID ANY INTERVENORS PROPOSE USING ESTIMATED DESIGN-DAY**
25 **DEMANDS?**

26 A. Yes. Federal Executive Agencies (“FEA”) witness Mr. Collins, Nucor Steel-Utah, A
27 Division of Nucor Corporation (“Nucor”) witness Mr. Mullins and UAE witness Mr.
28 Higgins filed direct testimony proposing the use of estimated design-day demands
29 for developing certain demand allocation factors.

30 **Q. DID ANY OF THEIR TESTIMONY CONVINCED YOU TO CHANGE YOUR**
31 **SUPPORT FOR USING ACTUAL PEAK-DAY DEMANDS?**

32 A. No. As previously stated, my direct testimony provides the reasons that using
33 actual peak-day demands is superior to using estimated design-day demands.
34 Rather than repeating my support for using actual peak-day demands here, I refer
35 parties to pages 6 through 8 of my direct testimony.

36 **Q. WHICH DEMAND-DAY FACTOR DID THE DPU RECOMMEND?**

37 A. The DPU supported using the actual test year peak-day demands. However, in
38 order to diminish any volatility in the demand allocation factor from one rate case
39 to the next, the DPU recommended using a three-year average of the actual peak-
40 day demands for the test year and prior two years (2019, 2020 and 2021).

41 **Q. DO YOU HAVE ANY PROBLEMS WITH THE DPU’S USE OF A THREE-YEAR**
42 **AVERAGE OF THE ACTUAL PEAK-DAY DEMANDS?**

43 A. I do have some concerns with using DPU’s proposed three-year average. First, no
44 information has been provided that demonstrates the actual peak-day demands
45 are volatile from year-to-year for changes other than customer migration. If the
46 class peak-day demands are weather normalized, that should diminish the

47 potential for volatility. Some minor changes from year-to-year are normal and can
48 be expected. This is also true if one uses design-day demands. Second, there has
49 been significant customer migration on DEU's system. Using a three-year average
50 of actual peak-day demands could cause a mismatch between costs allocated to
51 a customer class and the class billing determinants used to design rates. For
52 example, if customers have been migrating away from a customer class, the class
53 peak-day demands could be declining each year of the three-year period. In that
54 scenario, the three-year average could result in over-allocating costs to the
55 remaining customers in the class. Subsequently, in the rate design, the test year
56 billing determinants will only match the peak-day demands for the third year of the
57 three-year average. The result would be higher rates for the class and an over-
58 recovery of costs after the rates become effective. For these reasons, I believe
59 using the test year actual peak-day demands is preferable to using a three-year
60 average.

61 ***Allocation of Feeder Mains, Compressor Stations and Measuring & Regulation***
62 ***Stations***

63 **Q. PLEASE DESCRIBE HOW DEU ALLOCATES THE COSTS ASSOCIATED**
64 **WITH FEEDER MAINS, COMPRESSOR STATIONS, AND MEASURING &**
65 **REGULATION STATIONS.**

66 A. DEU allocates costs related to feeder mains, compressor stations measuring &
67 regulation stations using an allocation factor based on 60% of the design-day
68 allocation factor and 40% of the throughput allocation factor. On DEU Exhibit 4.02,
69 it is listed as Allocation Factor #230. As stated on this DEU exhibit, DEU states

70 that the 60%/40% weighting factors are “similar to the allocations used in previous
71 cost of service studies.”

72 **Q. DID DEU PROVIDE ANY OTHER EXPLANATION OR SUPPORT FOR THE**
73 **60%/40% WEIGHTING FACTORS IN THEIR TESTIMONY?**

74 A. No. Apparently since DEU was not changing what it has done in previous rate
75 cases, the Company did not believe it was necessary to explain the basis for the
76 60%/40% weighting factors. In a previous DEU rate case,¹ the Company provided
77 the following explanation and support for the 60%/40% weighing factors:

78 These facilities fulfill a two-part function. They are designed to meet
79 the peak requirements of firm customers, and they are used 365
80 days of the year to move gas to all customers, both firm and
81 interruptible. The allocation of these costs does not lend itself to a
82 single definitive solution. On the one hand it has been argued that
83 firm customers should pay the entire cost in recognition of the
84 underlying design demand function of these facilities. On the other
85 hand it has been argued that customers should have responsibility
86 for these facilities in proportion to actual use of the facilities. It
87 is generally agreed that it would be unreasonable to allocate 100% on
88 Peak Responsibility, just as it would be unreasonable to allocate
89 100% on Commodity Throughput.

90
91 The cost-of-service task force that resulted from the 2002 general
92 rate case looked at studies based on alternative weightings between
93 peak and commodity of 75/25, 60/40, and 50/50. No consensus
94 was reached as to the most appropriate weighting. However, the
95 60/40 weighting more closely matches the results of the COS that
96 the Company has proposed over time.

97
98
99 **Q. DID OTHER PARTIES PROPOSE DIFFERENT WEIGHTING PERCENTAGES**
100 **FOR THIS ALLOCATION FACTOR?**

101 A. Yes. I will address each of the proposed weighting percentages in the following
102 testimony. However, I first want to explain the significance of the weighting factors.

¹ The Company's response to data request DPU No. 3.25 in Docket No. 13-057-05.

103 In comparison to the design day allocation factor, the throughput allocation factor
104 will allocate a higher percentage of costs to customer classes with high load factor
105 customers. Therefore, the higher the percent weighting factor for the throughput
106 allocation factor, the higher the costs that are allocated to customer classes with
107 high load factors. For example, in this case the throughput allocation factor for the
108 newly proposed TSL class is 14.4% while the design-day demand allocation factor
109 is only 4.2%. Obviously, a higher weighting of the throughput allocation factor will
110 allocate more costs to the TSL class.

111 **Q. PLEASE DESCRIBE UAE’S PROPOSED WEIGHTING PERCENTAGES.**

112 A. UAE propose 67.5% design day and 32.5% throughput weighting factors for this
113 allocation factor. The throughput weighting factor of 32.5% is equal to UAE’s
114 calculation of DEU’s annual system load factor of 32.5%. UAE witness Kevin
115 Higgins claims his use of this system load factor as the throughput weighting
116 percentage “is clearly prescribed” by the National Association of Regulatory Utility
117 Commissioners (“NARUC”) Gas Distribution Rate Design Manual (“NARUC
118 Manual”).

119 **Q. DOES THE NARUC MANUAL PRESCRIBE THAT DEU’S THROUGHPUT
120 WEIGHTING FACTOR MUST BE EQUAL TO ITS ANNUAL SYSTEM LOAD
121 FACTOR?**

122 A. Not exactly. Mr. Higgins claims that this DEU allocation factor is based on an
123 Average and Peak (“A&P”) allocation methodology. However, it is my
124 understanding that this DEU allocation factor is simply an allocation factor that
125 DEU developed, and has been using for a long time to allocate feeder mains,

126 compressor stations, and measuring & regulation stations costs. DEU has not
127 represented it as an A&P allocation factor.

128 **Q. IS THERE ANOTHER PROBLEM WITH UAE'S PROPOSAL TO USE THE A&P**
129 **ALLOCATION METHODOLOGY?**

130 A. Yes. UAE wants to use the A&P methodology to support using a lower weighting
131 percentage for the throughput component. However, UAE fails to use the correct
132 peak demands for the "peak" allocation factor used for the A&P allocation
133 methodology. As discussed in the NARUC Manual, the A&P methodology uses
134 class coincident peak demands at the time of the test year system peak to
135 determine the class peak component. However, UAE uses estimated class design
136 day demands rather than test year coincident peak demands for that purpose.
137 Using the estimated design-day demand to calculate the system load factor results
138 in an artificially low load factor. This results in an artificially low weighting factor for
139 the throughput component. The estimated design-day demand has no relationship
140 with actual test year throughput and should not be used to calculate the system
141 load factor.

142 **Q. PLEASE DESCRIBE FEA'S PROPOSED WEIGHTING PERCENTAGES.**

143 A. FEA witness Brain Collins rejects the use of the throughput allocation factor for
144 purposes of allocating feeder mains, pressure stations, and measuring &
145 regulating stations. In other words, he applies zero weighting on the throughput
146 allocation factor and 100% weighting on the design-day demand allocation factor.
147 Mr. Collins supports his proposal by claiming that distribution system is designed
148 to meet the design-day demand. FEA's proposal is an extreme departure from the

149 allocation factor #230 used in prior DEU rate cases. I will discuss this further in the
150 “Revenue Distribution and Gradualism” section of my rebuttal testimony. In
151 addition, as discussed in my direct testimony, a problem with the use of design-
152 day demands is that it does not assign any costs to interruptible customers, which
153 is contrary to a previous Commission order.

154 **Q. DOES FEA WITNESS MR. COLLINS ALSO RELY ON THE NARUC MANUAL**
155 **TO SUPPORT HIS PROPOSAL TO NOT USE THE THROUGHPUT**
156 **ALLOCATION FACTOR?**

157 A. Yes, Mr. Collins makes several references to the NARUC Manual and claims that
158 it supports his proposal to apply zero weighting to the throughput allocation factor
159 and to only use the design day demand allocation factor. As I have previously
160 discussed, however, the NARUC Manual also recognizes the use of throughput or
161 average usage when allocating distribution system costs.

162 **Q. DOES FEA’S PROPOSAL TO APPLY A ZERO WEIGHTING FACTOR TO THE**
163 **THROUGHPUT ALLOCATION FACTOR CAUSE A DRASTIC SHIFT IN COST**
164 **ALLOCATION WHEN COMPARED TO PRIOR DEU RATE CASES?**

165 A. Yes. FEA takes service under one or more of DEU’s TS rate schedules. Using
166 FEA’s proposed cost of service will result in a revenue decrease of \$3,868,610 or
167 9.7%, for the TS rate classes as compared to DEU’s proposed revenue increase
168 of \$9,125,369, or 23.1%. Most of this change is due to the zero weighting factor
169 FEA applies to the throughput allocation factor.

170 **Q. PLEASE DESCRIBE DPU’S PROPOSED WEIGHTING PERCENTAGES.**

171 A. DPU witness Dr. Abdulle develops four alternative weighting factors as described
172 on pages 9 and 10 of his direct testimony. One variable in the four alternatives is
173 whether to include the throughput for the sales to the Lake Side power plants for
174 the total throughput amount. Then, for each of the throughput amounts (i.e., with
175 and without the Lake Side throughput), there were the two alternatives of using
176 design-day demand or his three-year average of actual peak-day demands. The
177 weighting factors for each alternative are provided on Dr. Abdulle's Table 4 on
178 page 10 of his direct testimony. He recommends his Alternative B which has
179 54%/46% weighting factors.

180 **Q. DO YOU HAVE ANY ISSUES WITH DPU'S PROPOSED WEIGHTING**
181 **FACTORS?**

182 A. I agree with Dr. Abdulle's use of test year throughput excluding the Lake Side
183 throughput. However, as previously discussed, I have concerns with his use of a
184 three-year average of the actual peak-day demands.

185 **Q. BASED ON THE TESTIMONY FILED ON THIS ALLOCATION ISSUE, WHAT IS**
186 **YOUR RECOMMENDATION?**

187 A. I believe the weighting factors of 52%/48% as developed in my direct testimony
188 are the correct weighting factors and should be approved.

189 ***Allocation of Large Diameter IHP Mains***

190 **Q. PLEASE EXPLAIN HOW DEU ALLOCATES THE COST OF LARGE DIAMETER**
191 **INTERMEDIATE HIGH-PRESSURE ("IHP") MAINS.**

192 A. As discussed on page 10, line 252, through page 11, line 262, of the direct
193 testimony of DEU witness Austin Summers, the Company allocates the costs

194 associated with large diameter IHP mains using the distribution throughput
195 allocation factor. DEU's support for this allocation is that large diameter main lines
196 are generally designed to move natural gas from the high-pressure feeder line
197 system to the smaller distribution mains. Based on this, DEU says the large
198 diameter IHP system benefits all customers connected to the IHP system.

199 **Q. WAS THE ALLOCATION OF COSTS ASSOCIATED WITH THE LARGE**
200 **DIAMETER IHP MAINS AN ISSUE IN DEU'S PREVIOUS RATE CASE?**

201 A. No. Also, I am not aware of anything that has changed with the large diameter
202 mains system since DEU's previous rate case.

203 **Q. DID ANY PARTY IN THIS CASE OPPOSE THE COMPANY'S ALLOCATION OF**
204 **LARGE DIAMETER IHP MAINS?**

205 A. Yes. UAE witness Mr. Higgins is proposing to allocate these costs using his revised
206 allocation factor #230. His adjusted allocation factor #230 is his weighted design-
207 day demand/throughput allocation factor using his proposed 67.5%/32.5%
208 weightings that I discuss in the previous section of my rebuttal testimony.

209 **Q. WHAT IS UAE'S BASIS FOR ALLOCATING THE COST ASSOCIATED WITH**
210 **LARGE DIAMETER IHP MAINS USING UAE'S ADJUSTED ALLOCATION**
211 **FACTOR #230?**

212 A. As stated on page 11, lines 209 through 215, of his direct testimony, UAE witness
213 Mr. Higgins claims the larger diameter IHP mains are not only used to deliver gas
214 volumes to the smaller distribution mains but are also designed to meet "a Design-
215 Day scenario."

216 **Q. DO YOU AGREE WITH MR. HIGGINS CLAIM THAT THE LARGE DIAMETER**
217 **IHP MAINS ARE DESIGNED TO MEET A DESIGN-DAY SCENARIO?**

218 A. No. Mr. Higgins does not provide any information to support his claim and is
219 contrary to what DEU says the large diameter IHP mains are designed for. As
220 stated on page 10, lines 252 through 259, of the direct testimony of DEU witness
221 Austin Summers, these large diameter mains are “typically designed to move gas
222 from the high-pressure feeder-line system to the smaller distribution lines.” In that
223 portion of his direct testimony, Mr. Summers also states that throughput quantities
224 reflect the underlying purpose for the large diameter IHP facilities. Therefore, Mr.
225 Higgins proposed adjustment to DEU’s allocation of large diameter IHP mains
226 should be rejected.

227 ***Revenue Distribution and Gradualism***

228 **Q. PLEASE DESCRIBE DEU’S PROPOSED REVENUE DISTRIBUTION TO THE**
229 **CUSTOMER CLASSES.**

230 A. DEU has proposed to set all customers class revenue levels equal to their
231 allocated cost of service, except for the Transportation By-Pass Firm Service
232 (“TBF”) class. The TBF rate is a discounted rate. DEU assigns the revenue
233 shortfall from the TBF rate discount to all other classes. As a result, the TBF class
234 pays less than their cost of service while the other customer classes pay above
235 their cost of service. Despite a large, proposed increase of 65.5% for the
236 Transportation Service Large (“TSL”) class, DEU is not proposing any gradualism.

237 **Q. DID OTHER PARTIES PROPOSE DIFFERENT REVENUE REQUIREMENT**
238 **DISTRIBUTIONS AND/OR THE APPLICATION OF GRADUALISM?**

239 A. Yes. I will discuss the pros and cons with each of these revenue distribution
240 proposals in the following rebuttal testimony.

241 **Q. PLEASE DESCRIBE FEA'S PROPOSED REVENUE DISTRIBUTION.**

242 A. As previously discussed, FEA is proposing a drastic change in the allocation of
243 distribution plant costs. This results in a drastic shift in the cost responsibility of
244 customer classes in comparison to previous DEU rate cases. An example of one
245 of these drastic changes is to the cost of service allocated to the TBF class. Under
246 FEA's revised COSS, the TBF class would receive a base rate revenue increase
247 of 118.56%. In order to temper this TBF increase, FEA witness Mr. Collins
248 proposes to apply gradualism by limiting any class's percent revenue increase to
249 1.5 times the system average revenue increase of 15.93%, or by 23.90%. This
250 resulted in a huge TBF revenue shortfall of \$5,686,011, which had to be recovered
251 from the other customer classes.

252 Given this huge TBF revenue shortfall plus other drastic cost shifts from
253 FEA's revised COSS, the FEA also proposed an extreme revenue distribution.
254 FEA proposes to assign 97%, or \$68,288,107, of DEU's total revenue increase of
255 \$70,511,689 to the GS class. The FS, TBF and NGV classes would receive modest
256 revenue increases while the remaining classes would receive no increase. This
257 extreme revenue distribution highlights the problems with FEA's revised COSS.
258 Both FEA's proposed revenue distribution and gradualism proposals should be
259 rejected.

260 **Q. PLEASE DESCRIBE UAE'S PROPOSED REVENUE DISTRIBUTION.**

261 A. UAE witness Kevin Higgins supports moving class revenue levels to full cost of
262 service. However, under UAE's adjusted COSS, the FS and TSL rate classes
263 would receive significant rate increases. Therefore, Mr. Higgins proposes
264 gradualism within the TS classes by moderating the increases for the TSM and
265 TSL classes by reducing the revenue decrease for the TSS class, i.e., the excess
266 revenues from the TSS class are used to lower the revenue increases for the TSM
267 and TSL classes.

268 **Q. DO YOU HAVE ANY ISSUES WITH UAE'S GRADUALISM PROPOSAL?**

269 A. Yes. The primary issue with UAE's gradualism proposal is that it would increase
270 the GS class's revenues to above its allocated cost of service. Also, as previously
271 discussed, the cost of service amounts should not be based on UAE's adjusted
272 COSS with UAE's 67.5%/32.5% weighting factor.

273 **Q. PLEASE DESCRIBE NUCOR'S REVENUE DISTRIBUTION.**

274 A. Nucor witness Mr. Mullins discusses DEU's proposed substantial rate increase for
275 the TSL customer class. As stated on page 5, lines 82 and 83 of his direct
276 testimony, Mr. Mullins states that DEU's proposed increase for the TSL customer
277 class qualifies as rate shock and should be mitigated.

278 **Q. DOES MR. MULLINS PROPOSE A SPECIFIC GRADUALISM ADJUSTMENT
279 TO MITIGATE THIS LARGE INCREASE TO THE TSL CUSTOMER CLASS?**

280 A. No. I would note that my proposed revenue distribution in my direct testimony does
281 cap the rate increase for the TSL customer class.

282 **Q. PLEASE DESCRIBE DPU'S PROPOSED REVENUE DISTRIBUTION?**

283 A. DPU witness Dr. Abdulle's direct testimony discusses the revenue distribution (or
284 rate spread) issue on page 15, line 297, through page 16, line 311, of his direct
285 testimony. Dr. Abdulle does not recommend a specific revenue distribution
286 approach. Instead, as mentioned in his testimony on his recommended weighting
287 factors for the peak-day demand/throughput allocation factor, his selection of his
288 recommended weighting factors is intended to moderate any impacts from using
289 actual test year peak-day demands. He also mentions that the Commission will
290 need to address the revenue distribution after they determine DEU's overall
291 revenue requirement and the other cost allocation issues in the case.

292 **Q. DO YOU HAVE ANY COMMENTS REGARDING THE DPU'S POSITION ON**
293 **REVENUE DISTRIBUTION?**

294 A. Yes. I would comment that if the Commission's approved revenue requirement and
295 class COSS still results in substantial rate increases for any customer class, then
296 the Commission should also apply the gradualism method recommended in my
297 direct testimony in Phase II.

298 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

299 A. Yes.

300

301