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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 ANGC WITNESS
Timothy B. OLIVER

ANGC EXHIBIT 2R

Phase 2

TESTIMONY ON CLASS COST OF SERVICE
AND RATE STRUCTURE ISSUES

October 13, 2022

Testimony on Behalf of

American Natural Gas Council

/s/*Timothy B. Oliver*

REBUTTAL TESTIMONY OF TIMOTHY B. OLIVER
ON CLASS COST OF SERVICE AND RATE STRUCTURE ISSUES
UPSC Docket No. 22-057-03, Phase II

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Timothy B. Oliver. My business address is 7103 Laketree Drive, Fairfax Station, Virginia, 22039.

Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

A. I am employed by Revilo Hill Associates, Inc. and I presently serve as Vice President for Sustainability and Energy Pricing.

Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A. I am appearing on behalf of the American Natural Gas Council ("ANGC").

Q. WHAT IS THE PURPOSE OF YOUR PHASE II REBUTTAL TESTIMONY?

A. I have been asked by ANGC to review the Phase II Direct Testimonies of witnesses for OCS, DPU, NUCOR, FEA, and UAE relating to cost of service allocations, revenue increase distribution, and rate design issues, and to provide my assessment of their positions.

Q. WERE THIS TESTIMONY AND THE ACCOMPANYING EXHIBITS PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION AND CONTROL?

A. Yes, they were.

Q. PLEASE SUMMARIZE YOUR EXPERIENCE AND QUALIFICATIONS?

A. I have been employed by Revilo Hill Associates, Inc. since 2002. During my employment with Revilo Hill Associates, I have participated in the preparation of a wide range of energy and utility analyses addressing such topics as: capital structure, costs of capital, and ROE requirements for gas and electric utilities; utility class cost of service allocations; utility mergers and acquisitions; revenue increase distribution and rate design analyses; the design and operation of revenue decoupling mechanisms; reviews of annual purchase gas cost filings; fuel oil pricing; assessments of issues associated with the siting of proposed LNG facilities, investigation of metering and billing disputes for large building owners, examination of the economics of competitive energy supply alternatives for commercial, governmental, and institutional customers; and evaluation of energy efficiency opportunities in master metered apartment buildings. I have also prepared, or assisted in the preparation of, utility rate case analyses and testimony for more than sixty utility electric, gas, and water proceedings in eight different regulatory jurisdictions. Those jurisdictions include: the District of Columbia, Maryland, Virginia, Utah, Massachusetts, Rhode Island, Guam, and the Virgin Islands. I hold a Bachelor of Science degree in Chemistry from the College of William and Mary. I also hold a Master of Science degree in Global Energy Management from the University of Colorado Denver Business School, a program that included courses in Regulatory Accounting, Corporate Finance, Energy Economics, Energy Law and Policy, Asset Management, and Strategic Planning.

II. SUMMARY

Q. WHAT IS YOUR OVERALL ASSESSMENT OF THE COST OF SERVICE AND RATE DESIGN TESTIMONY FILED BY THE DIVISION AND OTHER PARTIES TO THIS PROCEEDING ON NOVEMBER 14, 2019?

A. The positions of the parties with respect to the allocation of distribution plant costs has not evolved significantly since Docket No. 19-057-03. The use of design day measures and the weighting of Peak and Average (i.e., Peak and Annual Throughput) factors remain a key point of difference among the parties. This testimony demonstrates substantive flaws in the arguments presented by OCS witness Daniel and DPU witness Abdulle with respect to the appropriateness of using "actual" test year demand measures, as well as errors in the logic and rationales offered by NUCOR witness Mullins and FEA witness Collins in support of using exclusively peak demands for such allocations.

In Docket No. 19-057-03 ANGC advocated the use of a Design Day and Annual Throughput allocation which placed a 68% weighting on Design Day requirements and a 32% weighting on Annual Throughput. I still find that to be the most appropriate basis for the development of Peak and Average allocation factors for DEU, as it recognizes that firm gas sales customers benefit from the service reliability that is derived from a system that is sized to meet more than actual annual peak requirements in any given year. The value of greater assurance of service reliability during extreme weather conditions must not be discounted.

ANGC understands that the Commission considered similar issues in Docket No. 19-0570-03 and elected to use a 60/40 weighting based on Actual Annual Peak and Annual Throughput factors. However, if the Commission entertains further consideration of the Company's consideration of this weighted allocation in this proceeding, it should conclude that a 68/32 weighting of Design Peak and Annual Throughput measures best reflects cost-causation, as well as the distribution of benefits, associated with the Company's distribution plant investment.

Other than the above, this testimony addresses only one other cost of service allocation issue. That is the allocation of LNG plant investment costs. On this matter, the testimony of UAE witness Higgins is compelling. As I explain more fully herein, any attempt to allocate LNG plant costs to transportation service customers, who, by tariff, are responsible for their own gas supply reliability and do not utilize DEU LNG supplies is unwarranted and inappropriate. Thus, the Commission should explicitly reject efforts to allocate or assign LNG costs to TS customers.

This testimony also discusses differences among the representatives of TS class customers with respect to the Company's proposed splitting of the TS class into TSS, TSM, and TSL subclasses. Although the divisions of the TS class the Company has proposed differ somewhat from those ANGC advocated in Docket No. 19-057-03, the Company's proposal is reasonable. Although FEA and NUCOR argue against the need for, or appropriateness of splitting the TS class

into three classes, the cost of service analyses they provide continue to show subsidies flowing from Small TS customers to other segments of the class. Clearly, there is a need for differentiated rate treatment for small, medium and large TS customers, and ANGC supports the Company's efforts to address that matter as ANGC Witness Chisholm indicated in his direct testimony.

Part of the concern of other TS customer representatives relates to the potential that the Company's proposals would yield "rate shock" for large TS customers. Those are legitimate concerns. If, after the Commission determines an approved level of annual distribution revenue for DEU and the distribution of any resulting revenue increase among rate classes, the resulting increases for TSL customers are judged by the Commission to yield inordinately large increases for any class of customer, the Commission has the ability to moderate such impacts through applications of gradualism. For example, as was done in Docket No. 19-057-02, the Commission can use a two-year or three-year phase-in of the rate adjustments to achieve more reasonable year-to-year rate impacts. The specter of rate shock should not be viewed as a reason to avoid or further delay needed improvements in the equity of rates for smaller TS customers.

II. SUMMARY OF REBUTTAL FINDINGS

Q. PLEASE SUMMARIZE THE KEY FINDINGS OF THIS REBUTTAL TESTIMONY REGARDING DEU'S CLASS COST OF SERVICE ANALYSES AND RATE DESIGN PROPOSALS.

A. The key findings of this Rebuttal Testimony are as follow:

i. Class Costs of Service

- The arguments of OCS witness Daniel for use of Actual Peak demand measures, rather than Design Day Peak demands do not appropriately reflect either cost-causation for DEU or the distribution of benefits associated with the sizing of DEU's distribution system facilities.

- DEU's combined Peak and Annual Throughput allocation factors are most appropriately developed by applying a 68% weighting to Design Day demands and a 32% weighting to Annual Throughput.

- No allocation of LNG costs to transportation service customers is reasonable or justifiable.

ii. TS Rate Design

- DEU's proposals to split the current TS class into three classes is reasonable and necessary to address the rate burdens that subsidies provided to larger TS customers currently placed on smaller TS customers.

iii. Revenue Increase Distribution

- Gradualism and the avoidance of rate shock in the adjustment of class revenue requirements represent essential considerations for all rate classes.

- If, after the Commission's revenue requirement determinations and the distribution of the approved revenue increase the potential for rate shock remains for any class of customers, it can be addressed through a phase-in of approved rate increases.

III. RESPONSE TO OTHER PARTIES

A. Use of Design Day Demand Allocators

Q. OCS WITNESS DANIEL TESTIFIES THAT DEU SHOULD REPLACE ITS DESIGN-DAY DEMAND ALLOCATION FACTOR WITH AN ACTUAL PEAK-DAY DEMAND ALLOCATION FACTOR. DO YOU AGREE?

A. No, I do not. Witness Daniel's preference for the use of "an actual peak-day demand allocation factor" is premised on his perceptions that: (1) the likelihood DEU customers will ever impose the design day demand on the DEU system is remote; and (2) an actual peak-day demand allocation is a better representation of how DEU's system is actually being used by ratepayers. Both of those rationales are short-sighted and fail to address either cost-causation or the reasons DEU and other gas utilities employ design-day criteria when planning distribution facilities. Witness Daniel also fails to address the fact that to ensure service reliability, DEU must size its distribution facilities to meet uncertain levels of demand for firm sales service customers, but only is committed to providing a fixed amount of "contract demand" for transportation service customers.

Actual demand measures may depict the manner in which the system was used in a given historic period, but it does not depict a cost causative relationship. DEU's costs for distribution facilities are a function of its planning for sufficient capacity to meet system requirements under design day conditions, not actual

demands reported for an historic period. Moreover, the Company's planning of facilities to serve design day demand requirements has particular on-going value to firm sales service customers that witness Daniel does not address.

A system sized to meet only actual historic demand levels could place the reliability of gas deliveries at risk for DEU firm sales service customers. The difference in costs that DEU incurs to provide design capacity in excess of the actual system peak day demand in any given year reflects the Company's planning to ensure service reliability for firm gas sales customers in the face of uncertainty regarding their actual capacity requirements under extreme weather conditions. DEU does not face comparable uncertainties with respect to its transportation service customers since those customers are required to contract and pay for specific amounts of capacity.

If a transportation service customer fails to contract for sufficient capacity to serve its peak requirements, the risk of insufficient deliveries of gas is borne by the customer. However, firm sales service customers are not required to contract and pay for specific amounts of capacity, and thus, to ensure reliable service, DEU must plan its distribution facilities to meet uncertain amounts of peak requirements. Thus, the costs that DEU incurs to serve differences between actual peak day demand in any given year and its estimated design day demand are incurred solely for the benefit of DEU's firm sales service customers. Yet, witness Daniel's allocation factor recommendations would shift responsibility for a substantial portion of those costs to transportation service customers.

Furthermore, there is a time dynamic in the planning of distribution system capacity for firm sales service customers that witness Daniel overlooks. Gas distribution facilities are generally expected to have comparatively long service lives, and thus, they are generally sized to meet **expected** system demands over the full expected useful lives of the facilities installed. That implies that the design of such facilities must consider potential growth in the numbers and demands of firm sales service customers over the Company's planning horizon. Some upgrades or replacements of existing distribution facilities before the end of their expected useful lives is inevitable. However, frequent replacement of distribution system facilities is expensive and inefficient.[1] Once again, DEU's sizing of facilities to meet potential customer and demand growth is primarily for the benefit of the Company's firm sales service customers since transportation customers are required to contract and pay for fixed amounts of capacity.

Q. HOW DO YOU RESPOND TO WITNESS DANIEL'S OBSERVATION THAT "*THE LIKELIHOOD THAT DEU CUSTOMERS WILL EVER IMPOSE THE DESIGN DESIGN-DAY DEMAND ON DEU'S SYSTEM IS REMOTE*"[2]?

A. I can appreciate that gas distribution system design criteria may at times focus on demands with a remote probability of occurrence. However, the probability of

[1] Frequent replacement of distribution facilities may also require a shortening of the expected useful lives for affected distribution facilities, and that may require more rapid depreciation of the costs of such facilities and greater annual cost recovery requirements. That, in turn, would require higher rates for DEU's gas customers.

[2] OCS Exhibit 4D (revised), the Phase II Direct Testimony of witness Daniel at page 8, lines (162-163).

occurrence of a given set of design criteria must we weighted against the expected costs of service disruptions if extreme conditions result in a disruption of service. Clearly, there is a tension between the selection of system design criteria and the expected costs of service disruptions if extreme weather conditions are encountered. However, the choice of the design criteria employed is not an indictment of the use of design day criteria in the allocation of costs. Furthermore, the choice of design criteria does not mitigate the fact that design criteria remain a major driver of distribution system capacity costs. Again, the primary beneficiaries of the service reliability provided by the Company's use of design criteria when sizing distribution facilities are firm sales service customers who are not required to establish and pay for specific amounts of contracted demand.

Q. DO OTHER PARTIES ALSO ADDRESS THE USE OF DESIGN DAY DEMAND ALLOCATIONS?

A. Yes. DPU witness Abdulle takes a position similar to that of OCS witness Daniel supporting the use of actual peak demand, rather than design-day demand as the preferred basis for allocation claiming actual demands better reflect cost-causation and actual system benefits. However, as I will explain below, his assessment of system benefits is incomplete, and his ties to cost causation are not well developed. On the other hand, each of the other witnesses for transportation service customers (i.e., UAE witness Higgins, Nucor witness Mullins, and FEA

witness Collins) takes a position which favors the use of design day demands over use of actual peak demand measures.

Q. HOW SHOULD THE COMMISSION RESOLVE ISSUES RELATING TO THE USE OF DESIGN DAY VERSUS ACTUAL PEAK DEMAND MEASURES?

A. The Commission should find that design day demands are in fact a better indicator of cost causation for DEU than Actual Peak Demands. The Commission should explicitly recognize that firm service customers benefit from, and are not penalized by, DEU's planning of its distribution system using Design Day criteria. Furthermore, the Commission should attribute particular importance to the fact that DEU can only ensure reliability for uncertain levels of firm sales service requirements on peak days through the use of design day criteria.

B. <u>Development of Peak and Average Allocation Factors</u>

Q. PLEASE SUMMARIZE THE POSITIONS OF OCS, DPU AND OTHER INTERVENORS WITH RESPECT TO THE DEVELOPMENT AND USE OF PEAK AND AVERAGE ("P&A") ALLOCATION FACTORS?

A. Witness Daniel for OCS and DPU witness Abdulle favor the use of Peak and Average allocations which utilize Actual Peak Day Demands, as opposed to Design Day Demand measures. FEA witness Collins and Nucor witness Mullins oppose the use of allocators that apportion cost responsibility for distribution mains

on any basis that involves annual throughput or average demands by class. Both advocate that such allocations should be accomplished solely on the basis of class contributions to DEU's design day demand requirements. Witnesses Daniel for OCS and Abdulle for DPU reject the use of Design Day Demands and suggest that DEU's P&A allocations should be premised on a weighting of Actual Peak Day Demands and Annual Throughput (or average demand).

UAE witness Higgins does not oppose the use of a Peak and Average allocation method,[3] but he testifies that the peak component of such allocations should utilize DEU's Design Day Demand. He also supports use of a load factor based on DEU's Design Day Demand as the denominator when weighting the Peak Day and Average Demand (or Annual Throughput) components of such allocations.

My assessment of this issue parallels that presented by witness Higgins. Witness Higgins' analysis yields a 67.5% weighting of Design-Day Demand and a 32.5% weighting of Throughput. Except for rounding, witness Higgin's recommendation is essentially the same as the 68% Design Day and 32% Throughput weighting that ANGC supported in DEU's last base rate case (Docket No. 19-057-02).[4] Witness Higgins' analysis also demonstrates that weightings based on a

[3] Witness Higgins' Phase II Direct Testimony (i.e., UAE Exhibit COS 2.0) at pages 7-8 uses the term "Average and Peak" method while some other parties have referred to the same allocations as reflecting a "Peak and Average" allocation method. There is no substantive difference implied by the use of one versus the other. This is purely a semantic distinction. In this testimony, I use the phrase Peak and Average as opposed to Average and Peak.

[4] Nucor witness Mullins' Phase II Direct Testimony (Nucor Exhibit 1.0) at page 12, lines 230-233, also provides calculations that support the use of a 68%/32% weighting of Peak and Average demand components if a Peak and Average allocation method is used in this docket.

system load factor that uses Design Day Demand as the denominator tend to be comparatively stable from case-to-case. By contrast, reliance on Actual Peak Day Demands, as advocated by witnesses Daniel and Abdulle can produce significant changes in the weighting of the Peak Day and Annual Throughput components of a Peak and Average allocation factor based on little more than fluctuations in weather that are not reflective of cost-causation.

Q. DO YOU FIND FLAWS IN THE ARGUMENTS OFFERED BY NUCOR WITNESS MULLINS IN SUPPORT HIS ADVOCACY OF ELIMINATING ALL USE OF THROUGHPUT MEASURES FROM DEU'S PEAK AND AVERAGE ALLOCATIONS?

A. I do. Nucor witness Mullins submits that "*If distribution capacity has been built to serve a particular customer, it is not equitable to provide the customer a discount if it uses that capacity less frequently*." However, DEU's distribution capacity is **not** generally built to serve a particular customer. Rather, distribution facilities are more typically designed to serve loads of customers within a geographic area, and utilization of such facilities is generally shared by multiple customers.

Although a transportation customer may contract for a specific amount of capacity, there is nothing that segregates the capacity within a given pipe segment from which a transportation service customer receives gas deliveries from the capacity that other gas sales customers in the same geographic are use. In other words, there is almost always an element of joint or common use of distribution

mains.[5] That common or joint use element is best identified through a load factor calculation based on the utility's Design Day Peak Demand where the load factor depicts the percentage of total design capacity that is used to serve each customer's average requirements and the portion of the system's capacity in excess of the annual load factor percentage captures customers' requirements for additional capacity to serve design day peak requirements.

Q. ARE THE ARGUMENTS OF FEA WITNESS COLLINS FOR ALLOCATING DISTRIBUTION CAPACITY COSTS SOLELY ON THE BASIS OF DESIGN DAY PEAK DEMANDS MORE COMPELLING THAN THE PRESENTATION OF NUCOR WITNESS MULLINS?

A. No. FEA witness Collins attempts to suggest that DEU's allocations of distribution mains should be comparable to the allocations used by interstate pipelines where interstate pipelines rely almost exclusively on demand-related allocations rather than either throughput-based allocation factors or a weighting for peak demand and throughput measures. However, witness Collins' presentation fails to address key differences between interstate pipeline allocations and those for gas distribution utilities. Importantly, essentially all interstate pipeline customers have contractually established demands (i.e., capacity entitlements) which facilitate fully

[5] Where distribution mains are built only to serve a single customer, the costs of such mains are appropriately directly assigned to that customer, not allocated among customers or customer classes. Further, the costs of construction of main capacity for the benefit of a single customer is often accompanied by requirements for the customer for whom the main is built to make significant upfront payments often referred to as contributions in aid of construction ("CIAC").

demand-related allocations of pipeline capacity costs. On the other hand, gas distribution utilities such as DEU face a different problem. They must design facilities to serve large numbers of smaller firm sales service customers for which there are no contractually established demand limits. Moreover, distribution utilities are generally held responsible for ensuring the reliable service to their customer. As a result, distribution capacity planning must address demand uncertainties that are not faced by interstate pipelines. Peak and Average allocations based on estimated Design Day Demands for sales service classes and contract demands for transportation service customers provide a mechanism for equitably allocating costs associated with demand uncertainties for sales service customers and the fixed contractual commitments made by transportation service customers.

Q. SHOULD THE COMMISSION ACCEPT WITNESS DANIEL'S RECOMMENDATION REGARDING THE DEVELOPMENT OF PEAK AND AVERAGE ALLOCATION FACTORS FOR DEU?

A. No. For the development of DEU's Peak and Average ("P&A") allocation factor witness Daniel again expresses a preference for the use of "Actual Peak Day Demand" as opposed to Design Peak Day Demand. However, his support for that position incorrectly assesses that the reliance on Design Peak Day Demand distorts the weighting of the Peak Day Demands and Annual Throughput factors for DEU. As discussed above, witness Daniel's recommended use of actual peak-

day demand, rather than design-day demands, is inappropriate and does not reflect either cost causation or the actual benefits that customers derive from the sizing of DEU's distribution facilities. In addition, his argument that use of design-day demands distorts the Company's load factor conveys a substantial misunderstanding of the role of contract demands in the DEU's provision of gas delivery services for transportation service customers.

Witness Daniel represents that load factor problems from using design-day demands are apparent from the customer class load factor calculations.[6] He observes that DEU calculates a load factor for the TSL class based on Contract Demands of 125.23%, and then he incorrectly asserts that such a load factor for the Transportation Service Large ("TSL") customer class is "***an impossible result***."[7] Obviously, it is not an impossible result. Rather, witness Daniel's characterization is simply an expression of his misunderstanding of the role of the contract demands that are established for transportation service customers.

DEU's use of contract demands for transportation service classes when computing its load factor for its Design Day and Annual Throughput allocator appropriately considers the fact that DEU is only **committed** to providing the contracted level of demand for each transportation service customer. During periods of peak requirements, contract demands limit the utilization of gas system facilities by the customers for whom contract demand levels are established. On

6 OCS Witness Daniel, Phase II Direct Testimony at page 11, lines 242-243.
7 Ibid., lines 243-246.

the other hand, during periods when the system is less heavily loaded and has excess capacity to deliver gas, customers who have established contract demands are permitted to make greater utilization of otherwise unused system capacity, and in doing so, they provide incremental margin revenue for the Company without jeopardizing gas system reliability. If contract demands are appropriately set and system use is carefully monitored, load factors in excess of 100% based on increased use in non-critical periods are beneficial for all concerned.

Witness Daniel's advocacy for a 52% weighting of peak-day and 48% weighting of annual throughput is a reflection of: his incorrect understanding of the role of transportation service customers' contract demand commitments; (2) the benefits of increased capacity utilization during non-critical peak periods; and (3) witness Daniel's attempt to underplay the importance of design considerations in determinations regarding: (a) the sizing of distribution facilities and their costs; and (b) maintaining service reliability for firm sales service customers under extreme weather conditions. Again, it must be emphasized that DEU has no obligation to provide service to transportation service customers during critical peak periods in excess of their contract demands. Correspondingly, DEU's service obligations for transportation service customers are limited, and transportation service customers (not DEU of firm sales service customers) bear the risk if their contracted demands are insufficient to meet their total service requirements during critical peak periods.

For these reasons, witness Daniel's arguments for the use of actual, rather than design demands, and a 52/48 weighting of design day and annual throughput

requirements have, at best, weak conceptual and contractual foundation and must be rejected.

Q. DOES DPU WITNESS ABDULLE PROVIDE A MORE COMPELLING ARGUMENT FOR HIS RECOMMENDATION WITH RESPECT TO THE DEVELOPMENT OF PEAK AND AVERAGE ALLOCATIONS FOR DEU?

A. No. Witness Abdulle's position reflects only his unsupported assessment that "*using the Actual Peak Day better reflects cost causation and aligns with the benefits customers receive from the system*."[8] Like OCS witness Daniel, witness Abdulle's assessment of cost causation is inaccurate, and his perception of the benefits that customers receive from the system ignores the uncertainties that DEU faces in its efforts to provide **reliable service** during critical peak periods for firm sales service customers for whom no contractual limits on the demands have been established.

DEU's need to plan for uncertain amounts of firm sales service customer demands cannot be achieved without the incurrence of costs in excess of those that would be required to serve actual demands for those customers in any given year. Yet, witness Abdulle fails to recognize the on-going value (i.e., benefit) that firm sales service customers derive from DEU's planning to ensure system reliability under uncertain weather conditions and uncertain demand requirements.

[8] DPU Exhibit 4.0 DIR, the Phase II Direct Testimony of DPU witness Abdulle, page 6, lines 117-120.

Although historic test year data are useful in the assessment of DEU's overall revenue requirements, the rates approved by the Commission will be applied on a going-forward basis. As such they should be reflective of the demand uncertainties that DEU faces in its planning of distribution system facilities, not the usage that was experienced in a historic period. Given uncertain future weather conditions and levels of customer growth, there is no basis for assuming that the relative utilization of the system in future periods will be analogous to those experienced on an "actual" basis during a prior period. In that context, recognition of the role of design day demands and their importance in determining cost causation is essential for equitable apportionment of cost responsibilities among classes. In addition, reliance on design day demands provides more stable year-to-year assessments of cost responsibilities by class since they reflect a longer-term perspective regarding the factors that determine system costs, as opposed to arbitrary historic period usage measures.

Q. IS THE FACT THAT INTERRUPTIBLE SERVICE CUSTOMERS MAY NOT BE INTERRUPTED ON A DAY OF THE ACTUAL SYSTEM PEAK A CRITICAL FLAW IN EFFORTS TO PLACE RELIANCE ON DESIGN DAY DEMAND ESTIMATES?

A. No. Furthermore, the fact that interruptible service customers may not be interrupted on an actual system peak day that does not approach the Company's design day conditions is not sound basis for assigning peak demand-related plant

costs to those customers. The uncertainties that DEU must address in its planning for the peaks imposed by firm gas sales customers do not exist for interruptible service customers. DEU has reasonable basis for assuming that interruptible service customers will not contribute to the system's design day demands, as well as mechanisms for penalizing such customers if they make unauthorized use of the system during periods of service interruptions.

If the system is found to be over designed for expected future capacity requirements under severe weather conditions, then the Company's design day planning criteria may need to be altered. But, the use of capacity by interruptible service customers during period of annual peaks that are well below design criteria does not justify the use of actual peak day demands to allocate costs that have been incurred on the basis of design criteria. Furthermore, continued utilization of distribution system facilities on annual peak days that fall well below the Company's design criteria simply increases the utilization of facilities that would otherwise be unused and increases the revenue margin contributions derived from interruptible service customers (which is generally viewed as a system benefit).

Based on the foregoing, it should be apparent that allocations of peak-related costs to customers for whom no peak capacity requirements are planned are not appropriate and do not reflect cost causation.

Q. WHAT IS THE RELEVANCE OF WITNESS ABDULLE'S OBSERVATION THAT MUCH OF THE WEAR AND TEAR DURING THE LIFE OF DISTRIBUTION SYSTEM PIPE COMES FROM EVERYDAY USE?

A. Witness Abdulle's observation has little bearing on issues associated with the allocation of costs for DEU's distribution pipe and system. "*Wear and tear*" are generally matters that are addressed through allocations of **operation and maintenance expenses** and have little bearing on the Company's incurrence of distribution plant investment costs. Moreover, "*wear and tear*" is a phrase that is rarely used in the context of distribution pipe operations. To the extent there is "*wear and tear*" on distribution pipe, it is not generally a product of the amount of gas that flows through a segment of pipe. Rather, maintenance requirements on distribution pipe are more frequently related to such factors as corrosion, excavation damage, and/or joint and weld failures.

Q. HOW SHOULD DEU'S PEAK AND AVERAGE ALLOCATION FACTORS BE DEVELOPED?

A. The evidence continues to support the position advocated by ANGC in Docket No. 19-057-02, and closely supported by the Phase II Direct Testimony of UAE witness Higgins in this proceeding. In Docket No. 19-057-02 ANGC supported a Design Day and Annual Throughput allocator which reflected a 68% weighting of Design Day demands and a 32% weighting of Annual Throughput. That weighting remains appropriate in this proceeding. But for rounding, that weighing is consistent with

the 67.5% / 32.5% weighting recommended by UAE witness Higgins. In addition, I note that, although Nucor witness Mullins advocates the allocation of all core distribution investment on the basis of demand, he recognizes that the design day load factor for DEU should reflect a 68% / 32% weighing of Design Day demand and Annual Throughput (i.e., average daily throughput).[9]

C. Allocation of LNG Plant Costs

Q. WHICH WITNESSES HAVE ADDRESSED DEU'S ALLOCATION OF LNG PLANT COSTS IN THEIR PHASE II TESTIMONY?

A. The Company's LNG plant cost allocations are addressed in Direct Testimonies of both OCS witness Daniel and UAE witness Higgins. Witness Daniel's argues that DEU's LNG plant was designed for a larger customer base that has been eroded by customer migration to transportation services, and therefore, transportation service customers should bear responsibility for LNG plant costs. However, UAE witness Higgins cites DEU testimony which clearly indicates that its new LNG plant has been constructed for the sole benefit of sales service customers.

The implication of witness Daniel's testimony on this matter is that the migration of customers to transportation service has effectively left DEU with more LNG capacity than its remaining sales service customers require. However,

[9] When Design Day demand is used as the numerator for a load factor calculation, the correct denominator is average daily throughput. However, when apportioning cost responsibilities among classes average daily throughput and Annual Throughput should yield the same percentages by rate class for the throughput component of this allocation factor.

witness Daniel does not address or sufficiently develop a number of key matters that would be necessary to support his recommended allocation of LNG plant costs to transportation service customers.

First, witness Daniel provides no quantitative assessment of the amount of LNG capacity that he believes has been effectively "stranded" by the migration of customers to transportation service. He also does not address the extent to which actual weather has impacted LNG plant utilization. The Magna plant is designed to provide incremental seasonal and peaking gas supply volumes. According to DEU, the Magna plant can provide up to 1.2 billion cubic feet of gas during the winter heating season. However, the actual volumes of LNG utilized during any given winter will be a function of weather fluctuations. The fact that less than 1.2 Bcf of gas may be used during a specific winter season cannot be interpreted as evidence of stranded LNG plant investment costs. Rather, the Magna LNG plant has been constructed to support the **reliability** of gas supply for firm sales service customers and the requirements of those customers are not limited by contract. Thus, DEU must plan to meet demands under design weather conditions regardless of the levels of actual demands encountered.

Second, if there is a claim of stranded LNG plant investment costs due to customer migration to TS service, that claim must be limited to customers and volumes that migrated to transportation service **after** the planning and approval of DEU's LNG plant. Construction of DEU's Magna LNG plant was not approved by the Commission until 2019. Thus, most of TS service volumes and most of the

migration to TS service existed prior to approval of DEU's LNG plant. It is, therefore, inappropriate to suggest that TS volumes that existed prior to Commission approval of DEU's LNG plant should bear responsibility for LNG plant costs.

Third, before jumping to a conclusion that migration of a limited number of smaller customers to transportation service has resulted in stranded costs, the impacts of actual and projected growth in DEU's number of firm sales service customers must be considered. Table 1, below, provides a comparison of the numbers of customers and throughput volumes for the TS class and for DEU's firm sales service classes (i.e., GS and FS) that have been used by the Company in its cost of service allocations for this case (based on the twelve months ended December 2023) and in Docket No. 19-057-02 (based on the twelve months ended December 2020). That comparison indicates the number of TS customers used in DEU's cost of service allocations has declined slightly while the total number of GS and FS customers has increased by nearly 90,000. Likewise, total TS throughput volumes have **declined** noticeably while DEU analyses reflect more than a **4.0 million Dth** increase in total annual GS and FS throughput volumes.

When the growth in DEU's sales service numbers of customers and annual throughput is considered, it appears that any LNG capacity, not used due to customers who migrate to transportation services is quickly offset by growth in the Company's sales service requirements. Thus, customer migration to transportation service has arguably benefitted firm sales service customers by freeing up

capacity to serve growth in sales service requirements while permitting DEU to avoid or delay incremental LNG (or other seasonal or peaking supply) investment.

Table 1

Comparison of DEU Allocation Data
For Transportation (TS) and Firm Sales Service (GS and FS)

Docket No.	19-057-02	22-057-03		
Exhibit	DEU 4.02R	DEU 4.20		
Period	TME Dec 2020	TME Dec 2023	Change	% Change
Customers				
TS	1,168	1,154	(14)	-13.4%
GS	1,064,691	1,154,630	89,939	8.4%
FS	443	457	14	-5.2%
GS + FS	1,065,134	1,155,087	89,953	3.7%
Thoughput Dth				
TS	53,375,315	47,967,429	(7,407,429)	-1.2%
GS	107,928,840	112,038,555	4,109,715	3.8%
FS	2,731,317	2,589,192	(142,125)	-5.2%
GS + FS	110,660,157	114,627,747	3,867,590	3.6%

D. Allocation of LNG Depreciation Expense

Q. ARE THERE OTHER LNG RELATED COST ALLOCATIONS ISSUES THAT YOU WISH TO ADDRESS?

A. Yes. Both witness UAE witness Higgins and Nucor Witness Mullins find problems with the Company's allocation of LNG depreciation expenses. They explain that

DEU has allocated LNG depreciation expenses in proportion to the sum of the Company's allocated distribution plant balances. As a result, transportation service customers would be required to bear LNG-related depreciation expenses even though the Company has explicitly recognized the LNG facility, which is scheduled to be placed in service in late October 2022, has been built for the sole benefit of sales customers.[10] I support the positions of UAE witness Higgins and Nucor Witness Mullins on this matter. The Company's LNG plant provides a gas supply function, not a distribution service function, and for that reason LNG depreciation expenses are not appropriately allocated in proportion to DEU's allocation of distribution plant balances. Therefore, I urge the Commission to require DEU to ensure that **no** LNG-related depreciation expenses are allocated or assigned to transportation service customers.

E. Splitting the TS Class

Q. DO YOU SUPPORT DEU'S PROPOSAL FOR DIVIDING TS CUSTOMERS INTO THREE RATE CLASSES?

A. Yes. The classes that DEU proposes are divided somewhat differently than ANGC recommended in Docket No. 19-057-02. However, I have reviewed the Company's analyses, I am comfortable that the Commission can move forward on

[10] UAE Exhibit COS 2.0, the Phase II Direct Testimony of witness Higgins at pages 13-14.

the basis of the class definitions for TSS, TSM and TSL customers that DEU has proposed.

When ANGC offered its proposed restructuring of the TS class in Docket No. 19-057-02, ANGC witness Bruce Oliver noted that his analysis lacked information regarding the load factors of customers at varying levels of throughput within the current TS class. DEU's proposed division of the current TS class has answered that concern through explicit consideration of load factor variations as well as variations in annual throughput levels. Based on the information included in DEU's June 22, 2022, Technical Conference presentation, ANGC has gained comfort that the TSS, TSM, and TSL class definitions DEU proposes can be expected to yield reasonably stable divisions of that class as we move forward in time, and thus, they provide a basis for designing charges for those classes that should not be subject to large case-to-case changes in the composition of each class.

Table 2 provides a comparison of DEU's assessment of numbers of customers, annual throughput, and load factors for the TSS, TSM, and TSL classes that were prepared based on data for different time periods.

Table 2

Comparison of Transportation Service Usage Characteristics
For TSS, TSM and TSL Classes

	DEU 8/12/2020 Assessment[11]	% of Total	DEU 6/22/2022 Assessment[12]	% of Total
Number of Customers				
TSS	683	73.4%	826	76.4%
TSM	217	23.3%	225	20.8%
TSL	31	3.3%	30	2.8%
Thoughput Dth				
TSS	6,100,181	13.5%	6,785,564	14.7%
TSM	13,850,729	30.7%	15,474,253	33.5%
TSL	25,201,121	55.8%	23,893,524	51.8%
Average Load Factor				
TSS	37%		38%	
TSM	49%		50%	
TSL	61%		63%	

Although the number of customers in the TSS class has continued to grow, the percentage of total customers in each class (TSS, TSM, and TSL) and the percentages of total throughput represented by each class has not changed significantly. Moreover, the average annual load factor for each class has remained fairly stable with each class's average load factor improving slightly.

[11] Dominion Energy, General Rate Case Technical Conference presentation, June 22, 2022, page 21.
[12] Ibid., page 22.

Q. UAE WITNESS HIGGINS PRESENTS LIMITED BILL COMPARISONS FOR TSS AND TSM CUSTOMERS UNDER DEU'S PROPOSED RATES AND CONCLUDES THAT EITHER AN OVERHAUL OF THE COMPANY'S COST ALLOCATION METHODS OR CONSOLIDATION OF THE TSM AND TSL CLASSES IS NECESSARY. DO YOU SHARE HIS CONCERNS?

A. No, I do not. Witness Higgins' assessment is premised on a very limited scope analysis that should carry little or no weight in the Commission's determinations. His comparison of billed amounts for TSS and TSM customers only examines volumetric charges and only examines a single level of monthly usage (i.e., 2,000 Dth per month). He also does not consider bill impacts for other levels of monthly use, and he does not incorporate in his comparisons monthly charges for Basic Service Fees, the Firm Demand Charges, the Administrative Charge, the STEP surcharge, and the Supplier Non-Gas Adder. Furthermore, nowhere in his analysis does he provide an assessment of DEU's costs of providing service for a customer with the assumed level of monthly usage. Thus, his analysis provides no insight regarding the manner in which his computed volumetric charges compare with the Company's costs of serving the customer. Essentially, his analysis appears designed to block needed rate equity improvements for TSS customers by creating the specter of a flaw in the Company's rate design.

Finally, even if the overall bill for a TSS customer is less for than that for a TSM customer at 2,000 Dth of monthly gas use, the Commission must question the importance of the factors witness Higgins does not address, as well as the

policy implications of his finding with respect to volumetric charges. For example, it is reasonable to presume that a TSM customer using 2,000 Dth per month may be expected to have lower load factor utilization of its contract demand than a TSS customer using the same amount of gas, but that difference is not factored into witness Higgins' comparisons. Furthermore, the Commission should appreciate that the lower volumetric charges for the TSS customer may be viewed as an incentive for customers to conserve gas to obtain lower charges. The bottom line is that witness Higgins' narrowly scoped comparison of volumetric charges does not warrant either a conclusion that DEU's proposed TSS and TSM classes need to be consolidated or a finding that DEU's cost allocation approach requires a major overhaul.

Although, as previously discussed herein, I agree with witness Higgins that certain elements of DEU's cost allocations (i.e., the weighting of Design Day Demands and Annual Throughput, and the Company's allocations of LNG plant costs and LNG-related depreciation expense) need revision, I do not agree that those revisions constitute an "overhaul" of DEU's cost allocation approach.

Q. DO UAE WITNESS HIGGINS' RECOMMENDED CHANGES TO DEU'S COST OF SERVICE ALLOCATIONS SIGNIFICANTLY ALTER THE RELATIVE RATES OF RETURN FOR THE TSS, TSM, AND TSL CLASSES?

A. No, they do not. As shown in Table 3, below, the cost allocation changes reflected in witness Higgins' class cost of service results improve the overall rate of return

for DEU's transportation service classes, but they do not significantly alter the relative rates of return for the TSS, TSM, and TSL classes when compared to the results of DEU's cost allocations for those classes.

Table 3

Comparison of Customer Class Rate of Return

Class	DEU COS	UAE COS	OCS COS[13]	Nucor COS	FEA COS
TSS	9.45%	10.63%	na	9.75%	10.03%
TSM	4.87%	5.67%	na	7.95%	8.55%
TSL	1.17%	3.01%	na	8.85%	8.29%
Total TS	4.82%	6.01%	5.30%	8.81%	8.97%
GS	5.51%	6.14%	6.20%	5.13%	5.13%
System	5.28%	6.03%	5.65%	5.28%	5.28%

Under witness Higgins' COS allocations, the ROR for the TSS class is still more than three times the ROR for TSL customers (i.e., 10.63% versus 3.01%). In all of the class cost of service analyses offered by witnesses in this proceeding, the TSS is found to have a substantially above system average rate of return, and the Commission is asked to be sensitive to this fact in determinations regarding the distribution among classes of any approved overall revenue increase.

[13] The cost of service workpapers provided by OCS witness Daniel only provide an overall rate of return for the current TS class and do not show separate rates of return for DEU's proposed TSS, TSM, and TSL classes. However, the revenue increase distribution that witness Daniel's presents in Table 1 of page 27 of his October 3, 2022 Revised Direct Testimony (i.e., OCS Cost-Based Revenue Increases by class) reflects a significant **-18.5%** rate reduction for the TSS class while all he shows large positive cost-based increases for the TSM and TSL classes.

Furthermore, in all cases the class rates of return shown in Table 3 demonstrate that the TSS class rate of return is noticeably above both the overall rate of return for DEU and above the average ROR for the total TS class.

F. Revenue Increase Distribution and Rate Shock

Q. DO WITNESSES FOR OTHER PARTIES DISCUSS ISSUES RELATING TO RATE SHOCK AND/OR THE NEED FOR GRADUALISM IN THE ADJUSTMENT OF RATES?

A. Yes. The witnesses in this phase of the proceeding for DPU, OCS, and all other intervenors that submitted Phase II Direct Testimony have addressed concerns regarding "rate shock" and the need for gradualism or other rate increase mitigation efforts to limit the increases applied to individual classes of customers.[14] Certain of DEU's proposed class revenue increases would impose inordinately large rate increases if implemented without modification. The concern most frequently addressed is the magnitude of the Company's proposed rate increase for TSL customers. The revenue increase DEU proposes for the TSL customers represents an exceptionally extreme result that several parties have addressed.

[14] See: (a) the Phase II Direct Testimony of Nucor witness Mullins at page 5, lines 82-83, and page 10, lines 199-201; (b) the Phase II Direct Testimony of FEA witness Collins at page 5, lines 1-10, and page 10 lines 7-9; (c) the Phase II Direct Testimony of UAE witness Higgins at page 19, lines 341-358, (d) the Phase II Direct Testimony of OCS witness Daniel at page 4, lines 88-89, and pages 27-28, lines 580-586; (e) the Phase II Direct Testimony of DPU witness Abdulle at page 17, lines 336-338.

Q. DO YOU AGREE THAT RATE SHOCK AND GRADUALISM IN THE ADJUSTMENT OF RATES ARE MATTERS THAT THIS COMMISSION NEEDS TO ADDRESS IN THIS PROCEEDING?

A. Yes, I do. No class should be subject to exorbitant rate increases, and the of gradualism provides the Commission a means of moderating rate impacts. My only concern is that the determination of what constitutes an "exorbitant" rate increase can differ greatly among parties. Likewise, how gradual rate adjustments should be implemented is a matter that only the Commission can appropriately resolve. However, rate shock concerns and applications of gradualism must only be relied upon as tools for moderating rate impacts. They do not justify avoidance of rate adjustments or maintenance of the status quo.

Q. HOW SHOULD THE COMMISSION RESPOND TO THE POTENTIAL FOR RATE SHOCK UNDER DEU'S RATE DESIGN PROPOSALS IN THIS PROCEEDING?

A. The Commission has at least three means of addressing potential rate shock concerns. First, it can ensure that the Company's revenue increase request is trimmed to allow for recovery of only essential cost increases. Reducing the overall revenue increase directly impacts the level of revenue that DEU must recover from each rate class and thus can be expected to mitigate rate impacts for all customer classes. Second, the Commission should ensure that the Company's cost allocations are revised to provide a closer matching of the Company's costs of service by customer class with its actual cost-incurrence patterns. This

testimony identifies three areas in which DEU's cost allocations for TS customers can be improved, and each of those cost allocation revisions can be expected to reduce the amount of incremental revenue DEU would need to obtain from TSL customer to achieve fully cost-based rate levels. Third, the Commission can employ gradualism, possibly in the form of phased-in revenue increases to spread the impacts of movement toward cost-base rate levels over multiple annual periods (i.e., in a manner similar to the phase-in it adopted in Docket No. 19-057-02). Through such measures the Commission can eliminate rate shock concerns and greatly moderate year-to-year rate changes while still pursuing its goal of fully costs based rates.

G. Re-evaluation of DEU's Conservation Enabling Tariff

Q. OCS WITNESS DANIEL SUGGESTS THAT DEU'S CONSERVATION ENABLING TARIFF ("CET") SHOULD BE RE-EVALUATED. DO YOU AGREE? See

A. I do. I share witness Daniel's position that the CET needs to be re-evaluated and that it may no longer be as essential for the Company as it may have been perceived in prior periods, particularly given the customer growth that DEU expects.

However, I believe Witness Daniel fails to provide appropriate focus on perhaps the greatest flaw in the Company's use of a revenue per customer mechanism. That flaw is the fact that to be **fair and equitable** there must be a

high degree of homogeneity in the service requirements of customers included in each rate class. In other words, there should be an expectation that customers added to each class and customers that leave each rate class have reasonably comparable gas service requirements. If that is not the case, the equity of a revenue per customer based decoupling mechanism can be severely undermined. Thus, I recommend that the set of issues included in any re-evaluation of the CET be expanded. In particular, those issues need to provide a more dynamic assessment of changes in the mix of customers served within each rate class over time, as well as the manner in which changes in the mix of customers in terms of annual throughput requirements and load factors may cause fixed revenue per customer relationships to deviate from appropriate ratemaking expectations.

I have performed detailed analysis of revenue decoupling mechanisms similar to the CET that have been used by utilities in other jurisdictions, and I have found that such adjustments can be highly distortive of appropriate cost and revenue relationships when applied to classes with greatly divergent usage characteristics. For example, within the GS tariff class there is substantial diversity in customer usage requirements. Average usage, load factors, and revenue per customer amounts are not uniform across the residential, commercial, governmental, and small industrial elements of that class. There can also be considerable diversity in usage and load factors within each of those segments of the GS class. As a result, revenue adjustments based on measures of average revenue per customer do not necessarily track closely with changes in DEU's costs of providing

service and/or changes in its expected revenues as the composition of the class changes over time.

As noted in Table 1, DEU's allocation data in this case reflects nearly 90,000 more firm sales service customers in the firm sales service customers in GS and FS classes than the Company reflected in the allocation data it used in Docket No. 19-057-03. In the absence of evidence that customer growth has been, and will be, roughly proportional across the various sizes and types of customers currently served as part of the overall GS class.

As a result, revenue per customer measures, which may appear to provide a simple means of adjusting DEU's revenues to reflect customer growth, can actually yield results that deviate significantly from cost-based ratemaking determinations. DEU has sampled the customers in its GS class to assess their load characteristics for a fixed historic period in support of its cost allocations and rate design proposals. However, DEU has provided no evidence regarding the manner in which the class has been, or is expected to be, impacted by customer growth. The mix of new customers added to the class and customers exiting the class (e.g., leave the system or migrate to transportation service) may have usage characteristics that differ noticeably from the current average class average, and that change will impact actual average revenue per customer collections regardless of whether there is any significant change in existing customers gas usage. If changes in the mix of customers served yield changes in usage per customer and changes in average revenue per customer, revenue collections will

change even if there is no significant change in DEU's costs of providing service to the class. Where changes in revenues deviate from historic average revenue-per-customer, the use of a revenue per customer rate adjustment mechanism will be distortive of appropriate ratemaking relationships.

Importantly, adjustments to a utility's authorized revenues should not be permitted without verifiable evidence that such adjustments are directly compensatory for either fixed costs not recovered due to conservation or incremental costs actually incurred as a result of customer growth that was not foreseen at the time class revenue requirements and rates were set. The presumption that DEU must maintain a fixed amount of revenue per customer must be challenged where the usage characteristics of customers added to, or removed from, a class differ noticeably from the average usage characteristics of the class at the time rates were set. For this reason, where revenues are to be adjusted on the basis of changes in the numbers of customers in a class, changes in the mix of customers within each class and their usage requirements must be closely monitored.

IV. SUMMARY OF REBUTTAL RECOMMENDATIONS

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS FOR THE COMMISSION WITH RESPECT TO THE MATTERS ADDRESSED HEREIN.

A. On the basis of the matters addressed herein, the following additional recommendations are offered for the Commission's consideration:

839

840 1. The Commission should find that measures of Actual Peak Demand
841 do not capture the value of DEU's efforts to ensure service reliability
842 for firm service customers for whom no contract demands are
843 established and who make no fixed commitments to firm support
844 specific levels of firm capacity.

845

846 2. The Commission should find that DEU's allocations of distribution
847 mains using a Peak and Average allocation method are appropriate
848 where the measures of Peak Day Demands employed reflect the
849 Company's Design Day criteria and the weighting of the Peak
850 Demand and Average Demand components of such allocations is
851 premised on a load factor that uses the Company's estimated Design
852 Day Demand as its denominator.

853

854 3. The Commission should require that all LNG plant investment costs
855 and LNG Plant-related depreciation expenses be allocated to DEU's
856 firm gas sales service classes.

857

4. The Commission should find that DEU's proposed division of TS customers into three classes is reasonable and needs be implemented at this time to facilitate rates that better track cost-causation for smaller TS customers and reduce intra-class rate subsidies.

5. The Commission should take necessary steps to avoid "rate shock" for all classes of customers by: (1) trimming the magnitude of the Company's overall revenue increase request; (2) ensuring that DEU's cost allocations are adjusted to properly reflect cost causation; and if necessary, (3) implementing class revenue increases on a phased basis as it did in Docket No. 19-057-03.

6. Given considerable growth in DEU's customer base, the Commission should direct a re-examination of the structure and continued necessity of the current Conservation Enabling Tariff ("CET").

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes. It does.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Rebuttal Testimony of Timothy B. Oliver for the American Natural Gas Council in Phase II of Docket No. 22-057-03 was served by email this 13th day of October 2022 on the following:

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