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

PHASE II REBUTTAL TESTIMONY OF

KELLY B MENDENHALL FOR

DOMINION ENERGY UTAH

October 13, 2022

DEU Exhibit 1.0R – Phase II

TABLE OF CONTENTS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Kelly B Mendenhall. My business address is 333 South State Street, Salt Lake City, Utah.

Q. Have you previously filed testimony in this proceeding?

A. Yes, I filed direct testimony on behalf of Questar Gas Company dba Dominion Energy Utah (DEU, Dominion Energy or Company) in this proceeding on May 2, 2022.

Q. What is the purpose of your testimony?

A. Specifically, I address Office of Consumer Service (OCS) witness James W. Daniel's recommendations 1) to adjust the Conservation Enabling Tariff (CET) calculation to exclude the impacts of smaller residential housing units on the average annual GS gas usage calculation, and 2) for the Utah Public Service Commission (Commission) to order the Company to present analyses in the next general rate case on whether the CET should be continued. I also address the Federal Executive Agencies (FEA) witness Brian C. Collins (Collins) proposal to offset the revenue requirement of the Infrastructure Replacement Adjustment Mechanism (IRAM) with the full depreciation expense related to all of the Company's investment in base rates.[1]

II. CONTINUATION OF THE CONSERVATION ENABLING TARIFF

Q. Please explain Mr. Daniel's proposal to adjust the CET calculation to exclude multifamily units?

A. Mr. Daniel expresses concern that an increase in multi-family customers on the system will allow the Company to collect additional revenue presumably because these customers are below average in terms of usage.

---

[1] The Company has filed a Motion to Strike the portions of Mr. Collins' testimony that address the IRAM on the basis that his testimony on this issue concerns Phase I issues but was not timely filed as Phase I testimony. As such, the Company has not had time to conduct discovery on his testimony in Phase I or prior to the filing of this rebuttal testimony. However, as the Commission has not yet ruled on the Motion to Strike, I address Mr. Collins' testimony concerning the IRAM out of an abundance of caution.

Q. Is this a valid concern?

A. Not in this docket. In theory, there could be situations where Mr. Daniel's concern could be an issue. If for, example, a Company was experiencing extreme growth in multifamily units and that Company went many years between rate cases, then the customer mix could be so different from the mix used to set rates that it could have unintended consequences. In this general rate case, however, there is no basis for Mr. Daniel's concern.

Q. Why is it not an issue in this case?

A. The table below shows the current and forecasted mix of single family, multi-family and mobile home customers.

Year-End	Single Dwelling	Multi Dwellings	Mobile Homes
2009	79.1%	18.5%	2.4%
2010	78.9%	18.7%	2.4%
2011	78.7%	18.9%	2.4%
2012	78.6%	19.0%	2.4%
2013	78.2%	19.4%	2.4%
2014	78.3%	19.4%	2.3%
2015	77.7%	20.1%	2.2%
2016	77.4%	20.4%	2.2%
2017	77.0%	20.9%	2.1%
2018	76.5%	21.5%	2.1%
2019	76.1%	21.9%	2.0%
2020	75.7%	22.3%	2.0%
2021	75.3%	22.7%	1.9%
2022	74.9%	23.2%	1.9%
2023	74.4%	23.7%	1.8%
2024	74.0%	24.2%	1.8%
2025	73.7%	24.6%	1.8%
2026	73.3%	24.9%	1.7%

The CET calculation in this case is based on the forecasted mix using 2023 data, so the rates and the allowed revenue will be based on a customer mix that reflects 23.7% multi-family customers. The concern should be what happens in between rate cases, as a large shift in the mix could result in the revenue disparity expressed by Mr. Daniel in his testimony. In recent years, about 40% of new customers have been multifamily customers.

This trend is expected to continue, but these additions on the Company's system have a very minimal impact on the customer mix of the entire system. As the table shows, the mix is expected to increase from 23.7% in 2023 to 24.2% in 2024 and 24.6% in 2025. While that is an increase, it is such a small increase that it would not create a revenue windfall for the Company through the CET.

Q. You mentioned that there could be instances where an increase of multifamily customers on a Company's system could create additional unintended revenue for the Company. Are there any additional safeguards that the Commission has implemented that would protect against this?

A. Yes. Because the Company is required to file a rate case every three years, this ensures the average revenue-per-customer is refreshed and updated to use the most recent customer mix. Additionally, there are caps on the size of the under-recovery that can be booked each month and over a 12-month period. This helps to ensure that unintended revenue windfalls do not occur.

Q. Are there better ways to address concerns like those Mr. Daniel's raised?

A. Yes. The hypothetical circumstance Mr. Daniel describes would arise because of a General Service class that has become disparate. A better way to address those types of problems is to split the General Service class. Doing so would eliminate Mr. Daniel's concern, as an average revenue-per-customer would be calculated for both the larger and smaller classes, and the change in customer mix would not impact the CET calculation. This approach would also eliminate any intra-class subsidies that exist within the GS class.

Q. Mr. Daniel proposes that the Commission should order the Company to present analyses in the next general rate case on whether the CET should be continued. How do you respond?

A. Mr. Daniels has raised the issue in this docket, and I will provide those necessary analyses in this testimony. The Commission can review this evidence and determine whether the CET should be continued in this docket. The analyses and evidence I provide in this rebuttal testimony shows that the continuation of the CET is just and reasonable in result and in the public interest.

Q. Mr. Daniel states that he does not believe that full decoupling is necessary to encourage energy efficiency and that DEU's energy efficiency programs have not been effective in reducing energy consumption. How do you respond?

A. Anyone familiar with DEU's energy-efficiency programs knows that they have been successful and effective. When the Company received approval to implement energy-efficiency programs, combined with full decoupling, it moved forward in good faith and has implemented one of the most successful programs in the country.

Q. What evidence can you provide that the Company's energy efficiency programs have been effective?

A. The foundation for measuring the effectiveness of energy efficiency programs--which is recognized nationally—is the California Standard Practice Tests. In addition to these tests that measure the benefits over the costs of energy efficiency, a review of customer participation, deemed savings, and comparison to other jurisdictions also demonstrates the success of the Company's programs. Finally, the breadth of a Company's programs shows how committed it is to encouraging energy efficiency.

Q. What are the California Standard Practice tests?

A. There are four tests in all, each measuring the cost-effectiveness and value of a utility's energy-efficiency programs. The tests include the Total Resource Cost Test (TRC), Utility Cost Test (UCT), Participant Cost Test (PCT), and Ratepayer Impact Measure Test (RIM). The UCT, PCT and RIM measure the expected impact of a Company's energy efficiency programs on the utility, the participant and the ratepayers, and the TRC provides an overall cost-effectiveness score for the programs. A score above 1 is considered to be a cost effective program, or a program whose value outweighs its costs.

Q. How do Dominion Energy Utah programs score on the TRC?

A. The table below summarizes the cost effectiveness results over the last five years.

Year	TRC	UCT	PCT	RIM
2021	1.54	3.79	1.82	0.87
2020	1.38	3.79	1.82	0.87

2019	1.10	2.75	1.49	0.84
2018	1.00	2.88	1.24	0.73
2017	1.02	2.89	1.32	0.76

As the table shows, the programs have been consistently cost effective over the past several years.

Q. What level of participation has the Company seen in its energy efficiency programs?

A. Nearly 50% of customers have participated in at least one of the Company's energy-efficiency programs, with many customers participating in more than one. The table below shows annual participation, annual savings, and lifetime savings from the beginning of the program.

Year	Total Annual (Gross) Dth Savings	Total Lifetime (Gross) Dth Savings	Number of Rebates Paid
2007 actual	205,472.37	4,434,853	26,988
2008 actual	436,702.15	11,135,179	57,981
2009 actual	1,086,248.75	32,810,446	144,166
2010 actual	815,000.38	21,581,334	151,894
2011 actual	565,633.24	12,985,939	81,702
2012 actual	589,740.24	14,300,503	69,998
2013 actual	788,471.03	13,013,735	115,247
2014 actual	746,114.57	17,162,534	101,606
2015 actual	917,919.12	15,137,513	77,897
2016 actual	985,744.61	15,062,733	72,743
2017 actual	1,044,307.88	15,376,023	73,883
2018 actual	998,419.11	12,734,226	76,690
2019 actual	1,099,047.12	15,095,194	77,081
2020 actual	1,158,448.04	19,038,255	86,169
2021 actual	931,950.15	15,439,817	57,768
2022 budget*	1,147,455.54	20,022,008	81,130
TOTAL	**13,516,674**	**255,330,293**	**1,352,943**

These numbers are substantial. Looking at just the annual savings of 13.5 million Dths is equivalent to eliminating 193,095 typical residential customers from the system. The lifetime savings of 255 million is more than the Company's annual throughput. Mr. Daniel acknowledged that the CET removes a considerable disincentive for the Company to offer a robust suite of energy-efficiency programs. The Company agreed to offer these programs when the Commission approved the CET and removed this disincentive. Eliminating or substantially modifying the CET now would reinstate that disincentive, and would discourage the Company from expanding these programs or from continuing to encourage its customers to participate in energy-efficiency measures.

Q. How robust are the Company's programs?

A. The Company offers seven programs that provide rebates on about 180 different energy efficiency measures. These programs serve all segments of the General Service customer class, from multi-family to commercial customers. The Company proactively looks for new ways to encourage energy efficiency and incent its customers to conserve energy.

Q. Do you have any specific examples of innovative measures the Company has advanced through its energy efficiency program ?

A. Yes. Since the inception of the Company's efforts, the Company has offered an energy home audit where customers can obtain recommendations on how they can conserve energy in their home. In 2011, the Company instituted an Energy Comparison Report, where customers are shown how their energy usage compares to other similar homes in their area. This report was developed in-house and at a fraction of the cost to customers when compared to third-party vendors. In 2021, the Company began offering an incentive to customers who install a dual-fuel heating system which combines the benefits of a heat pump with high-efficiency natural gas backup. This equipment offers one of the most cost-effective and energy efficient options for customers by reducing their total energy consumption as well as their natural gas bills. Installing this equipment also can reduce a customer's natural gas space heating consumption by nearly 50% per year. To my knowledge, Dominion Energy Utah is the only gas local distribution company that has implemented this kind of rebate. Removal or modification of the CET would be to reinstate a significant disincentive to the Company to develop this or other innovative energy efficiency offerings.

Q. Has the Commission and other parties recognized the success of the Company's energy efficiency programs?

A. Yes. In its most recent review of the Company's annual energy efficiency budget, the Commission wrote:

> FINDINGS AND CONCLUSIONS Based on the our review of the Application, DPU's and OCS's comments and recommendations, and DEU's reply comments, and there being no opposition to the Application, we conclude the Application complies with PSC requirements, and that the Application and the proposed corresponding Tariff sheets are in the public interest. The PSC approves the Application, the corresponding Tariff revisions, and DEU's proposed 2022 EE/MTI Program budget of $30.213 million.[2]

Additionally, the Division of Public Utilities wrote:

> The Division acknowledges the success of the Energy Efficiency Programs initiated by Dominion Energy as they benefit all ratepayers by reducing natural gas usage levels.[3]

Additional comments praising the Company's energy efficiency program have been made in prior dockets.[4]

Q. Mr. Daniel suggests that because usage per customer is decreasing at a slower rate than in previous years, that the Company's energy efficiency programs have not been effective. Is this accurate?

A. No. There is no evidence that usage per customer increases or decreases based solely upon a company's energy efficiency programs. As I discussed above, the Company's programs are objectively effective and successful from both a cost perspective and participation perspective. But beyond that demonstrated success, I do not agree that a decline of 114.29 to 98.86 in usage-per-customer over a 15-year period represents a material flattening of usage. If there is a correlation between decreasing usage per customer and effectiveness of energy efficiency programs at all, the data shows a continuing decrease over time, demonstrating that the Company's efforts have been effective. In fact, the Company is

---

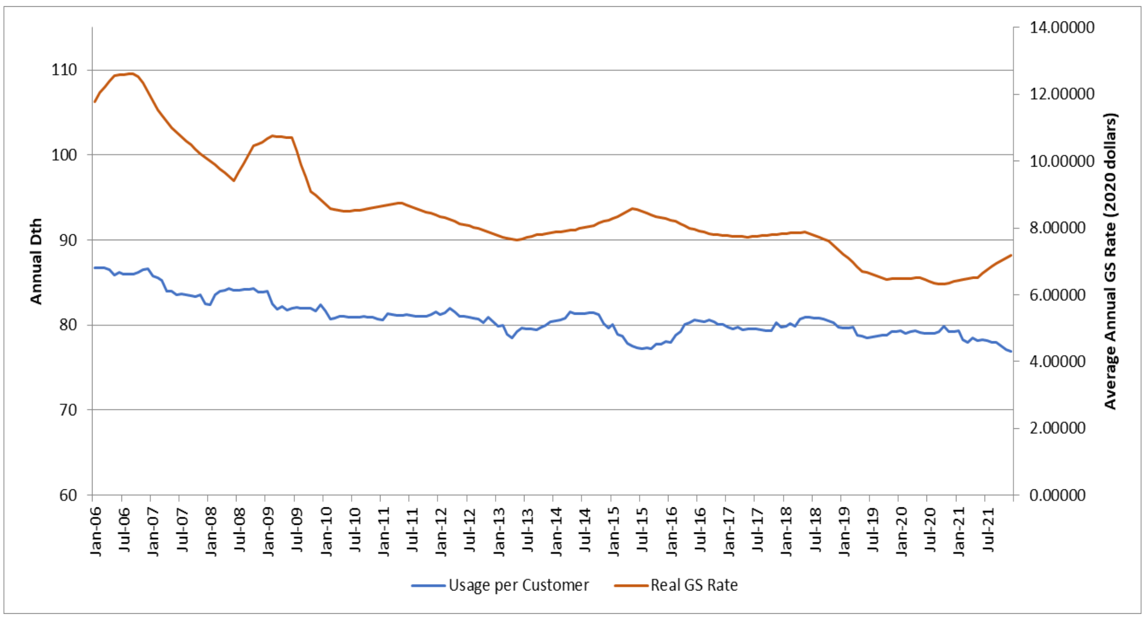
[2] Commission order, Docket 21-057-25.

[3] DPU Action Request Response, Docket No(s). 22-057-01 and 20-057-20.

[4] Commission Order, Docket No. 20-057-20, DPU Action Request Response, Docket No. 17-057-22, Office of Consumer Services, Docket No. 17-057-22, DPU Action Request Response, Docket No. 16-057-15, Commission Order, Docket No. 16-057-15, DPU Action Request Response, Docket No. 15-057-16, Commission Order, Docket No. 15-057-16, DPU Memo, Docket No. 14-057-25, Commission Order, Docket No. 14-057-25.

proposing to reduce its typical usage per customer from 80/Dth to 70/Dth because the median usage on the system has decreased over the last 10 years.

Moreover, as I mentioned above, the usage per customer does not drop simply because an energy efficiency program is effective, nor will it remain the same if a program is ineffective. Usage per customer is dependent on other factors in addition to energy efficiency. The chart below compares weather normalized usage per customer over from 2006 to 2022 with the average GS rate over the same period.



As the chart shows, the average price per Dth (red line) has dropped considerably over the time frame. For customer usage, utility bill cost and usage are inversely related. If prices are low, a customer may choose to turn up the thermostat rather than simply putting on a sweater. When prices rise, a customer may set their thermostat at a lower temperature. As the cost of natural gas goes down, the customer will be more likely to use more natural gas, and if the cost increases, the customer will have an obvious economic incentive to use less gas. So the 13.5% decline in usage on Mr. Daniel's chart has may very well have been tempered due to increased usage driven by the decline in gas prices during the same period.

Q. Mr. Daniel suggests that revenue decoupling has had limited adoption in other jurisdictions. Is this true?

A. I don't think so. Mr. Daniel argues that 41 out of 147 LDCs have full revenue decoupling and concludes that this is a small percentage. I disagree. Mr. Daniel's own data shows that 28% of companies—a significant number-- have *full decoupling*. Additionally, the report cited by Mr. Daniel shows that 57 additional companies have partial decoupling. Mr. Daniel's own sources show that 98 out of 147 LDCs—or 66 percent--have either full or partial decoupling.

I also find Mr. Daniel's sources to be suspect because they contains some inaccuracies. For example, the source indicates that DEU's affiliate Dominion Energy Ohio has no decoupling. In fact, Dominion Energy Ohio collects its non-gas costs through a fixed charge, which has the same effect as decoupling. Mr. Daniel does not provide any information on whether the remaining 33% of companies identified in that report have other mechanisms in place, but it is likely his figure is understated.

Q. Mr. Daniel argues that the CET is only beneficial to the Company and that it does not benefit customers. Do you agree?

A. No. Mr. Daniels draws his incorrect conclusion from reviewing the usage-per-customer chart. Mr. Daniel ignores the fact that the CET does not only ensure that the Company collects its allowed revenue per customer; it also ensures that the Company does not *overcollect* from customers. The actual monthly entries in the CET account show that the CET is effectively offering protection and benefit both to the Company and its customers. I have attached the actual monthly entries for the past 16 years as DEU Exhibit 1.08R. Column A of the exhibit shows the month, Column B shows the allowed revenue under the CET, Column C shows the actual collected revenue through volumetric rates, and column D shows the difference between the allowed and actual revenue. A positive amount in column D indicates that the Company is under-collecting and needs to collect additional revenue through the CET. A negative amount in column D indicates that the Company has over-collected revenue and needs to return revenue to customers. I have summarized the results of these monthly entries in the table below:

	Total	Months
Undercollected (Customers owe the Company)	$119,242,258	117
Overcollected (Company owes the customers)	($120,777,271)	77
Net	($1,535,012)	

As the table shows, the Company made 117 upward adjustments to revenue and 77 downward adjustments to revenue during this period. The more interesting number is the total dollar amounts that were adjusted. As the summary shows, a net amount of $1,535,012 was adjusted downward in the customer's favor. In 2005, the Company shared that this was one of the benefits of the CET, and the data supports the fact that adjustments are made upward and downward so that the Company collects the correct amount of revenue—and that it does not substantially overcollect. The CET is working as intended and it is beneficial not just to the Company, but also to its customers

Q. Does the CET allow for more accurate forecasting?

A. Yes, it does. Mr. Daniel suggests that the Company is not clear in its rational on this point. Perhaps I can add some clarity. In Utah, we use a fully forecasted test period for ratemaking purposes. After revenue requirement is calculated, billing determinants must be estimated in order to calculate rates. These billing determinants are based on expected usage per customer and the expected number of customers. The allowed revenue used to calculate the CET is based solely on estimated customer count. Since the only unknown variable in customer count is the number of new customers in 2022 and 2023, the forecasting error will be very small compared to the forecast error in usage per customer that is applied to 1.1 million customers. Using the allowed revenue gives all parties more certainty in the revenue forecast and removes another potentially contentious issue from the rate case.

III. INFRASTRUCTURE REPLACEMENT ADJUSTMENT MECHANISM

Q. Please summarize the infrastructure replacement proposal you will be addressing?

A. I will be addressing the testimony of FEA witness Mr. Collins' proposal to offset the revenue requirement of the IRAM with the full depreciation expense related to all the Company's investment in base rates.

Q. Mr. Collins discusses this proposal in a section entitled "DEU's proposed Rate Design". Do you agree that Mr. Collins' proposal is a rate design issue?

A. No. Mr. Collins' proposal is an adjustment to the revenue requirement calculation of the IRAM. The revenue requirement is a Phase I issue. Mr. Collins acknowledges as much in his recommendation when he states that his proposal will "ensure that the utility properly recovers the incremental revenue requirement associated with eligible infrastructure replacement and that the utility is not allowed to charge excessive surcharges through the IRAT."[5] There is no mention in this section of his testimony about how his proposal will change the class cost of service calculation or the Company's proposed rate design, because this is a revenue requirement issue. Additionally, Mr. Collins was a witness in the last general rate case in Docket 19-057-02, where I proposed changes to the IRAM that were discussed solely during the Phase I portion of the case.

Q. Mr. Collins contends that including the depreciation expense from base rates as an offset in the IRAM calculation "synchronizes" all of the investment on the system. Is this a correct assumption?

A. No. Mr. Collins' proposal results in a mismatch of tracker and non-tracker related costs by netting non-tracker depreciation expense with tracker investment. It is not synchronous, but rather blends apples and oranges in a manner that renders the tracker ineffective as a cost recovery mechanism.

---

[5] FEA Exhibit 2.0, page 33, lines 14-17.

Q. How is Mr. Collins' proposal a mismatch between tracker and non-tracker related costs?

A. Mr. Collins tries to make a synchronization argument, suggesting that base rate depreciation should somehow be connected to infrastructure replacement investment. The pipe being replaced in the program was installed prior to 1970. That means it is fully depreciated by now. By extension, because the original investment amounts have already been fully offset by accumulated depreciation for the base rate calculation in this case, there is no additional accumulated depreciation that would need to be added in a future tracker filing related to these IRAM pipelines. So all of the base rate depreciation that Mr. Collins is proposing to include as an offset in the IRAM revenue requirement calculation *is unrelated* to the actual pipe being replaced. Mr. Collins' proposal would include the depreciation impact of this non-tracker investment, while excluding the underlying investment amount itself. Including the accumulated depreciation balance of unrelated investment in the IRAM calculation is not synchronizing anything. In fact, it is doing the exact opposite and mismatching depreciation expense and capital investment. That proposal is contrary to the matching principle and would render the IRAM ineffective in serving its intended purpose as a cost recovery mechanism to replace aging pipe. As such, Mr. Collins' proposal should be rejected.

Q. Why was the tracker originally approved?

A. It was approved in recognition that there was a substantial amount of aging infrastructure on the system that would need to be replaced and that, because this replacement had no associated cost recovery, it would force the Company to be required to file more frequent rate cases absent some sort of infrastructure rider. The rider was approved in 2010 and has been working successfully since.

Q. Using a hypothetical example, Mr. Collins explains how infrastructure replacement riders could provide a revenue windfall to the Company. Is his example applicable in this case?

A. No. In his example, he assumes that a Company has a depreciation expense of $10 million and new investment of $10 million and the depreciation expense is providing enough revenue to the Company to cover its annual capital investment. He then states that allowing recovery through a rider could result in excessive utility charges for customers because the depreciation expense plus the rider revenue exceeds capital investment. I don't agree with his logic, but to simplify the argument, I will assume that his logic is correct and apply real numbers to his hypothetical example. Using the numbers from this rate case in his example, DEU Exhibit 4.20 shows projected 2023 depreciation expense of $48,287,730 for mains in 2023 (*see* cell AV59 of the 108_111 Projection tab). The projected capital expenditures for mains in 2023 amount to $204.3 million (*see* cell P18 of the 101_106 Projection tab). So, using Mr. Collins logic, the difference between the $204.3 million of capital expenditures and the $48.3 million of depreciation expense is a shortfall of $156 million that must be made up by some other means. In his example, the rider would provide a windfall, but in the case of DEU, a rider is actually needed to eliminate the shortfall. The rider is designed to cover $77 million of capital expense, reducing the original shortfall to $79 million ($156 million - $77 million = $79 million). Since there is a great shortfall between depreciation expense and total expenditures in this case, Mr. Collins logic does not support his proposal at all. If anything, it shows why the $77 million tracker limit is insufficient.

IV. CONCLUSION

Q. Would you please summarize your recommendations?

A. Yes. I recommend that the Commission find the CET is just reasonable and in the public interest and that it be allowed to continue. I also recommend that, if the Commission were to find it necessary to make changes to rate design to address the change in customer mix, it order that the GS class be split to address the issue. Additionally, I recommend that the Commission reject Mr. Collins' proposal to include base rate depreciation expense as an offset to overall revenue requirement in the IRAM calculation.

Q. Does this conclude your testimony?

A. Yes.

State of Utah)
) ss.
County of Salt Lake)

I, Kelly B Mendenhall, 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.

Kelly B Mendenhall

SUBSCRIBED AND SWORN TO this October 13, 2022.

Ginger Johnson

Notary Public

GINGER JOHNSON
Notary Public State of Utah
My Commission Expires on:
August 4, 2023
Comm. Number: 707241