–BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH–

N THE MATTER OF THE APPLICATION OF DOMINION ENERGY UTAH TO INCREASE DISTRIBUTION RATES AND CHARGES AND MAKE TARIFF MODIFICATIONS	))))))))	**DOCKET NO. 22-057-03** **Exhibit No. DPU 5.0 SR** **Phase I Surebuttal**

FOR THE DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH

Surrebuttal Testimony of

Jeffrey S. Einfeldt

October 13, 2022

Q. PLEASE STATE YOUR NAME, BY WHOM YOU ARE EMPLOYED, YOUR TITLE, AND YOUR BUSINESS ADDRESS.

A. My name is Jeffrey S. Einfeldt. I am employed by the Utah Division of Public Utilities ("Division") as a Technical Consultant. My business address is 160 East 300 South, Salt Lake City, Utah, 84114.

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I graduated from the University of Utah with a bachelor's and masters' degree in accounting. I am a Certified Public Accountant, a Certified Internal Auditor, and a Certified Fraud Examiner. I worked for 18 years in public practice conducting financial and regulatory compliance audits and specialized in forensic accounting with an emphasis in bankruptcy matters and general business litigation, including preparation of expert witness testimony. I also worked in industry for several years in internal audit and as a CFO for a not-for-profit entity. I have attended the NARUC Utility Rate School and other conferences and training seminars while employed with the Division for the past six years.

Q. PLEASE DESCRIBE YOUR POSITION AND DUTIES WITH THE DIVISION.

A. As a technical consultant, I examine public utility financial data, review filings for compliance with existing programs as well as applications for rate increases. I research, analyze, document, and assist in establishing regulatory positions on a variety of regulatory matters. I provide and assist in the preparation of written and sworn testimony in hearings before the Public Service Commission of Utah ("Commission") and assist in the case preparation and analysis of testimony.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?

A. Yes. I have also been instrumental in preparing numerous responses to Commission action requests, and various reports to the Commission regarding utility financial and regulatory matters.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A. No.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS DOCKET?

A. My testimony addresses arguments from rebuttal about Dominion Energy Utah's ("DEU" or "Company") treatment of pension costs and pension related matters ("Pension Items") in this docket. The Division determined that DEU's treatment results in just and reasonable rates regarding the treatment of the specific Pension Items.

Q. WILL YOU SUMMARIZE THE ISSUES YOU PLAN TO ADDRESS IN YOUR TESTIMONY?

A. Yes. DEU proposes removing certain Pension Items from this general rate case ("GRC"). These items include the deferred pension asset, related deferred income tax, and pension credit (negative expense) recorded as part of O&M expense. UAE and OCS argue the pension credit should be included as part of O&M in the GRC.[1]

Q. IS DEU'S PROPOSED TREATMENT OF PENSION ITEMS IN THIS DOCKET NOVEL?

A. No. DEU proposes treating pension related items in this GRC consistent with the treatment of pension items in its prior GRC.[2] I will describe this treatment in my own words to ensure clarity because a proper understanding of the expenses and their treatment is critical to understanding the implications of rate treatment.

As in the prior rate case, a deferred pension asset exists on DEU's balance sheet representing excess funding of the pension obligation. This excess funding position is primarily due to Dominion Energy's $75 million contribution to the pension plan as part of the 2017 merger of Questar Gas Company and Dominion Energy, and the favorable market performance for the years since the contribution. The pension

[1] Rebuttal Testimony of UAE witness Kevin C. Higgins, lines 108 through 113 and Rebuttal Testimony of OCS witness John Defever, lines 73 through 86.
[2] Rebuttal Testimony of OCS witness John Defever, lines 39 through 47.

asset balance combined for Utah and Wyoming is $135,902,647. The related deferred income tax of $42,576,806 is offset against the pension asset amount, resulting in a net pension amount for Utah and Wyoming of $93,325,840. DEU proposes removing this from consideration in the current GRC. Utah's portion of this net amount is approximately 96.77 percent of the total, or $90,311,000. This elimination effectively reduces Utah's rate base by $90,311,000, which benefits ratepayers.

DEU proposes removing the pension credit (negative expense) of $10,044,611 from O&M.[3] A similar pension credit of $5,448,127[4] was also removed in the prior GRC.[5]

The $10,044,611 pension credit (negative expense) represents the uncapitalized portion of the Net Periodic Benefit Cost ("NPBC") of $21,121,355 estimated by DEU's pension consultants for the test year 2023.[6] The remaining $11,076,744 was capitalized by DEU pursuant to its policy regarding treatment of employee benefits, resulting in an approximately forty-eight percent expense to a fifty-two percent capitalization ratio.[7] The proposed removal of $10,044,611 represents the total company NPBC charged to O&M (as a credit), with the Utah portion equaling $9,719,864. The removal of this credit results in higher O&M expenses.

The remaining NPBC, the capitalized portion of $11,076,744, has not been removed. My understanding is that DEU chose not to remove the capitalized portion of the NPBC credit due to the complex accounting and reporting effort required to track the effects over the life of each asset involved.[8] The inclusion of the capitalized portion effectively reduces rate base and reduces rates for ratepayers over the life of the affected assets. Utah's portion of the capitalized amount is approximately

[3] Docket No. 22-057-03, Direct Testimony of Jordan K. Stephenson, Exhibit 3.16.
[4] Docket No. 19-057-02, DEU Exhibit 3.30.
[5] Docket No. 19-057-02, Report and Order Issued February 25, 2020, pp. 20-21.
[6] Docket No. 22-057-03, DEU Response to UAE Data Request 1.09, Attachment 1, page 4 of 6.
[7] Docket No. 22-057-03, DEU Response to UAE Data Request 5.01, included in UAE Exhibit RR 3.5 and Rebuttal Testimony of John Defever at lines 24-36
[8] Docket No. 22-057-03, Data Response UAE 5.01, b.

$10,719,000. Hence, ratepayers enjoy a benefit of reduced rate base by virtue of DEU not removing the capitalized portion of the NPBC credit.

Q. HAS THE DIVISION CONSIDERED GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") AND OTHER AUTHORITY DURING ITS ANALYSIS OF DEU'S PROPOSED ELIMINATION OF CERTAIN PENSION ITEMS?

A. Yes. Mr. Stephenson addressed this somewhat vaguely and incompletely in his rebuttal testimony.[9] A closer view of the relevant standards is included here. Some may view removal of the pension costs for rate making purposes as a departure from GAAP accounting. For example, the Financial Accounting Standards Board ("FASB") recently issued a new pronouncement modifying accounting for pensions (AU 2017-07) limiting net periodic pension costs eligible for capitalization to the service cost component only.[10]

However, there is an exemption permitting alternate accounting for entities participating in a multiemployer pension plan (ASC 715-30-55-64) (DPU Exhibit 5.01 SR). This exception allows for an entity to account for its pension costs as employee benefit costs and does not require the entity to account for the service cost separate from the other periodic pension costs.

Further, the Federal Energy Regulatory Commission ("FERC") issued guidance in Docket No. AI18-1-000 in response to FASB's AU 2017-07 (DPU Exhibit 5.02 SR). FERC's guidance allows companies to continue capitalizing pension costs as they have in the past or elect to capitalize only the service cost component.

DEU is an entity participating in a multiemployer pension plan and uses the same accounting for pension cost for all of the operating entities under the parent company. The Division concludes sufficient authority exists to support DEU's current capitalization policy governing its pension costs. Removing certain pension items while not eliminating the capitalized portion of NPBC discussed earlier conflicts with

[9] Docket No. 22-057-03, Rebuttal Testimony of Jordan K. Stephenson, Lines 560-568.
[10] See asc.fasb.org; FASB Home>>Standards>>Accounting Standards Updates Issued>>Issued in 2017>>2017 07.

the GAAP completeness principles. Under this scenario, a portion of the accounting transactions are removed while a portion of the related transactions remain. DEU appears to have conducted a cost benefit analysis regarding removal of the capitalized portion and concluded the cost and efforts required to account for the removal outweighs the benefits. The Division concludes DEU's departure from GAAP's completeness principle in this instance is justified and will not prevent the establishment of just and reasonable rates with regard to pension issues and pension costs.

Q. HAS DEU OR ANOTHER PARTY ADDRESSED THE EFFECT OF VARYING PROPOSALS ON DEU'S CASH POSITION?

Somewhat. Mr. Stephenson does so only obliquely with reference to other states that have recognized an inequity of imputing a non-cash credit against expenses.[11] That discussion fails to fully address the effects of following UAE's or OCS's positions so I will more fully address the effects here.

The Pension Items DEU proposes to remove continue to represent transactions of a non-cash nature, the same as they were in the prior rate case. This is a characteristic that weighs in favor of removal for GRC purposes.

Because of the non-cash nature of the subject Pension Items in the current GRC, the inclusion of just the O&M credit portion of $9.72 million is equivalent to a rate of return reduction of 53 to 55 basis points based on the models provided by DEU in support of this GRC.

Q. IF A NEGATIVE EXPENSE IS NOT CREDITED TO RATEPAYERS, ISN'T THERE UNFAIRNESS TO RATEPAYERS?

A. No. Some parties have suggested if Pension Items are excluded from the GRC while expenses are in a credit position, then pension items should always be excluded, even when pension expense is a more traditional debit balance. The Commission

[11] Id. at Lines 658-721.

ruled wisely in the prior GRC by not ordering the exclusion of pension costs in the future.[12] The Division can foresee possible scenarios, such as a severe deterioration of the general investment market, that can cause unintended consequences and adverse results, placing the financial health of the utility at risk. It is prudent for the Commission to retain the ability to monitor and evaluate pension assets, liabilities, costs, funding requirements, and other pension features as events transpire in the future.

The pension asset must be viewed over its life. The plan is a prudent employee cost. Each payment into the plan represents a considered judgment about the ultimate cost of the plan. Money comes out of the plan only to pay recipients or in the winding up of the plan. A negative expense is simply an actuarial assessment at one point in time that the plan is overfunded. In this case, that overfunding is due in significant part to the $75M made by Dominion shareholders as part of the merger. No mechanism exists for removing funds to match this current assessment of the plan's position.

In any event, the assessment will change from year to year based on investment performance, actuarial assumptions, and the like. If it swings, as it may, to needing more payments, those expenses will likely be prudent. Recognizing a negative expense in this GRC would likely give a benefit to today's ratepayers at the expense of future ratepayers who would later need to make up new deficits as they occur. Given recent market results, this seems plausible. It is particularly inappropriate to shift these potential costs into the future as the number of employees participating in the plan dwindles over time with new retirements. While there will always be some temporal inequity in funding something like a pension plan, the public interest supports payments into the plan as necessary and credit to ratepayers on winding up if assets remain.

Q. DO YOU WISH TO SUMMARIZE THE DIVISION'S OPINION?

[12] Docket No. 19-057-02, Report and Order Issued February 25, 2020, pp. 20-21.

A. Yes. The Division concludes DEU's proposed treatment of the Pension Items in this GRC results in just and reasonable rates insofar as it pertains to pension issues and pension costs.

The characteristics of the Pension Items remain consistent with the most recent GRC.

Because the Pension Items represent non-cash transactions, their exclusion from the GRC as proposed by DEU is reasonable. The unique characteristic of pension accounts means that gains stay in the pension account and losses are, at some point, made up with or without ratemaking consequences depending upon the treatment of those losses.

FASB and FERC authority exists to support DEU's accounting treatment of the Pension Items.

Although, the removal of certain Pension Items conflicts with GAAP full disclosure and completeness principles, such treatment in this instance allows for the establishment of just and reasonable rates.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.