

**BEFORE THE
PUBLIC SERVICE COMMISSION OF UTAH**

**IN THE MATTER OF THE)
APPLICATION OF DOMINION)
ENERGY UTAH TO INCREASE) DOCKET NO. 22-057-03
DISTRIBUTION RATES AND)
CHARGES AND MAKE TARIFF)
MODIFICATIONS)**

Phase II Surrebuttal Testimony and Exhibit of

Brian C. Collins

On behalf of

Federal Executive Agencies

November 3, 2022

FEA Exhibit 5.0



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FEA Exhibit 5.01: Manitoba Public Utilities Board Order No. 109/22 Excerpt

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DOCKET NO. 22-057-03

Phase II Surrebuttal Testimony of Brian C. Collins

I. QUALIFICATIONS AND SUMMARY

1 I.A. Qualifications

2 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A My name is Brian C. Collins. My business address is 16690 Swingley Ridge
4 Road, Suite 140, Chesterfield, MO 63017.

5 Q ARE YOU THE SAME BRIAN C. COLLINS WHO FILED PHASE II DIRECT
6 TESTIMONY ON SEPTEMBER 15, 2022 AND PHASE II REBUTTAL
7 TESTIMONY ON OCTOBER 13, 2022 IN THIS CASE?

8 A Yes, I am.

1 **Q ON WHOSE BEHALF ARE YOU TESTIFYING?**

2 A I am offering Phase II surrebuttal testimony on behalf of the Federal Executive
3 Agencies (“FEA”), including Hill Air Force Base (“Hill AFB”), a customer in the
4 Transportation Service (“TS”) class of Dominion Energy Utah (“DEU” or “the
5 Company”).

6 **I.B. Summary**

7 **Q WHAT IS THE PURPOSE OF YOUR PHASE II SURREBUTTAL**
8 **TESTIMONY?**

9 A The purpose of my testimony is to respond to the Phase II rebuttal testimonies
10 of the Utah Association of Energy Users Intervention Group (“UAE”), DEU, Utah
11 Division of Public Utilities (“DPU”), the Utah Office of Consumer Services
12 (“OCS”), and the American Natural Gas Council, Inc. (“ANGC”).

13 To the extent that I do not address a position of any party on a particular
14 issue does not indicate tacit agreement regarding that issue.

15 **Q BASED ON THE REVIEW OF THE PARTIES’ REBUTTAL TESTIMONIES, DO**
16 **YOU MAINTAIN YOUR DIRECT TESTIMONY RECOMMENDATIONS?**

17 A Yes, I continue to recommend that distribution main cost allocation should follow
18 cost causation. Because the Peak & Average (“P&A”) method and the
19 distribution throughput allocation used by DEU do not appropriately follow cost

1 causation, the DEU proposal for the allocation of feeder main and large diameter
2 mains costs to DEU rate classes should be rejected.

3 These main costs should be allocated to customer classes using Design
4 Day Demand as recommended in my direct testimony. This appropriately
5 reflects class cost causation. I also continue to recommend my class revenue
6 allocation which used my modifications to the Company's class cost of service
7 study as a guide. My modifications to the Company class cost of service study
8 include using Design Day Demand for the allocation of both feeder main and
9 large diameter main costs as described in my direct testimony.

10 **Q BEFORE ADDRESSING PARTIES' REBUTTAL TESTIMONIES, HAVE**
11 **THERE BEEN ANY RECENT ORDERS BY A UTILITIES BOARD OR**
12 **COMMISSION THAT AGREE WITH YOUR POSITION THAT THE P&A**
13 **METHOD DOES NOT REFLECT COST CAUSATION?**

14 **A** Yes. In Manitoba, Canada, I testified on behalf of Koch Fertilizer Canada, ULC
15 in the Centra Gas Manitoba Inc. 2021 Cost of Service Methodology Review
16 proceeding, presenting testimony that established that the P&A method is not
17 reflective of cost causation for the allocation of demand-related costs associated
18 with gas transmission and distribution functions. At pages 46-47 of the
19 Manitoba Public Utilities Board ("PUB") order in that proceeding issued on
20 October 12, 2022, the Manitoba PUB agreed, stating the following:

21 The Board approves the use of a coincident peak methodology to
22 allocate the portion of costs related to Centra's downstream

1 Transmission and Distribution functions classified as Demand.
2 The allocation is to be based on an estimation of Centra's design
3 day peak rather than the three-year average of historical demand
4 peaks suggested by Centra.

5 The Board finds that a coincident peak design day allocation best
6 reflects cost causation for the Demand component of these
7 functions. The Board accepts Atrium's evidence that Centra must
8 rely on design day demand in planning and constructing
9 downstream transmission and distribution facilities. As such, a
10 coincident peak method based on a design day approach is
11 preferable to a coincident peak method based on an average of
12 historical consumption peaks, even if Centra will have to rely on
13 historical data to develop its design day metric.

14 **In contrast, the peak and average methodology allocates**
15 **Demand-related costs in part based on the annual**
16 **consumption of each class. However, because Centra**
17 **designs and constructs its system to meet the winter peak**
18 **day, the annual use of the system does not cause Centra to**
19 **incur any Demand-related costs. The Board accepts the**
20 **evidence of Koch's expert that the peak and average**
21 **methodology is not reflective of cost causation, as Centra's**
22 **system must be sized to meet its design day peak demand.**
23 **(Emphasis added)**

24 The above citation from the Manitoba PUB order has been attached as FEA
25 Exhibit 5.01.

II. RESPONSE TO OTHER WITNESSES

II.A. Response to Mr. Kevin Higgins

27 **Q HAVE YOU REVIEWED THE PHASE II REBUTTAL TESTIMONY OF MR.**
28 **HIGGINS ON BEHALF OF THE UAE?**

29 **A** Yes, I have reviewed the Phase II rebuttal testimony of Mr. Higgins filed on
30 behalf of the UAE. Mr. Higgins supports the P&A method for the allocation of

1 feeder main costs to DEU's customer classes. At page 17 of his rebuttal
2 testimony, he opines that the basis of his recommendation for the allocation of
3 a portion of feeder main costs to customer classes using throughput is that it is
4 a required ingredient to allocate costs to interruptible customers.

5 **Q HOW DO YOU RESPOND?**

6 A I respectfully disagree that the allocation of distribution main costs using
7 throughput is a necessary ingredient to allocate main costs to interruptible
8 customers. Unfortunately, the use of the P&A method as recommended by
9 Mr. Higgins inappropriately results in the over-allocation of feeder main costs to
10 all customers in the transportation class, which includes firm high load factor
11 customer loads. This is because of the inappropriate introduction of throughput
12 into the cost allocation process. Throughput is not used to design DEU's mains
13 and it is not a cost-causal factor for the installation of mains by DEU to provide
14 service to its customer loads.

15 As explained in my direct and rebuttal testimonies, the P&A method is
16 not a true cost allocation method because it introduces cost mitigation into the
17 cost allocation process by allocating a portion of main costs on throughput. This
18 is inappropriate because throughput is not a cost-causal factor for mains
19 investment. As a result of introducing volume into the cost allocation, class cost
20 of service is not measured accurately in comparison to current rates. Cost

1 allocation and cost mitigation should be sequential steps in the ratemaking
2 process and not occur concurrently.

3 **Q ARE THERE ALTERNATIVE WAYS TO ALLOCATE FEEDER MAINS COSTS**
4 **TO INTERRUPTIBLE CUSTOMERS BESIDES THE P&A METHOD?**

5 A Yes. Though the Design Day Demand method appropriately allocates costs to
6 customers, including those customer loads that are interruptible in the
7 transportation class and the interruptible sales class, there are alternatives. It
8 should be noted that DEU's transportation tariff allows for the provision of
9 service to interruptible transportation loads only on a reasonable efforts basis.
10 These loads are not planned for by DEU to be served on the day of highest
11 demand on the system and are appropriately excluded from Design Day
12 Demands in the Company's class cost of service study. That being said, if the
13 Commission has concerns as to how interruptible customers are allocated
14 costs, there are more appropriate alternatives to the P&A method for allocating
15 costs to interruptible customers that do not punish firm customers in the
16 process.

17 For example, because the Interruptible Sales class has only
18 customers as noted by Mr. Summers at page 19 of his rebuttal testimony, a
19 special study could be performed to determine what capital investment cost for
20 feeder mains can be appropriately and directly assigned to the Interruptible
21 Sales class that reflects the costs of connecting interruptible customers to the

1 Company's system while allocating main costs to all other classes using the
2 Design Day Demand method. When costs can be directly assigned to a class
3 of customers, it should be done because this method would best reflect cost
4 causation.

5 A special study could also be conducted with respect to interruptible
6 loads in the Transportation class. For example, interruptible transportation
7 customers that are 100% interruptible could be placed in their own rate class
8 and rates could be developed for these customers specifically based on the
9 feeder main costs incurred to connect them to the DEU system. As noted by
10 Mr. Summers in his rebuttal testimony on behalf of DEU at page 19, there are
11 1,052 delivery points in the TS class that have gas delivered to them. Of those
12 delivery points, 30, or 2.8% of the total delivery points, are 100% interruptible,
13 while 880 delivery points, or 83.6%, are 100% firm demand, with the remaining
14 142 delivery points, or 13.5%, having both firm and interruptible firm demands.
15 According to Mr. Summers, 15% of the total 2021 TS class volumes are
16 interruptible.

17 The allocation of costs to interruptible customers that constitute 15% of
18 total TS volume is not a reason to abandon and ignore appropriate class
19 cost-causation principles for the majority of customer loads in the TS class that
20 are firm loads by inappropriately allocating capacity-related costs to all classes
21 and customers based on the P&A method.

1 Any class impact concerns resulting from establishing rates on an
2 appropriate measure of class cost of service, for example through a combination
3 of the Design Day Demand method for firm customers and direct assignment of
4 costs to interruptible loads through special studies, should be handled in the
5 class revenue allocation and rate design steps and not in the cost allocation
6 process. This will ensure that the cost allocation and any mitigation measures
7 would appropriately remain sequential and not concurrent.

8 **II.B. Response to Mr. Austin Summers**

9 **Q HAVE YOU REVIEWED THE PHASE II REBUTTAL TESTIMONY OF MR.**
10 **SUMMERS ON BEHALF OF DEU?**

11 A Yes, I have reviewed the Phase II rebuttal testimony of Mr. Summers filed on
12 behalf of DEU.

13 **Q AT PAGE 2 OF HIS PHASE II REBUTTAL TESTIMONY, MR. SUMMERS**
14 **CLAIMS THAT PARTIES OTHER THAN DPU IN THIS CASE HAVE CHOSEN**
15 **A METHOD THAT DIRECTLY BENEFITS THE SPECIFIC CUSTOMERS OF**
16 **THE CLASS THEY REPRESENT. HOW DO YOU RESPOND?**

17 A Mr. Summers' testimony appears to imply that parties are results-oriented in
18 their selection of a cost allocation method. In response to his testimony, it is
19 important to stress that a selection of an appropriate cost allocation method
20 should be supported by proper evidence and based on appropriate cost

1 allocation and cost-causation principles. It is also important to note that FEA
2 has customers that are both low load factor customers and high load factor
3 customers, and FEA accounts on the DEU system take service under various
4 rate schedules from DEU. That being said, costs should be allocated
5 appropriately to all customer classes based on appropriate cost of service
6 principles and not on who supposedly benefits or doesn't benefit. Benefits are
7 in the eye of the beholder.

8 Mr. Summers also indicated at page 2 of his rebuttal testimony that in his
9 opinion, the P&A method is a fair compromise to all customer classes. As I
10 have indicated throughout my testimony, compromises or rate mitigation when
11 appropriate should not occur in the cost allocation process, but rather through
12 class revenue allocation and rate design.

13 **Q AT PAGE 4 OF HIS PHASE II REBUTTAL TESTIMONY, MR. SUMMERS**
14 **CLAIMS THE COMPANY'S PROPOSAL CONSIDERED HOW THE SYSTEM**
15 **IS DESIGNED AND HOW CUSTOMERS ARE USING THE SYSTEM BY**
16 **BLENDING THE THROUGHPUT FACTOR WITH THE DESIGN DAY**
17 **FACTOR. HOW DO YOU RESPOND?**

18 **A** The system is designed to meet Design Day Demand, and not throughput. Thus
19 using Design Day Demand to allocate main costs to customers appropriately
20 reflects cost causation. Throughput does not reflect cost causation on the DEU
21 system and should not be considered in the allocation of main costs to customer

1 classes. Introducing a non-cost-causal factor such as throughput into the cost
2 allocation process is inappropriate.

3 **Q AT PAGE 6 OF HIS PHASE II REBUTTAL TESTIMONY, MR. SUMMERS**
4 **CLAIMS THAT ALLOCATING COSTS 100% ON DEMAND IGNORES THE**
5 **FACT THAT HIGH LOAD FACTOR CUSTOMERS ARE INDEED USING THE**
6 **SYSTEM. HOW DO YOU RESPOND?**

7 A When appropriately allocating costs to customer classes, Mr. Summers fails to
8 recognize that only uses (e.g., using the system to meet peak demands) that
9 actually drive the costs incurred by DEU in providing service to customers
10 should be considered in the cost allocation process. Mains are installed to meet
11 system peak demands. Though distribution mains are used throughout the year
12 for providing service to customers, the only way to ensure daily demands are
13 met by DEU is to install mains with sufficient capacity to meet the day of greatest
14 demand. Thus, Design Day Demand is the appropriate cost-causal factor for
15 determining the costs in providing service to customers, not annual throughput.
16 To imply that high load factor customers are somehow not being allocated the
17 costs they cause the utility to incur when allocating mains costs on Design Day
18 Demand is incorrect.

1 **Q AT PAGE 7 OF HIS PHASE II REBUTTAL TESTIMONY, MR. SUMMERS**
2 **CLAIMS THAT WITNESSES IN THIS CASE CHOSE A CALCULATION, THE**
3 **DESIGN DAY DEMAND ALLOCATION, THAT HEAVILY FAVORS THE**
4 **LARGE CUSTOMERS IN THE TS CLASS. HOW DO YOU RESPOND?**

5 A Again, Mr. Summers fails to recognize the principle of cost causation in making
6 this claim and also ignores the evidence that demonstrates Design Day Demand
7 appropriately reflects the cost of mains incurred by DEU to service its customer
8 classes. He has provided no evidence that annual throughput is a cost-causal
9 factor when installing mains to provide delivery service to customers. DEU does
10 not incur main costs to meet the total annual throughput of its customer classes.

11 **Q AT PAGE 9 OF HIS PHASE II REBUTTAL TESTIMONY, MR. SUMMERS**
12 **CLAIMS THE P&A METHOD HAS EFFECTIVELY AND FAIRLY ALLOCATED**
13 **COSTS TO CUSTOMERS WHO CAUSE THEM. HOW DO YOU RESPOND?**

14 A Mr. Summers is incorrect. Again, he has provided no evidence that annual
15 throughput is a cost-causal factor when DEU installs mains to provide delivery
16 service to customers. The P&A method, which utilizes annual throughput in the
17 cost allocation formula, is inappropriate for allocating costs to customer classes.
18 The P&A method does not appropriately allocate costs to those customers who
19 cause DEU to incur them.

1 **Q AT PAGE 11 OF HIS PHASE II REBUTTAL TESTIMONY, MR. SUMMERS**
2 **CLAIMS THAT BOTH MR. HIGGINS AND YOU HAVE OFFERED NOTHING**
3 **TO SUGGEST THAT YOUR ALTERNATIVES ARE BETTER APPROACHES**
4 **FOR THE ALLOCATION OF LARGE DIAMETER MAIN COSTS ON DESIGN**
5 **DAY DEMANDS. HOW DO YOU RESPOND?**

6 **A Mr. Summers is incorrect. Again, this view ignores the preponderance of**
7 evidence that Design Day Demand best reflects class causation on the
8 Company's system and is appropriate for allocating costs to customer classes.
9 Moving rates toward cost of service based on appropriate cost causation
10 principles is a better approach.

11 **II.C. Response to Mr. James Daniel**

12 **Q HAVE YOU REVIEWED THE PHASE II REBUTTAL TESTIMONY OF MR.**
13 **DANIEL ON BEHALF OF THE OCS?**

14 **A Yes, I have reviewed the Phase II rebuttal testimony of Mr. Daniel filed on behalf**
15 of the OCS.

16 His main criticism of my modifications to the DEU class cost of service
17 study is that Design Day Demands allocate more costs to certain classes when
18 my study results are used to guide class revenue allocation as compared to the
19 Company's class cost of service study. This criticism ignores proper cost
20 causation. Mr. Daniel's view is results oriented and ignores appropriate cost
21 causation principles.

1 **II.D. Response to Mr. Timothy Oliver**

2 **Q HAVE YOU REVIEWED THE PHASE II REBUTTAL TESTIMONY OF MR.**
3 **OLIVER ON BEHALF OF THE ANGC?**

4 **A** Yes, I have reviewed the Phase II rebuttal testimony of Mr. Oliver filed on behalf
5 of the ANGC.

6 **Q MR. OLIVER OPINES IN RESPONSE TO YOUR TESTIMONY THAT**
7 **INTERSTATE PIPELINES AND DISTRIBUTION UTILITIES ARE DIFFERENT**
8 **IN TERMS OF CAPACITY COST ALLOCATION, WHICH JUSTIFIES A**
9 **THROUGHPUT ALLOCATION OF CAPACITY COSTS. HOW DO YOU**
10 **RESPOND?**

11 **A** Mr. Oliver implies that because distribution utilities have sales customers
12 without contract demands somehow justifies an allocation of capacity-related
13 costs on throughput due to demand uncertainty for sales customers.

14 In response, throughput has nothing to do with providing service to the
15 sales customers of DEU. Annual throughput is not a cost-causal factor for DEU
16 when installing distribution mains, nor does annual throughput have anything to
17 do with demand uncertainty for sales customers. To allocate main costs to
18 customers using throughput is arbitrary. Utilities design their system to meet
19 the expected firm design day demand of their customers, and not throughput.

20 Furthermore, Mr. Oliver at page 16 of his rebuttal testimony appears
21 concerned about reliable service to distribution utility customers. In order to

1 provide reliable service to firm customers, costs for mains are incurred to meet
2 the expected Design Day Demand of their customers. As indicated in my direct
3 testimony, if a utility builds its system to meet design day demand, it follows that
4 it can meet the daily demands of its customers. Using throughput for cost
5 allocation implies that utilities somehow incur main costs based on throughput.
6 Designing distribution mains to meet annual throughput or average demand
7 would not result in sufficient capacity required to meet the expected firm peak
8 demands of customers and as a result, utilities would not provide reliable
9 delivery service to their customers.

10 **II.E. Response to Mr. Abdinasir M. Abdulle**

11 **Q HAVE YOU REVIEWED THE PHASE II REBUTTAL TESTIMONY OF MR.**
12 **ABDULLE ON BEHALF OF THE DPU?**

13 **A** Yes, I have reviewed the Phase II rebuttal testimony of Mr. Abdulle filed on
14 behalf of the DPU.

15 At page 4 of his rebuttal testimony, Mr. Abdulle continues to oppose the
16 use of the Design Day Demand method in favor of allocating mains costs using
17 the P&A method. He claims that “the Division does not believe that use of the
18 P&A method unduly punishes the high load factor TSL customers as the TSL
19 customer class is not currently covering their cost of service.”¹ However, Mr.
20 Abdulle’s viewpoint is based on an inappropriate measure of class cost of

¹Phase II Rebuttal Testimony of Abdinasir M. Abdulle for the Division of Public Utilities, Exhibit No. DPU 4.0R, at 4, lines 89-92.

1 service, the P&A method. If Design Day Demand is used to appropriately
2 allocate main costs to customer classes, the TSL customers are paying more
3 than their cost of service under current rates. As a result, I continue to
4 recommend that the use of the P&A method as supported by the DPU and other
5 parties be rejected.

6 **II.F. Response to Mr. Kelly Mendenhall**

7 **Q HAVE YOU REVIEWED THE PHASE II REBUTTAL TESTIMONY OF MR.**
8 **MENDENHALL ON BEHALF OF DEU?**

9 A Yes, I have reviewed the Phase II rebuttal testimony of Mr. Mendenhall filed on
10 behalf of DEU.

11 **Q AT PAGE 11 OF HIS REBUTTAL TESTIMONY, MR. MENDENHALL CLAIMS**
12 **THAT YOUR INFRASTRUCTURE REPLACEMENT ADJUSTMENT**
13 **TRACKER MECHANISM (“IRAT”) PROPOSAL RESULTS IN A MISMATCH**
14 **OF TRACKER AND NON-TRACKER RELATED COSTS BY NETTING**
15 **NON-TRACKER DEPRECIATION EXPENSE WITH TRACKER**
16 **INVESTMENT. HOW DO YOU RESPOND?**

17 A My proposal recognizes that costs that qualify to be recovered in the IRAT are
18 in part recovered in base rates, and in part recovered in the IRAT through its
19 tariff rate design formula. To protect customers, the Company should not be
20 able to collect combined base rate and IRAT charges that exceed the total IRAT

1 costs. If my proposed modification to the IRAT rate design is accepted, then all
2 of the relevant factors would be considered in determining the correct IRAT
3 surcharge rate.

4 **Q DO YOU HAVE ANY ADDITIONAL RESPONSE TO MR. MENDENHALL?**

5 A Yes. At page 12 of his rebuttal testimony, Mr. Mendenhall claims that the pipe
6 being replaced in the IRAT program was installed prior to 1970 and is fully
7 depreciated by now. He further claims that by extension, because the original
8 investment amounts have already been fully offset by accumulated depreciation
9 for the base rate calculation in this case, there is no additional accumulated
10 depreciation that would need to be added in a future tracker filing related to
11 these IRAT pipelines. In Mr. Mendenhall's view, all of the base rate depreciation
12 is unrelated to the actual pipe being replaced and should not be included in the
13 IRAT tariff formula used to calculate the IRAT rate.

14 In response to Mr. Mendenhall, if depreciation expense for fully
15 depreciated plant is still being recovered in base rates, then that depreciation
16 expense should be booked in accumulated depreciation reserve even if the
17 plant is fully depreciated.

18 Mr. Mendenhall attempts to distinguish depreciation expense on the
19 aging infrastructure claiming that the aging investment is fully depreciated.
20 Despite the possibility that certain amounts of aging infrastructure may be fully
21 depreciated, those assets continue to have depreciation expense included in

1 customer rates. Mr. Mendenhall has failed to show that for ratemaking
2 purposes, the depreciation on those aged investments has ceased being
3 collected from customers in their rates. Depreciation expense continues to be
4 collected from ratepayers even after an asset has become fully depreciated.

5 **Q DO YOU HAVE CONCERNS ABOUT THE EXAMPLE MR. MENDENHALL**
6 **PROVIDED IN HIS REBUTTAL TESTIMONY AT PAGE 13?**

7 A Yes. On page 13 of his rebuttal testimony, Mr. Mendenhall attempts to provide
8 an example of my proposal using actual numbers. After reviewing his testimony,
9 it became clear to me that Mr. Mendenhall does not understand what I am
10 proposing.

11 There are many mistakes in his example. Mr. Mendenhall uses the
12 depreciation expense in the mains account (\$48.3 million) to offset the 2023
13 investment in mains of \$204.3 million. He says my logic would result in a
14 shortfall of \$156 million that must be recovered by some other means. This is
15 entirely incorrect.

16 **Q HAVE YOU CORRECTED MR. MENDENHALL'S EXAMPLE?**

17 A Yes. Mr. Mendenhall states that projected depreciation expense for mains in
18 2023 will be \$48.3 million. My proposal is for the IRAT rate design formula to
19 recognize that \$48.3 million as an offset to the return calculation in the IRAT
20 surcharge. Assuming a theoretical rate of rate of return of 10%, the \$48.3 million

1 in mains depreciation expense in 2023 results in an offset to the return
2 calculation in the IRAT formula and reduces the return portion of the IRAT
3 surcharge by \$4.8 million ($\$48.3 \times 10\%$) when calculating the IRAT surcharge.

4 **Q WHY IS IT APPROPRIATE TO REDUCE THE IRAT FORMULA**
5 **CALCULATION BY \$4.8 MILLION WHEN DETERMINING THE IRAT RATE?**

6 A The mains net plant balance included in customer rates will decline by
7 \$48.3 million using Mr. Mendenhall's example. Therefore, if rates were reset
8 after 2023, the net plant balance for the mains account would be \$48.3 million
9 less. By reducing the return component on the IRAT surcharge, one has
10 captured the decline in the plant totals where the IRAT investment will eventually
11 be booked. Reducing the IRAT surcharge by the decrease in net plant that will
12 include the IRAT investment would result in DEU customers paying an
13 appropriate IRAT surcharge and still allow DEU to capture the incremental costs
14 of the IRAT additions through its IRAT surcharge. If my proposal is not
15 accepted, then DEU will recognize \$4.8 million of enhanced profits recovered in
16 the IRAT surcharge while also allowing DEU a special regulatory mechanism to
17 collect costs from the replacement of aged assets.

1 **Q PLEASE BRIEFLY EXPLAIN HOW THE MAINS ACCOUNT NET PLANT**
2 **BALANCE DECLINES BY \$48.3 MILLION.**

3 A Annual depreciation expense is recorded in the accumulated depreciation
4 reserve. The accumulated depreciation reserve is deducted to arrive at net
5 plant. As Mr. Mendenhall claimed, in 2023 the mains account depreciation
6 expense is \$48.3 million. At year end, that translates into a reduced mains
7 account net plant balance of \$48.3 million.

8 **Q HOW DOES A REDUCED NET PLANT BALANCE AFFECT COST OF**
9 **SERVICE?**

10 A Net plant is used to calculate the rate of return used in the IRAT formula. If the
11 decreased net plant balance is not recognized, the IRAT surcharge will result in
12 an over collection of costs. My proposal simply makes sure that customers are
13 not charged higher rates for the IRAT surcharge than they otherwise would be
14 if all of the relevant factors of the surcharge were considered in the IRAT tariff
15 formula.

III. CONCLUSION

1 **Q BASED ON YOUR REVIEW OF THE UAE, DEU, DPU, OCS, AND ANGC**
2 **PHASE II REBUTTAL TESTIMONIES, DO YOU CONTINUE TO**
3 **RECOMMEND THAT REVENUES BE ALLOCATED TO CLASSES AS**
4 **PROPOSED IN YOUR PHASE II DIRECT TESTIMONY?**

5 **A**Yes, I continue to recommend the class revenue allocation proposed in my
6 Phase II direct testimony. My proposed class revenue allocation contained in
7 my Phase II direct testimony is guided by my revisions to the Company's class
8 cost of service study, which appropriately allocates the costs of both feeder
9 mains and large diameter distribution mains using Design Day Demand and
10 properly reflects class cost causation.

11 **Q DOES THIS CONCLUDE YOUR PHASE II SURREBUTTAL TESTIMONY?**

12 **A**Yes, it does.

449613

**Public
Utilities
Board**

**Régie
des
services
publics**

Order No. 109/22

**ORDER IN RESPECT OF A REVIEW OF
CENTRA GAS MANITOBA INC.'S
COST OF SERVICE METHODOLOGY**

October 12, 2022

BEFORE: Marilyn Kapitany, B.Sc. (Hon), M.Sc., Panel Chair
Susan Nemec, FCA, FCPA, Member



day peak and not the peak used for Centra's load forecast. The latter reflects low temperatures that may fall short of the extreme temperatures used for the design day.

IGU and Koch support Centra's proposal to revisit the classification of distribution mains. Neither Intervener takes a position on the issue of the update of Centra's existing service line and meter allocation studies. IGU's expert concluded that the Mainline class is currently allocated some costs that should not be allocated to that class. Specifically, IGU's expert stated that assets functionalized as Distribution and used to supply service at less than 1,900 kPa should not be allocated to the Mainline class, except through direct assignment if certain limited assets are dedicated to serving these customers. IGU and Koch adopt the position of IGU's expert and recommend that the Board direct Centra to file, in the next general rate application, a full characterization of distribution assets allocated to the Mainline class and, if necessary, directly assign certain distribution assets to that class.

6.3 Board Findings

Allocation of the Demand Component of Costs included in Centra's Transmission and Distribution Functions

The Board approves the use of a coincident peak methodology to allocate the portion of costs related to Centra's downstream Transmission and Distribution functions classified as Demand. The allocation is to be based on an estimation of Centra's design day peak rather than the three-year average of historical demand peaks suggested by Centra.

The Board finds that a coincident peak design day allocation best reflects cost causation for the Demand component of these functions. The Board accepts Atrium's evidence that Centra must rely on design day demand in planning and constructing downstream transmission and distribution facilities. As such, a coincident peak method based on a design day approach is preferable to a coincident peak method based on an average of historical consumption peaks, even if Centra will have to rely on historical data to develop its design day metric.



In contrast, the peak and average methodology allocates Demand-related costs in part based on the annual consumption of each class. However, because Centra designs and constructs its system to meet the winter peak day, the annual use of the system does not cause Centra to incur any Demand-related costs. The Board accepts the evidence of Koch's expert that the peak and average methodology is not reflective of cost causation, as Centra's system must be sized to meet its design day peak demand.

When the Board approved Centra's use of a peak and average methodology to allocate Demand-related costs in 1996, it was concerned about system operation not being reflected in the cost of service methodology. Specifically, the Board was concerned that the Interruptible class received the use of the system without being included in the demand allocator, even though the class had the option of switching to firm service at any time, which means Centra had to design its system to accommodate the class.

As indicated by Centra in this hearing, Centra proposes to include the Interruptible class in the calculation of the coincident peak allocator. The Board considers that treatment to be appropriate as Interruptible customers are eligible to switch to firm service, and Centra must ensure that its system is designed to meet their peak demands. Centra explained that in the past 20 years it has never interrupted or curtailed service to any Interruptible customers based on downstream capacity issues.

The Board expects Centra to explain, at the next general rate application, how it arrived at a design day allocator for each customer class and how it compares to the historical peak day method for that class, including for Interruptible customers.

The Board agrees with CAC Manitoba's submission that there is a range of acceptable cost of service methods and that a cost of service study involves considerable judgment. Both the peak and average method and the coincident peak method are accepted by the U.S.-based National Association of Regulatory Utility Commissioners (NARUC), a recognized authority on public utility regulation. A change in methodology from the peak and average methodology approved in 1996 does not reflect unfairness or inequity, as