BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF ENBRIDGE GAS UTAH TO INCREASE DISTRIBUTION RATES AND CHARGES AND MAKE TARIFF MODIFICATIONS	**Docket No. 25-057-06**

PHASE I DIRECT TESTIMONY

AND EXHIBITS

OF

JUSTIN BIEBER

On Behalf of the

Utah Association of Energy Users

August 26, 2025

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PHASE I DIRECT TESTIMONY OF JUSTIN BIEBER

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Justin Bieber. My business address is 111 E Broadway, Suite 1200, Salt Lake City, Utah, 84111.

Q. By whom are you employed and in what capacity?

A. I am a Principal for Energy Strategies, LLC. Energy Strategies is a private consulting firm specializing in economic and policy analysis applicable to energy production, transportation, and consumption.

Q. On whose behalf are you testifying in this proceeding?

A. My testimony is being sponsored by the Utah Association of Energy Users ("UAE").

Q. Please describe your professional experience and qualifications.

A. My academic background is in business and engineering. I earned a Bachelor of Science in Mechanical Engineering from Duke University in 2006 and a Master of Business Administration from the University of Southern California in 2012. I am also a registered Professional Civil Engineer in the state of California.

I joined Energy Strategies in 2017, where I provide regulatory and technical support on a variety of energy issues, including regulatory services, transmission and renewable development, and financial and economic analyses. While at Energy Strategies, I have filed and supported the development of testimony before various state utility regulatory commissions.

Prior to joining Energy Strategies, I held three positions at Pacific Gas and Electric Company (PG&E) as Manager of Transmission Project Development, ISO Relations and Federal Energy Regulatory Commission (FERC) Policy Principal, and Supervisor of Electric Generator Interconnections. During my career at PG&E, I supported multiple facets of utility operations, and led efforts in policy, regulatory, and strategic initiatives, including supporting the development of testimony before and submitting comments to the FERC, California Independent System Operator, and the California Public Utilities Commission.

Q. Have you testified previously before this Commission?

A. Yes. I testified in the following proceedings before this Commission:

- Dominion Energy Utah's ("DEU") request for approval to construct an LNG Facility, Docket No. 19-057-13;
- Rocky Mountain Power's (RMP) 2020 general rate case, Docket No. 20-035-04;
- RMP's application for alternative cost recovery for major plant additions, Docket No. 21-035-42;
- RMP's application for a certificate of public convenience and necessity for the Gateway South Transmission Project, Docket No. 21-035-54; and
- RMP's 2024 general rate case, Docket No. 24-035-04.

Q. Have you filed testimony previously before any other state utility regulatory commissions?

A. Yes. I have testified in more than 70 regulatory proceedings on the subjects of utility rates and regulatory policy before state utility regulators in Colorado, Indiana, Kansas, Kentucky, Michigan, Montana, Nevada, New Mexico, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Texas, Virginia, Washington, West Virginia, and Wisconsin.

II. OVERVIEW & CONCLUSIONS

Q. What is the purpose of your Phase I direct testimony in this proceeding?

A. My testimony addresses certain revenue requirement issues in this general rate case. As part of my testimony, I make recommendations to adjust the revenue requirement proposed by Enbridge Gas Utah ("Enbridge," "EGU," or the "Company.")

Q. What revenue increase is Enbridge recommending?

A. In its direct filing, Enbridge is proposing a Utah Jurisdiction Distribution Non-Gas ("DNG") revenue increase of $114,669,749, or 20.68% on an annual basis.[1] Enbridge calculates its proposed increase relative to a forecasted level of current revenues that includes adjustments to reflect forecasted customer growth and customer usage, allowed revenue-per-customer under the Conservation Enabling

[1] *See* EGU Exhibit 5.07, page 2.

Tariff ("CET") mechanism,[2] and projected future tracker filings.[3] On August 20, 2025, Enbridge provided a revised version of its rate case model in response to Data Request DPU FDR 1.18, which corrects numerous errors identified in discovery.[4] Enbridge's revised rate case model indicates a Utah DNG revenue deficiency of $117,920,495. I used this revised model as the baseline for the revenue requirement adjustments recommended in my Direct Testimony. However, Enbridge bears the burden of demonstrating that its proposed corrections and any resultant increase in the revenue deficiency are warranted.

Q. Please summarize the revenue requirement adjustments you are recommending.

UAE's recommended adjustments reduce Enbridge's proposed revenue requirement increase by a total of **$57,433,838**, including the impact of the cost of capital recommendations in the Direct Testimony of Mr. David J. Garrett, which UAE is co-sponsoring along with the Office of Consumer Services.

My adjustments are presented in Table JB-1 below. My recommended adjustments are as follows:

1) I incorporate corrections to errors in Enbridge's labor operation & maintenance ("O&M") expenses and payroll taxes identified in discovery and through my

[2] *See* Direct Testimony of Jordan K. Stephenson (EGU Exhibit 4.0), pp. 6-8.
[3] *See* EGU Exhibit 5.11, Enbridge response to Data Request UAE 1.11, UAE 1.11 Attachment 1, included in UAE Exhibit RR 1.6.
[4] *See* Enbridge response to Data Request DPU FDR 1.18. This narrative response is included in UAE Exhibit RR 1.6. I have not included the revised rate case model (DPU FDR 1.18 Attachment) in UAE Exhibit RR 1.6, since this attachment is voluminous.

review of Enbridge's revenue requirement calculations.[5] This adjustment increases the Utah revenue requirement by **$1,532,588**.

2) I recommend that the incentive compensation expense related to financial goals be excluded from the revenue requirement. This adjustment reduces the Utah revenue requirement by **$3,361,767**.

3) Enbridge's proposed labor O&M expense should be reduced because it is based on a budgeted full-time equivalent ("FTE") employee count that is greater than the actual FTE count. I recommend basing test period labor expense on the average actual FTE count during the 12 months ended May 2025. This adjustment reduces the Utah revenue requirement by **$8,224,593**.

4) I recommend that capitalized incentive compensation related to financial goals be excluded from rate base for capital additions from 2023 forward. This adjustment reduces the Utah revenue requirement by approximately **$998,777**.

5) I incorporate the revenue requirement impact of the cost of capital recommendations of Mr. Garrett, which reduce the Utah revenue requirement by approximately **$46,381,291**, calculated using rate base that includes my recommended adjustments.

6) If the Commission approves the continuation of the Infrastructure Rate Adjustment ("IRA") Tracker, I recommend that revenues recovered through the

[5] *See* Enbridge responses to Data Requests UAE 4.05 and UAE 5.03, included in UAE Exhibit RR 1.6. The revised version of Enbridge's model, provided in response to Data Request DPU FDR 1.18, as well as its original and updated models, EGU Exhibit 5.14 and EGU Exhibit 5.14U, all contain these errors.

tracker mechanism be limited as much as possible in order to provide reasonable cost containment for the tracker mechanism.

Table JB-1
UAE Revenue Requirement Adjustments

Adjustment Description	UT Jurisdiction Adjustment Impact	UT Jurisdiction Deficiency
Enbridge Requested Increase - As-Filed		$114,669,749
Enbridge Requested Increase - DPU FDR 1.18	$3,250,746	$117,920,495
UAE Adjustments		
Labor O&M, Payroll Tax Error Corrections	$1,532,588	$119,453,084
Financial Incentive Comp Expense Adj.	($3,361,767)	$116,091,317
Employee Count Adjustment	($8,224,593)	$107,866,724
Capitalized Financial Incentive Comp Adj.	($998,777)	$106,867,948
UAE Cost of Capital Recommendation	($46,381,291)	$60,486,657
Total UAE Adjustments	($57,433,838)	
Increase with UAE Recommended Adjustments		$60,486,657

III. REVENUE REQUIREMENT

<u>Acquisition by Enbridge Inc.</u>

Q. This is the first general rate case since Questar Gas Company's parent was acquired by Enbridge Quail Holdings, LLC, whose ultimate parent is Enbridge Inc. Please explain how this acquisition impacts the proposed corporate/affiliate costs included in the revenue requirement.

A. Questar Gas Company, now doing business as Enbridge Gas Utah, is currently in a transition period. During the 2024 base period, Questar Gas Company was sold by Dominion Energy Inc., to a subsidiary of Enbridge Inc., a Canadian corporation.

Under a Transition Services Agreement ("TSA"), Dominion Energy Services ("DES") is expected to continue providing corporate services to Questar Gas Company through 2026, prior to the full integration into Enbridge Inc.[6] The proposed test period in this proceeding is the forecasted year ending December 31, 2026,[7] coinciding with the final anticipated year of DES's transition services under the TSA.

Enbridge's proposed revenue requirement reflects a blend of projected corporate costs allocated from DES, Questar Corporation, and Enbridge Inc. and its affiliates.[8] DES allocates both labor and non-labor costs to Questar Gas Company for services such as Accounting, Treasury, Legal, and Human Resources.[9] As described in the Direct Testimony of Mr. Jordan K. Stephenson, corporate cost allocations from DES declined in mid-2024 following the acquisition. However, Enbridge Inc. and its affiliates did not allocate corporate costs to the newly acquired distribution companies during 2024. Enbridge now proposes to add \$6.04 million (\$6.13 million after inflation) to the revenue requirement to represent the corporate costs that would have been allocated from Enbridge Inc. "had it pushed corporate charges down to the newly acquired distribution companies."[10]

[6] *See* Enbridge responses to Data Requests UAE 4.03 and 5.04, included in UAE Exhibit RR 1.6.
[7] *See* Direct Testimony of Kelly B. Mendenhall (EGU Exhibit 1.0), p. 4.
[8] *See* Direct Testimony of Jordan K. Stephenson (EGU Exhibit 4.0), pp. 13-14; Enbridge response to Data Request UAE 4.03, and UAE 4.03 Attachment 1, included in UAE Exhibit RR 1.6.
[9] *See* Enbridge response to Data Request UAE 4.03 included in UAE Exhibit RR 1.6.
[10] *See* Direct Testimony of Jordan K. Stephenson (EGU Exhibit 4.0), pp. 13-14.

In addition, Enbridge proposes to adjust its intracompany labor costs to include costs for 134 former DES employees who were transferred to Questar Gas Company in June 2024.[11]

Q. Does this recent acquisition create any challenges in determining the appropriate revenue requirement in this case?

A. Yes. Assessing the appropriate level of corporate/affiliate costs to include in the revenue requirement is challenging because it is unclear whether Enbridge's proposed amounts accurately reflect going-forward costs. In response to a UAE data request to provide projections of corporate cost allocations from Enbridge Inc. for 2025, 2026, or 2027, the Company stated that it has not received such projections.[12]

In the absence of more reliable information, I have limited my recommended adjustments to the proposed revenue requirement. Nonetheless, I remain concerned that the revenue requirement may include costs that are not representative of the Company's going-forward operations. In addition to the cost uncertainties stemming from the corporate transition, my concerns are further heightened by the Company's method of determining its labor-related O&M expenses, which I address in greater detail in the following section of my testimony.

[11] *See* Enbridge response to Data Request UAE 5.04, included in UAE Exhibit RR 1.6. In this testimony, intracompany labor refers to the direct labor and labor overhead of Questar Gas Company employees.
[12] *See* Enbridge response to Data Request UAE 5.04(g), included in UAE Exhibit RR 1.6

<u>Labor O&M Expenses – General Concerns</u>

Q. Before turning to your recommended adjustments, please explain your other concerns with the general approach Enbridge used to calculate the labor O&M expenses included in its proposed revenue requirement.

A. Enbridge has continued to utilize the approach to projecting labor O&M expenses that was used by its predecessor, DEU, as discussed in the testimony filed on behalf of UAE in DEU's last general rate case, Docket No. 22-057-03.[13] Enbridge's approach differs from the standard method used by most regulated utilities in general rate cases. The standard approach starts with actual costs recorded during an historical base period, and specific adjustments are proposed to those actual costs based on known and measurable changes. These adjustments are subject to review and potential challenge by other parties to ensure that the test period is a proper representation of the utility's costs.

For example, in Rocky Mountain Power's last rate case, test period wages were calculated starting with actual data from the base period, escalated using contracted and anticipated percentage wage increases.[14]

However, in contrast to the standard approach, Enbridge began with a 2024 labor *budget* and adjusted the budget to forecast 2025 and 2026 labor expenses. In discovery, Enbridge explained that the 2025 labor budget was developed by increasing the detailed 2024 budget by 3% for assumed merit increases. The

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[13] *See* Docket No. 22-057-03, Phase I Direct Testimony of Kevin C. Higgins (UAE Exhibit RR 1.0), pp. 7-10.
[14] *See* Docket No. 24-035-04, Exhibit RMP__(SEM-3), pp. 4.2 – 4.2.8.

Company also adjusted its budget to include costs for former DES employees who were transferred to Questar Gas Company in June 2024, since these costs were not part of the 2024 intracompany labor budget. According to Enbridge's response, the 2026 labor budget was then derived by adding another 3% to the 2025 labor budget.[15]

Q. Were you able to verify the accuracy of Enbridge's labor expense calculations?

A. No. I found numerous errors in Enbridge's labor-related expenses and could not confirm that the 3% escalations were applied as described. Although UAE requested all workpapers supporting the 2025 and 2026 labor budgets, the materials provided did not clearly show how the 2025 budget was derived from the 2024 budget, nor did Enbridge provide a satisfactory demonstration in follow-up discovery.[16]

I also found multiple internal inconsistencies. For example, the 2025 budget wage expense in EGU Exhibit 4.06 is $700,000 higher than the 2025 budget as shown in MDR_22 B.04 Attachment 1.[17] In addition, the 2026 budget wage expense increased by more than 3% relative to the 2025 budget, as shown in EGU Exhibit 4.06 (specifically, it increased by 3% plus $700,000).[18] When questioned about these discrepancies in discovery, Enbridge explained that, after MDR_22

[15] *See* Enbridge response to Data Request UAE 4.01 (a)-(b), included in UAE Exhibit RR 1.6.
[16] *See* Enbridge responses to Data Requests UAE 4.01 and UAE 5.02, included in UAE Exhibit RR 1.6
[17] The 2025 Budget wage expense on Excel row 4 of EGU Exhibit 4.06 is $57,957,072. In MDR_22 B.04 Attachment 1, 2025 Budget tab, the Total Salary-ST Wages and Salary-OT Wages costs (including capitalized costs) are $102,239,973 (row 6) and the capitalized amount (Planned Project Labor) is $44,982,901 (row 43), resulting in an expense of $57,257,072.
[18] The 2025 Budget wage expense is on Excel row 4 of EGU Exhibit 4.06 of $57,957,072 × 1.03 = $59,695,784. The 2026 Budget wage expense of $60,395,784 - $59,695,784 = $700,000.

B.04 Attachment 1 was prepared, management approved a one-time mid-2025 wage increase to bring pay to market levels, but the supporting data was not updated to reflect this late change.[19]

Q. Why does Enbridge's approach to calculating its labor O&M expenses concern you?

A. Enbridge's approach does not provide the transparency required to verify the accuracy or reasonableness of the labor expenses included in its proposed revenue requirement. Rather than making discrete adjustments to the historical 2024 base period, the foundation for Enbridge's labor costs is a 2024 *budget* which was reportedly escalated by 3% to calculate a 2025 budget, and again by 3% to calculate a 2026 budget. Then, Enbridge added further wage increase adjustments that were not explained in its direct filing, and which only came to light through the discovery process.[20]

The lack of traceability in Enbridge's calculations also impedes the ability of other parties to precisely determine their own recommended adjustments. For example, in response to MDR_22 D.24, Enbridge reported that the actual 2025 merit increase was 2.73%, rather than the 3% assumed in its 2025 budget. However, without complete workpapers, it is difficult to determine the precise amount of any adjustment needed to reflect this actual merit increase.

[19] *See* Enbridge response to Data Request UAE 5.01, included in UAE Exhibit RR 1.6

[20] As stated in Enbridge's response to MDR_22 B.04, "A general labor increase of 3.0% is used for 2025 and 2026, which occurs in March of each year to reflect the effective date of employee merit increases. The 3% increase for 2025 is consistent with past merit increases for EGU employees (see MDR 22 D.24)."

Q. What is your recommendation to the Commission on this issue?

A. Consistent with UAE's recommendation in the last DEU general rate case, I recommend that Enbridge be required to demonstrate in its next general rate case that its test period labor expenses are based on actual historical base period expenses with known and measurable adjustments. These adjustments should be prepared in Excel format based on discrete changes between the base period and the test period with explanatory testimony provided by Enbridge.

I also recommend adjustments to Enbridge's proposed labor expense in this case, as discussed in the following sections of my testimony. Specifically, I recommend several corrections to establish a consistent baseline to which to apply my adjustments. Then I recommend further adjustments to remove incentive compensation tied to financial goals and to reflect an accurate employee headcount. I consider the impacts from my recommended adjustments to be conservative, given the insufficient evidence provided by Enbridge for its test period labor O&M forecast.

<u>Labor O&M and Payroll Tax Expenses Error Corrections</u>

Q. Please describe the corrections to O&M and payroll tax expenses you have incorporated into your revenue requirement adjustments.

A. In preparing the adjustments to Enbridge's labor expenses, which I discuss in greater detail in the following sections of my testimony, I identified several errors in the expenses included in Enbridge's revenue requirement calculations. These errors are in addition to the general concerns discussed above. The revised version of Enbridge's rate case model, provided in response to Data Request DPU FDR 1.18, as well as its original and updated models, EGU Exhibit 5.14 and EGU Exhibit 5.14U, all contain these errors.[21] I determined it was necessary to correct these errors to establish a consistent baseline prior to applying my recommended adjustments.

While these corrections increase the Utah revenue requirement on a standalone basis, when combined with my recommended labor expense adjustments, they result in a net reduction to the overall revenue requirement. Specifically, I corrected errors in the calculation of the labor O&M expense escalation factors and the formulas applying these escalation factors to payroll taxes.

Q. Please describe your correction to the labor O&M expense escalation factors.

A. The first error correction concerns the calculation of the 2025 labor O&M expense escalation factor. Enbridge includes its 2026 forecasted labor expenses in its revenue requirement calculation through a series of steps. After determining the 2025 labor expense budget, Enbridge calculates the percentage escalation factor required to adjust its 2024 actual labor expenses to the 2025 budget level.[22] Enbridge applies this 2025 escalation factor, 9.4%, to its 2024 labor expenses to

[21] For ease of reference, I generally refer to EGU Exhibit 5.14U in my explanation of these errors, although the other versions of the rate case model also contain these errors.

[22] I note that, while mechanically these adjustments are made relative to the 2024 *actual* labor expenses in Enbridge's model, the basis for the 2025 and 2026 labor costs is the escalated 2024 *budget*, as I explained in the previous section of my testimony.

target its 2025 budget labor expenses. The Company then applies a 2026 escalation factor, 3.7%, to the 2025 budget labor expenses to target its 2026 budget labor expenses. These percentages are derived in the Labor Forecast tab of EGU Exhibit 5.14U (which duplicates EGU Exhibit 4.06).

However, the 2024 "actual" labor expenses used to calculate the 2025 escalation percentage do not match the 2024 actual expenses in the revenue requirement calculation. Consequently, when the percentages are applied within the revenue requirement calculation, the resulting amounts do not match the 2025 or 2026 budgeted labor expenses.[23]

The cause of this discrepancy consists of two components: (1) (negative) pension expense is excluded on the Labor Forecast tab, but is included in the actual baseline 2024 labor expenses, prior to being removed by Enbridge in a separate adjustment, and (2) $1.1 million in 2024 affiliate labor is miscategorized as an expense on the Labor Forecast tab and EGU Exhibit 4.06, although it was actually booked to capital.[24] I adjusted the 2024 labor expense in this calculation to correct this mis-categorization, which results in a 2025 escalation factor of 10.7% instead of Enbridge's 9.4% factor.[25]

[23] These percentages are applied in EGU Exhibit 5.14U - Electronic Model - Summers 5-14-2025, PROJECTED EXPENSES tab, Excel rows 281-551. For reference, the Historical 2024 Labor expenses included in the revenue requirement calculation, $84,508,940, are shown in EGU Exhibit 4.05, numbered line 42, whereas the escalation percentages are derived using the 2024 Labor expense amount of $88,647,432 shown in EGU Exhibit 4.06.

[24] *See* Enbridge responses to Data Requests UAE 4.05 and UAE 5.03, included in UAE Exhibit RR 1.6. The first component does not constitute an error. The second component is erroneous.

[25] The information shown in EGU Exhibit 4.06 is also produced in the Labor Forecast tab within Enbridge's model, EGU Exhibit 5.14U - Electronic Model - Summers 5-14-2025. I made my correction within the Labor Forecast tab of my revenue requirement model workpaper, 25-057-06 - UAE Direct RR Model.

DEU made similar errors in its 2022 general rate case, Docket No. 22-057-03, which were corrected by UAE and subsequently by DEU in rebuttal.[26] The Company should implement measures to prevent another recurrence of these errors in a future rate case, as identifying and reconciling the numerous inconsistencies within its filing is unduly burdensome on other parties.

Q. Please explain your correction to the expense escalation factors applied to payroll taxes.

A. My second correction is to payroll taxes and also involves the labor expense escalators. As shown on the Other Taxes tab of EGU Exhibit 5.14U, Enbridge escalates the Actual 2024 payroll taxes to reflect the 2025 and 2026 forecasts. However, rather than applying the 2025 and 2026 labor expense escalators, the formulas erroneously reference the 2022 and 2023 year-over-year increases in labor expenses. I corrected the formulas to reference the matching year-over-year escalation factors.

Q. What is the revenue requirement impact of your labor O&M and payroll tax expense corrections?

A. The impact of these corrections is shown in UAE Exhibit RR 1.1. Collectively, these corrections increase the Utah revenue requirement by **$1,532,588**.

[26] *See* Docket No. 22-057-03, Rebuttal Testimony of Jordan K. Stephenson (DEU Exhibit 3.0R), p. 14.

Financially-Related Incentive Compensation Expense

Q. Does Enbridge make an adjustment to remove the incentive compensation expense associated with Company financial goals?

A. No. Enbridge proposes to include this expense in its revenue requirement, departing from its predecessors' decades-long practice of removing incentive compensation expense tied to financial goals.[27]

Q. What reasons does Enbridge provide to support its proposal to change this longstanding ratemaking practice?

A. According to the Direct Testimony of Mr. Stephenson, since the early 1990s, the Company has removed the incentive compensation expenses related to earnings goals either paid directly by the Company or allocated from corporate affiliates.[28] I have confirmed that at least since the 2002 general rate case, Docket No. 02-057-02, Questar Gas Company and its successor, DEU, consistently removed financially-related incentive compensation expense from their proposed revenue requirements in direct testimony in general rate cases. In his Direct Testimony in DEU's last general rate case, Mr. Stephenson explained this adjustment:

> In accordance with previous Commission orders in Docket Nos. 93-057-01, 95-057-02, 99-057-20 and 02-057-02, Dominion Energy has removed, for ratemaking purposes, incentive-compensation expenses related to net-income, earnings-per-share, and return-on-equity goals either paid directly by Dominion Energy or allocated from Dominion Energy Services, Inc. ("DES") for incentive payouts. In these dockets, the Commission allowed incentives paid based on operating goals. [29]

[27] *See* Direct Testimony of Jordan K. Stephenson (EGU Exhibit 4.0), pp. 20-23.
[28] *See id*., p. 20.
[29] *See* Docket No. 22-057-03, Direct Testimony of Jordan K. Stephenson (DEU Redacted Exhibit 3.0), p. 20, lines 447-452.

However, in the current case, Mr. Stephenson has chosen not to make this adjustment, asserting that conditions have changed in the last three decades that warrant a change to this longstanding practice. Mr. Stephenson argues that the financial portion of incentive compensation is consistent with customer interests and that the Company is no longer incentivized to increase throughput to improve net income due to the CET and revenue decoupling.[30]

Q. Do you agree that it is appropriate to include incentive compensation tied to financial goals in the revenue requirement?

A. No. While rewarding employees for strong financial performance can be entirely appropriate, the cost of such awards should be borne by shareholders, who are the primary beneficiaries when the Company meets or exceeds financial targets. By contrast, it can be appropriate to recover the costs of annual incentive compensation plans in utility rates that are not tied to utility financial performance, but rather to goals such as customer satisfaction, operating efficiency, and safety, provided that the associated compensation is not excessive.

While the CET, originally approved in Docket No. 05-057-T01, may reduce the Company's incentive to increase throughput to improve net income, it also limits the Company's risk when customer usage declines. The existence of a decoupling mechanism such as the CET, which was established approximately 20 years ago, is not a compelling reason to depart from the established practice of

[30] *See* Direct Testimony of Jordan K. Stephenson (EGU Exhibit 4.0), pp. 21-23.

excluding financially-related incentive compensation expenses from the revenue requirement in this case.

In addition to the CET, the Company employs another ratepayer-funded earnings stabilizer: the IRA Tracker. The IRA permits surcharges for qualifying replacement infrastructure between rate cases, increasing the Company's realized return above what it would otherwise be absent this mechanism. It would be particularly unreasonable for customers to fund incentive compensation tied to financial performance alongside the IRA, which itself enhances the Company's earnings.

Q. Is your recommendation consistent with Commission precedent on this issue?

A. Yes. As I explain above, the Commission has consistently required that incentive compensation tied to financial goals be funded by shareholders, with the exception of RMP's 2020 general rate case, in which the Commission declined to make such an adjustment.[31] Further, in DEU's last general rate case, the Commission ordered that capitalized financially-related incentive compensation costs be excluded from the revenue requirement,[32] an issue I will address later in my testimony. And recently, in RMP's 2024 general rate case, the Commission reaffirmed its practice of excluding financially-related incentive compensation from the revenue requirement.[33]

[31] *See* Docket No. 20-035-04, Redacted Order Issued December 30, 2020, pp. 28-29.
[32] *See* Docket No. 22-057-03, Order Issued December 23, 2022, p. 22.
[33] *See* Docket No. 24-035-04 et al., Order Issued April 25, 2025, pp. 79-80.

Q. What is the revenue requirement impact of your incentive compensation expense adjustment?

A. The impact of my adjustment is shown in UAE Exhibit RR 1.2. It reduces the Utah revenue requirement by **$3,361,767**.

<u>**Employee Count**</u>

Q. Please describe the basis for your adjustment to labor O&M expenses based on employee count.

A. Enbridge's 2026 intracompany labor O&M budget is based on a forecasted Questar Gas Company FTE employee count that is 10.9% higher than the average actual FTE employee count experienced during the recent 12-month period ended May 2025.[34] Specifically, Enbridge's forecasted test period employee count is 1,240 FTE employees,[35] but the average actual FTE count for the 12 months ended May 2025 is 1,105 FTE employees,[36] or 135 fewer than the forecast.

Q. What is your recommendation regarding the appropriate FTE count for setting Enbridge's labor O&M expense in this case?

A. I recommend that test period labor expense be based on the average actual FTE count for the recent 12-month period ended May 2025, which better reflects the Company's actual employment level relative to its forecast. This period begins in June 2024, which captures the employee count after the transfer of DES employees

[34] *See* UAE Exhibit RR 1.3, p. 2.
[35] *See* MDR_22 B.04 Attachment 1, Summary tab.
[36] Based on MDR_22 D.23 Attachment 1 and Enbridge response to Data Request UAE 4.02, included in UAE Exhibit RR 1.6.

to Questar Gas Company and continues through May 2025, which contains the most recent data available at the time I prepared my testimony.

Q. Why do you believe it is appropriate to base Enbridge's labor expenses on the average FTE employee count for the year ended May 2025 instead of its forecast?

A. My adjustment is intended to reflect the most accurate employment level for setting rates. To be clear, I am not attempting to dictate the appropriate staffing level for Enbridge. It is up to the Company to manage its employment level to operate efficiently and safely. Rather, my adjustment is intended to ensure that test period labor expense is based on a realistic employment level using the best information available at this time.

In DEU's last general rate case, UAE proposed a similar employee count adjustment, which was accepted by the Commission.[37] It is reasonable to apply a similar adjustment in this case to reflect the Company's actual employment level.

Q. What is the revenue requirement impact of your employee count adjustment?

A. The impact of my employee count adjustment is shown in UAE Exhibit RR 1.3. It reduces the Utah revenue requirement by **$8,224,593**.

[37] *See* Docket No. 22-057-03, Order Issued December 23, 2022, p. 29.

<u>Capitalized Financially-Related Incentive Compensation</u>

Q. Please explain the difference between labor expenses and capitalized labor generally.

A. In general, labor costs incurred for operating and maintaining existing facilities and supporting day-to-day activities are expensed, while labor costs related to new construction, upgrades, or extending a facility's life are recorded to construction work in progress ("CWIP") and then capitalized to plant in service. Labor overhead, such as employee benefits, will generally follow the underlying direct labor, with a portion being allocated to CWIP. Capitalized labor is gradually included in the income statement through the depreciation expense of the associated plant, with the balance included in rate base.

Q. Please explain your recommended adjustment for capitalized financially-related incentive compensation.

A. This adjustment parallels my incentive compensation expense adjustment. It is designed to exclude the rate base and depreciation expense associated with financially-related incentive compensation that was capitalized from 2023 through the projected 2026 test period. The Company capitalizes approximately 46% of its incentive compensation cost.[38] These capitalized costs are added to rate base, earning a return and depreciating like other utility plant. Ratepayers should not bear the costs of incentive compensation tied to the Company's financial goals, whether these costs are expensed or capitalized.

[38] *See* EGU Exhibit 5.14U - Electronic Model - Summers 5-14-2025, Incentive tab.

Q. What do you recommend regarding capitalized financially-related incentive compensation?

A. I recommend that capitalized incentive compensation related to financial goals from 2023 forward be excluded from the revenue requirement. This aligns with the Commission's order to remove capitalized financially-related incentive compensation from the revenue requirement in DEU's last rate case, which utilized a 2023 test period.[39] Consistent with that order, the Company should have ceased the practice of adding financially-related incentive compensation to its regulated rate base in 2023, absent an express Commission order authorizing a change.[40] As part of the Settlement Stipulation in Docket No. 23-057-16, Enbridge Quail Holdings, LLC and Questar Gas Company committed to honoring Commission orders:

> EQ Holdings and Questar Gas commit to honor existing laws, rules, regulations, provisions of its Tariff, orders, and directives of the Commission, as applicable following completion of the Transaction.[41]

Going forward, I recommend that the Commission establish a policy that the capitalized portion of financially-related incentive compensation be borne by shareholders rather than customers, consistent with the treatment of the expense portion of these costs.

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[39] *See* Docket No. 22-057-03, Order Issued December 23, 2022, p. 22.

[40] From an accounting standpoint, this could be accomplished by recording a regulatory liability to offset any rate base additions tied to financially-related incentive compensation.

[41] Docket No. 23-057-16, Settlement Stipulation – Exhibit A, page 2 of 11, Regulatory; Jurisdiction of the Commission; Compliance with Law, 4c.

Q. How did you calculate your recommended adjustment?

A. I relied on information provided by Enbridge in discovery regarding the gross plant additions, accumulated depreciation, and depreciation expense associated with capitalized incentive compensation tied to financial goals.[42]

However, I calculated an estimate of the associated accumulated deferred income taxes ("ADIT") rather than relying on Enbridge's estimate. I believe that Enbridge's calculation overstated the ADIT attributable to these plant additions because the Company apportioned the ADIT based on the overall share of plant, rather than directly calculating the ADIT for these plant additions.[43] I began my calculation with January 2023 plant additions and continued through 2026, with the 2026 test period rate base calculated on an average-of-period basis. Because these capitalized costs accumulate in rate base over time, it is necessary to begin this calculation with January 2023 to capture the plant additions since the start of the last rate case test period. In the revenue requirement calculation, I applied these adjustments to the General plant function to approximate the jurisdictional allocation.

[42] *See* Enbridge response to Data Request UAE 3.04, UAE 3.04 Attachment 2, included in UAE Exhibit RR 1.6.

[43] In addition, Enbridge's calculation included a formula error in the January 2024 Accumulated Depreciation amount, in Enbridge Data Request UAE 3.04, UAE 3.04 Attachment 2 (included in UAE Exhibit RR 1.6).

Q. What is the revenue requirement impact of your capitalized incentive compensation adjustment?

A. The impact of my adjustment is shown in UAE Exhibit RR 1.4. It reduces the Utah revenue requirement by approximately **$998,777**.

Cost of Capital

Q. Is UAE a co-sponsor of the cost of capital testimony submitted in this docket by Mr. Garrett?

A. Yes. UAE co-sponsored Mr. Garrett's cost of capital testimony along with the Office of Consumer Services.

Q. Have you incorporated Mr. Garrett's cost of capital recommendations?

A. Yes. My revenue requirement calculation incorporates the impact of Mr. Garrett's cost of capital recommendations. Mr. Garrett's cost of capital recommendations reduce the Utah revenue requirement by approximately **$46,381,291,** calculated using rate base that includes my recommended adjustments. A summary of this impact is shown in UAE Exhibit RR 1.5.

IV. INFRASTRUCTURE RATE ADJUSTMENT (IRA) TRACKER

Q. What is the IRA?

A. The IRA was approved in Docket No. 09-057-16 on a pilot basis. As initially adopted, the program allowed the Company to use a tracker to recover, between rate cases, the incremental cost of replacing high-pressure feeder lines and related facilities by levying a pro rata surcharge on customer classes. Annual expenditures on program-eligible infrastructure were initially limited to $55 million on an inflation-adjusted basis.[44] In Docket No. 13-057-05 the cap was increased to $65 million plus an inflation adjustment and was expanded to include certain intermediate high-pressure beltlines.[45] In Docket No. 19-057-02, the cap was increased to $72.2 million plus an inflation adjustment.[46] In Docket No. 22-057-03, the Commission approved the continuation of the IRA and further increased the annual cap.[47]

Q. What is Enbridge proposing regarding this program going forward?

A. As described in the Direct Testimony of Mr. Kelly B. Mendenhall, Enbridge requests continuation of the IRA at the current 2024 budget level of $86.73 million, adjusted in future years using the GDP inflator.[48]

Q. What is your response to this proposal?

A. As the Commission noted in its order in Docket No. 22-057-03, continuation of the IRA requires approval in every general rate case.[49] I am not advocating that the Commission approve the continuation of the IRA. However, to the extent that the

[44] *See* Docket No. 09-057-16, Report and Order Issued June 3, 2010, p. 21.
[45] *See* Docket No. 13-057-05, Report and Order Issued February 21, 2014, p. 8.
[46] *See* Docket No. 19-057-02, Report and Order Issued February 25, 2020, p. 13.
[47] *See* Docket No. 22-057-02, Report and Order Issued December 23, 2022, p. 15. In Docket No. 22-057-02, DEU proposed an annual cap of $77.4 million, adjusted for inflation, based on its 2022 infrastructure budget. *See* Docket No. 22-057-03, Direct Testimony of Kevin C. Higgins, UAE Exhibit RR 1.6, p. 15 (DEU response to Data Request OCS 8.18). However, the Commission's order approved a "spending cap" of $84.7 million, which was DEU's proposed plant balance threshold.
[48] *See* Direct Testimony of Kelly B. Mendenhall (EGU Exhibit 1.0), p. 33.
[49] *See* Docket No. 22-057-02, Report and Order Issued December 23, 2022, p. 13.

Commission does approve the continuation of this program, I recommend that revenue recovery through this mechanism be minimized as much as possible.

Maintaining infrastructure is a fundamental responsibility for a utility. In carrying out this responsibility, utilities are entitled to an opportunity to recover their prudently-incurred costs. However, Enbridge should not rely on a continued expansion of this tracker in order to recover infrastructure costs between rate cases. These costs would be more appropriately considered in the broader context of the Company's overall revenues and expenses in a rate case.

Q. Are you proposing to limit the Company's ability to replace feeder lines in order to maintain a reliable system?

A. No, I am not. To be clear, I am not proposing that Enbridge be prevented from recovering prudently incurred infrastructure costs through base rates. However, I am recommending that recovery of the costs through the IRA be limited as much as reasonably possible to provide appropriate cost containment for this tracker mechanism.

Q. Does this conclude your direct testimony?

A. Yes, it does.