–BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH–

IN THE MATTER OF: APPLICATION OF ENBRIDGE GAS UTAH TO INCREASE DISTRIBUTION RATES AND CHARGES AND MAKE TARIFF MODIFICATIONS	)))))))	**DOCKET NO. 25-057-06** **Exhibit No. DPU 6.0 DIR** **Phase II Direct Testimony of Matt Pernichele**

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

Direct Testimony of

Matt Pernichele

September 16, 2025

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ACRONYMS, INITIALISMS, AND OTHER ABBREVIATIONS

’22 GRC	Enbridge Gas Utah’s 2022 General Rate Case
BSF	Monthly Basic Service Fee
CCOS	Class Cost of Service
CCOSS	Class Cost of Service Study
PSC or Commission	Utah Public Service Commission
Division	Utah Division of Public Utilities
EGU	Enbridge Gas Utah or Company
LDC	Local Distribution Company
Office	Utah Office of Consumer Services

INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND EMPLOYMENT FOR THE RECORD.

A. My name is Matt Pernichele. I am a Utility Technical Consultant for the Utah Division of Public Utilities, located at 160 East 300 South in Salt Lake City, Utah.

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

A. The Division.

Q. WOULD YOU SUMMARIZE YOUR EDUCATION BACKGROUND FOR THE RECORD?

A. I have worked for the Utah Division of Public Utilities for two years. During this time, I have analyzed a variety of issues arising from the operation of regulated natural gas and electrical utilities. I was responsible for the Division's analysis and Phase II Testimony related to cost of service and rate design in Rocky Mountain Power's most recent rate case.[1] I attended The New Mexico State University's Center for Public Utilities Practical Regulatory Training Class in 2023. I have a JD and an MBA from the University of Utah.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I present the Division's analysis, findings and recommendations regarding EGU's direct Phase II testimony on cost of service, rate design, and tariff design. Phase II issues that will be addressed by other members of the Division's staff include the Conservation Enabling Tariff and Transportation Imbalance Charge, which will be addressed by Ryan Daigle, EGU's Natural Gas Vehicle Filling Stations, which will be addressed by Annette Orton, and EGU's Weather Normalization Adjustment, which will be addressed by David Fields.

Q. BRIEFLY SUMMARIZE YOUR TESTIMONY

[1] *The Application of Rocky Mountain Power for Authority to Increase its Retail Electric Utility Rates in Utah and for Approval of its Proposed Electric Service Schedules and Electric Service Regulations*, Docket No. 24-035-04.

A. EGU's GS Class contains too large a variety of different customers resulting in an undesirable level of intra-class subsidy. The GS Class should be divided or otherwise reconfigured to achieve rates that more accurately and fairly reflect cost causation. The Company has asserted that it has neither the time nor the resources to enact such a drastic billing change during the time between a Commission order in this case and when new rates would take effect.

This is a complicated issue that requires more data and analysis to be adequately resolved. Potentially changing the classification of over 99% of EGU's customers would be a very complex and time-consuming endeavor that should only be done on a multi-decadal basis. The Commission's order in this rate case should include a provision opening an investigatory docket with the goal of designing an allocation method based on cost causation with minimal cross-subsidization within and between classes. This should commence within a year of the resolution of this rate case so that the parties will have ample time to fully analyze the issues and create a solution and EGU will have time to prepare its implementation before its next general rate case.

COMPLIANCE WITH THE MOST RECENT RATE CASE

Q. DID EGU COMPLY WITH THE COMMISSION ORDER IN THE PHASE II COMPONENT OF THE '22 GRC?

A. The provisions of the PSC's Order[2] relevant to Phase II issues and EGU's compliance with them are listed below:

1) *Split the TS Class into three separate classes.* This was done as ordered.

2) *Implement the TS Class split price changes in three steps.* This was done as ordered. The first step of the TS rate increase was completed on January 1, 2023, when EGU's new tariffs originating from the '22 GRC went into effect.[3] The second

[2] *The Application of Dominion Energy Utah to Increase Distribution Rates and Charges and Make Tariff Modifications,* Docket No. 22-057-03, Order, p. 35 - 64 (December 23, 2022).
[3] Docket No. 22-057-03, Tariff Approval Letter from the PSC (January 26, 2023).

step was completed on June 1, 2023.[4] The final step was completed on July 1, 2024.[5]

3) Change the TBF Class discount from 50% to 40%. The current filing appears to continue the 50% discount to TBF customers. I have not been able to locate any Commission orders posted since the order in the '22 GRC allowing this discount to remain at 50%. This is discussed further below in the section of my testimony on existing inter-class subsidies.

4) New tariffs from the '22 GRC were previously approved by the PSC.[6]

EGU uses an extensive Excel spreadsheet (the "Electronic Model") to calculate and summarize its revenue requirement, cost of service, and rate design. I reviewed the Electronic Model[7] and the updated version submitted by the Company. The Electronic Model submitted by the Company in this case is substantially similar to those used in EGU's previous rate cases that have been accepted by the Commission updated for the above-listed issues. EGU used the same methodology to determine its revenue requirement, cost of service, and rate design in this case as in recent rate cases.

CLASS COST OF SERVICE

Q. WHAT STANDARDS DOES THE DIVISION USE TO EVALUATE UTILITY RATES?

A. The Utah Legislature defined the Division's regulatory objectives in Utah Code Section 54-4a-6. As applied to utility rates, these objectives are to ensure:

- **Stable and Understandable Rates:** Rates should be stable, simple, easy to understand, and acceptable to the public.

[4] Docket No. 22-057-03, PSC Order (June 26, 2023).
[5] Docket No. 22-057-03, PSC Order (June 28, 2024).
[6] Docket No. 22-057-03, Tariff Approval Letter from the PSC (January 26, 2023).
[7] EGU Exhibit 5.17 later updated to EGU's response to DPU DR 6.01, DPU 6.08U Attachment 1.

- **Economic Efficiency:** Rates should encourage optimal consumption and production of the energy needed by society at the lowest possible cost.

- **Fair Cost Allocation:** Costs are fairly distributed within and among different customer classes.

- **Non-Discrimination:** Undue discrimination is avoided.

- **Efficient Resource Use:** Wasteful use of utility services is discouraged.

In pursuit of these objectives, the Division devised the following principles:[8]

- **Cost Causation:** Rates and charges should directly reflect the costs that customers impose on the system. Generally, customers should pay for the costs they cause.

- **Simplicity:** Rate structures should be designed to be as simple as possible, easy to understand, and straightforward to administer. Simpler rates tend to be more readily accepted and understood by customers. Tariff descriptions must be clear, unambiguous, and accessible to the public.

- **Correct Price Signals:** Rates based on actual costs can effectively incentivize customers to make informed decisions about their energy consumption, including promoting energy conservation. However, overly complex rates that are not easily understood may fail to provide these crucial and accurate price signals.

- **Rate Structures:** Three-part rates, which include customer, energy, and demand components, typically lead to a more equitable distribution of costs among individual customers compared to one- or two-part rate structures. But incorporating a demand component for residential customers is generally not recommended. This is because the additional expenses associated with demand meters, coupled with potential challenges

[8] *In the Matter of the Application of Rock Mountain Power for Authority to Increase Its Retail Electric Utility Service Rates in Utah and for Approval of Its Proposed Electric Service Schedules and Electric Service Regulations,* Docket No. 13-035-184, Direct Testimony of Artie Powell, PhD, Pages 2-3 (May 1, 2014). Note, these are principles the Division generally seeks to follow have no force; the Division lacks rulemaking authority is bound by statutory language.

in customer comprehension and acceptance, can outweigh the benefits of improved cost apportionment.

- **Gradualism:** Implementing rate changes gradually helps maintain rate stability and minimizes abrupt financial impacts on individual customers.

- **Marginal and Embedded Costs:** Rates must be structured to recover the revenue requirement of a given rate schedule. Marginal costs and average unit embedded costs (costs that cannot be avoided by reducing output) should be thoroughly reviewed and considered.

- **Customer Charges:** Costs that primarily increase with the number of customers but are not directly caused by each individual customer should be excluded from the fixed customer charge. Instead, these costs should be recovered through the commodity (usage-based) portion of the rates.

The Division relies upon these principles in developing its position on cost of service and rate design. These principles can often be in tension with one another. Ratemaking is not an exact science, it involves many subjective judgements, and there is not a single correct result.[9]

Q. WHY DO UTILITIES DIVIDE CUSTOMERS INTO DIFFERENT CLASSES?

A. Utilities typically divide customers with different consumption characteristics into different classes, each with different tariffs. This is primarily done to more accurately reflect the costs of serving different groups of customers, but it can also be a means of achieving any combination of other goals including economic efficiency, fairness, economic development, stability, and conservation.[10]

Factors that can be used to group customers into classes include "(1) size, (2) customer type, (3) type of usage, (4) interruptible or firm service, (5) load factor, (6) alternative fuel capability."[11] Groups are often subdivided, for example "multi-family

[9] Co. Interstate Gas Co. v. Fed. Power Comm'n, 324 U.S. 581, 590 (1945).
[10] *See,* NARUC Staff Subcommittee on Gas, Gas Distribution Rate Design Manual, p. 15-17 (1989).
[11] *Id,* p. 16.

residential," or to account for special uses, such as "gas air conditioning" or "interruptible snowmelt."

Once customers have been divided into classes, Utilities allocate costs to each class (in a complex process not germane to classification) to determine the total amount of revenue that each class should contribute to satisfy the utilities revenue requirement. Each class's tariff is then designed to recover those costs. Tariffs (or rate schedules, the terminology is not used consistently across the industry) are then designed using some combination of fixed charges, energy or commodity charges (which usually include both fixed and variable costs) and demand charges. These are balanced to charge the class the right amount to cover the costs of serving it. Some utilities also use inclining or declining block rates, to account for different levels of consumption, and seasonal rates, to account for differing seasonal costs, to make the process more precise.[12]

EGU's Basic Service Fee (BSF) is a fixed monthly charge with four levels based on the capacity of the customer's gas meter. Customers with larger meters pay a higher fixed BSF charge every month. The BSF is applied to all of the Company's rate schedules, except that for natural gas vehicles (NGV).

Q. HOW DOES ENBRIDGE DETERMINE IF CUSTOMERS ARE ACCURATELY BEING BILLED ACCORDING TO THESE PRINCIPLES?

A. The Enbridge model calculates the Rate of Return Index to determine if a class is accurately paying its cost of service. The Rate of Return Index is calculated by dividing by an individual class's return on its allocation of rate base (class net operating income over class revenue requirement) by the whole utility's return on rate base (whole company net operating income over whole company revenue requirement). A Rate of Return Index of 1 indicates that a class is paying its correct share of its costs of service.

[12] *Id,* p. 9-13.

If the Rate of Return Index is under 1, the class is not paying enough. If the Rate of Return Index is over 1, the class is overpaying.[13]

(Class net operating income/Class revenue requirement)

(Whole Company net operating income/Whole Company revenue requirement)

Costs and rate base must be consistently and reasonably allocated to classes for this metric to be a useful metric.

Q. THE RATE OF RETURN INDEX INDICATES SOME INTER-CLASS SUBSIDIES IN EGU'S RATES. WHAT IS THE DIVISION'S POSITION ON THIS?

A. EGU's electronic model shows that the GS Class currently has a Rate of Return Index of 1.06[14] indicating that the GS Class is overpaid during the base year by $13,658,106. Much of this overpayment is going to subsidize the TBF and NGV classes with the TBF Class underpaying by $9,472,733 and the NGV Class underpaying by $1,651,215.

EGU explicitly acknowledged these subsidies and recommended that they remain. Mr. Summers explained that the TBF Class (Rate of Return Index of (.12)) should continue to pay less than its full cost of service as an incentive to keep them from leaving the system by building their own pipelines. This is referred to as "Bypass Risk." TBF customers leaving the system could cost EGU and rate payers more than the cost of the subsidy.[15] This is the same argument that EGU used in its previous rate case.[16] The Commission allowed (and DPU supported) the extension of the TBF subsidy and accepted EGU's request to lower the TBF Class discount from 50% to 40% in the '22 GRC.[17]

[13] *The Application of Dominion Energy Utah to Increase Distribution Rates and Charges and Make Tariff Modifications,* Docket No. 22-057-03, DEU Exhibit 4.0, Direct Testimony of Austin Summers p. 17, 18 (May 2, 2022).
[14] *See,* DPU Exhibit 1.01, Rev Neutral sheet, cell G18.
[15] EGU Exhibit 5.0, Direct Testimony of Austin Summers p. 11.
[16] Docket No. 22-057-03, DEU Exhibit 4.0, Direct Testimony of Austin Summers p. 16 (May 2, 2022).
[17] Docket No. 22-057-03, Order, p.51.

The Division does not oppose continuing this subsidy but has two concerns. 1) The TBF discount appears to remain at 50% instead of the 40% approved by the Commission. 2) The TBF Class has a negative rate of return index indicating that EGU loses money serving these customers. The Division understands that there are significant sunk costs that would be difficult to recover should EGU lose TBF customers and that the rate of return index contains subjective elements. However, the question of the actual cost of serving TBF customers and adding additional TBF customers should be more thoroughly examined if the Division's recommendation for a detailed analysis of EGU's rates is accepted by the Commission.

DPU Witness Annette Orton's Phase II testimony will discuss the NGV Class and its subsidy.

RATIONALE FOR A GS CLASS SPLIT

Q. DESCRIBE EGU'S GS CLASS.

A. EGU assigns almost all its customers to the GS Class. The GS Class includes everything from studio apartments to large manufacturing facilities and hospitals. As of the end of February 2025, 1,189,532 of EGU's 1,191,226 customers were in the GS Class. This is 99.86% of all customers. The percentage of customers in the GS Class has been between 99.85% and 99.88% since January of 2018.

GS Customers account for a smaller percentage of EGU's total gas sales than they do it total customers. In February 2025, GS Class customers used 15,829,052 DTh of EGU's total sales of 24,636,176 DTh. This is 64.25% of all sales for that month. The percentage of volume used by the GS Class has been between 18.42% and 68.49% since January of 2018. This wide range in volume results from the GS Class having a lower load factor than the other class's primarily because more of the GS Classes' volume is used for building heating.

Within the current GS Class, there are significant differences in the volume of gas used. In response to the Division's data requests, for calendar year 2024, 91.6% of the GS customers use less than 150 Dth per year however, this same group only

accounts for 60.2% of the total GS volume. The remaining 8.4% (82,633 customers) are responsible for 39.8% of the GS volume.[18]

Q. ACCORDING TO THE TARIFF, LARGER VOLUME CUSTOMERS MOVE TO A LOWER PRICE ONCE THEY USE OVER 45 DTH PER MONTH. HAVE YOU BEEN ABLE TO DETERMINE IF THE CURRENT PRICE BREAK IS EFFECTIVE FOR LARGE VOLUME GS CUSTOMERS?

A. In response to DPU DR 5.01, the Company indicated that the 45 Dth price break has been in place since the 1970s. No extensive analysis was performed to determine the break point and it has not been reviewed or adjusted in the last 50 years. The Company acknowledged in its response that usage per customer was considerably higher in 1970 than it is today.

Q. SINCE THE USAGE PER CUSTOMER HAS CHANGED, HAVE YOU BEEN ABLE TO DETERMINE HOW MANY CUSTOMERS CURRENTLY REACH THE 45 DTH USAGE BREAK POINT?

A. Yes. In response to DPU DR 5.03 through 5.08,[19] the Company acknowledged that approximately 35,000 or roughly 3.0% of the GS customers used more than 45 Dth during the coldest months of 2024 and approximately 4,300 or 0.37% during the warmest summer months. Due to the seasonal nature of gas usage, a GS customer would need to be using over 300 Dth per year to reach the 45 Dth per month price break during the winter months. This is significantly more than what the Company assumes as a typical residential customer that uses only 70 Dth per year.

Q. WHAT IS CONCERNING ABOUT EGU'S GS CLASS?

A. The main concern is that there are significant intra-class subsidies in EGU's GS Class because the design of the class inaccurately calculates its members' cost causation. The GS Class contains heterogeneous members who differ vastly in the

[18] DPU Exhibit 6.03 – Company response to DPU DR 12.02
[19] DPU Exhibit 6.08

volumes of gas that they use, their load factor, and the facilities constructed to serve them. There is no such thing as perfect rate design that accurately charges each customer for the exact costs that it imposes on the system, but EGU's GS Class could be made more accurate and fairer by splitting it into a few groups of more homogeneous customers billed under separate tariffs.

EGU (then DEU) recognized the problem of over-inclusive classes and the solution of splitting them into more homogenous classes in its most recent general rate case in Utah, the '22 GRC. In the '22 GRC the TS Class was split into three classes to accurately and fairly match class revenue to cost causation.[20] EGU proposed this in response to concerns that "some customers within a class may be subsidizing each other. Reducing intra-class subsidies is the next important step that needs to be taken to ensure that cost causation principles are followed."[21] The resulting split was based on a study where EGU split the TS Class into three groups based on the volume of gas they transported in the system, rate base was allocated and the cost of service and net revenue were calculated for each group, and then a rate of return index was calculated for each group.[22] Tariff rates were then created for each group with a goal of getting each group's Rate of Return Index closer to 1. In this instance prices were changed in three steps for the sake of gradualism.[23]

In EGU's most recent general rate case in Wyoming, the GS Class was split into a General Service Small (GSS) class and a Large General Service (LGS) Class based on BSF "to better match the customers' use to the class-cost-of-service study."[24] To reach this conclusion, EGU divided GS customers into three groups based on volume and calculated the cost of service per DTh for each group. This study showed that the cost of service per DTh decreased as a customer's volume

[20] Docket No. 22-057-03, Order p. 47 (December 23, 2025).
[21] Docket No. 22-057-03, DEU Exhibit 4.0, Direct Testimony of Austin Summers p. 18 (May 2, 2022).
[22] *Id.* p19.
[23] Docket No. 22-057-03, Order p. 49.
[24] *The Application of Dominion Energy Wyoming to Increase Distribution Rates and Charges and Make Tariff Modifications,* Wyoming Docket No. 300100-215-GR-23, Memorandum Opinion, Findings and Order Approving Stipulation with Modification p.4 (December 29, 2023).

increased. Neither the GSS nor LGS tariffs required the declining block mechanism that the previous Wyoming GS Class used to accurately reflect cost of service.[25]

STUDY OF SIMILAR GAS LDC TARIFFS

Q. DESCRIBE THE STUDY.

A. I analyzed the tariffs of 21 peer US LDCs to examine how they grouped their customers into different classes for billing purposes.[26] The companies mostly served territories in the Western US but were otherwise diverse in their geography and the nature, number, and density of their customers. The random process used to select these companies from a larger list resulted in several instances of the same company appearing several times with different tariffs for different states that they served. Many of these multi-state companies had different class structures for the different states they served.

Q. HOW DID YOU CATEGORIZE CUSTOMER CLASSIFICATION METHODS?

A. Utilities in my sample used one or some combination of three methods to divide their customers into billing classes: 1) A Unitary class where almost all customers are billed under one tariff (this is like EGU's current method). 2) A Volumetric method where classes are delineated by the amount of gas they purchase. 3) What I call a Functional method where customers are divided into classes based on the customer's activity at the site served, usually this is some variation of residential, commercial, and industrial. I also refer to a fourth method that I call BSF because the Division has proposed it as an alternative to EGU's existing Unitary structure.

Q. PLEASE SUMMARIZE YOUR FINDINGS.

A. No utility in my study used a fixed billing determinant like BSF to classify customers. Atmos Energy of Colorado is the only utility in the study to use Unitary classification, assigning almost all its customers into one class and billing them under one tariff.

[25] *Id,* p.5.
[26] DPU Exhibit 6.01.

Three of the twenty-one utilities used Volumetric classification. Seventeen of the twenty-one utilities used Functional classification. In ten of these, most customers were classified into a residential class with the rest either being in a single GS Class or other functional classes like commercial and industrial. I called these Functional 1. I classified the remaining seven of these seventeen utilities as Functional 2. Here customers who would be in EGU's GS Class are classified as some form of residential or one of several classes based on their volume.

Q. WHAT DO YOU MEAN WHEN YOU SAY, "ALMOST ALL OF ITS CUSTOMERS?"

A. All of the utilities in the study have different classes for transportation, non-firm, or other rare or specialized customers, like EGU does. I only address the customers that would be in EGU's GS Class if they were EGU's customers.

Q. WHAT CONCLUSIONS DO YOU DRAW FROM THIS STUDY THAT COULD PROVIDE INSIGHT INTO IMPROVING EGU'S GS CLASS?

A. This study suggests several propositions:

1) Dividing customers by BSF probably isn't a very effective way to decrease inter or intra-class subsidization. None of the utilities in the study used anything like BSF to create classes. This makes sense as meter size is weakly correlated with class characteristics that determine class cost of service such as volume or load factor.

2) EGU's strategy of putting almost all customers in a single class and using billing determinants to reduce intra-class subsidy is a rarely used strategy, at least in the limited sample used in this study. This implies that it might be a flawed strategy.

3) A purely Volumetric delineation of classes is also quite rare and limited to the smaller and more rural utilities in the sample.

4) A strong case may exist for putting residential customers in their own class or classes because all of the 17 utilities in the study that used Functional classification

had a residential class. Residential customers have lower load factors and lower volumes than other customers and are the most numerous relatively homogenous group of customers. This implies that assigning them to their own class may be a particularly effective way to accurately calculate their cost of service and the rates to cover it. Non-residential customers of utilities that use a Functional method are classified using either the Unitary, Volumetric, or Functional methods, none of which are clearly more popular than the others in the sample.

GS CLASS OPTIONS

Q. WHAT POTENTIAL CLASS SPLITS HAVE BEEN INVESTIGATED TO REDUCE INTRA-CLASS SUBSIDIZATION IN THE GS CLASS?

A. The Division asked EGU to calculate the cost of service, revenues, and rate of return index by analyzing the GS Class split by both a BSF[27] (BSF Study) and in three levels of volume[28] (Volumetric Study). EGU provided these and issued corrected versions[29] when it discovered an error in the electronic model used to produce the study.[30] The results of these studies are shown in DPU Table 6.1, along with a similar study of the TS Class prepared for the '22 GRC.

DPU Table 6.1
Estimated Rate of Return Indexes in Scenarios Where Classes are Divided

	Smaller Class	Middle Class	Large Class	Largest Class
2022 TS Class Volumetric Split[31]	TSS 1.79	TSM 0.92	TSL 0.32	
2025 GS Class BSF Split[32]	GS 1 1.00	GS 2 1.42	GS 3 1.21	GS 4 1.36

[27] DPU Exhibit 6.02, EGU Response to DPU Data Request 10.01.
[28] DPU Exhibit 6.03, EGU Response to DPU Data Request 12.02.
[29] DPU Exhibit 6.04, EGU response to DPU DR 6.08U.
[30] *Id.*
[31] Docket No. 22-057-03, DEU Exhibit 4.0, Direct Testimony of Austin Summers, p. 19 (May 2, 2022).
[32] DPU Exhibit 6.05 EGU response to DPU DR 6.08U, Attachment 1.

2025 GS Class Volumetric Split[33]	GSS 0.92	GSM 1.73	GSL 1.41

Again, a rate of return index over 1 indicates that a class is paying more than the costs to serve it and is subsidizing other classes. A rate of return index less than 1 shows that the class is being subsidized by other classes.

Q. DESCRIBE THE RESULTS OF THE STUDY OF SPLITTING THE GS CLASS BY BSF.

A. EGU's BSF Study divided the GS Class into 4 groups based on their BSF charge. All customers with a BSF 1 charge were grouped into GS 1, BSF 2 in GS 2, etc. The results of this study, shown in DPU Table 6.1, indicate that there is intra-class subsidization in the GS Class. The customers with larger meters are paying more than their cost of service. But the smallest of the larger customer groups (GS 2) are overpaying the most, with the largest of the larger customer groups (GS 4) overpaying the second most and GS 3 overpaying the least of the larger customer groups. Revenue from the GS 1 group is approximately equal to the cost of serving GS 1.

It would be difficult to remedy this discrepancy with a simple declining block structure because a declining block would benefit the larger customers the most (GS 4, in this instance), while the group overpaying the most is GS 2.

As noted above, EGU used this method to split its GS Class in its Wyoming service area in 2023. EGU Wyoming's GS Class was divided into a GSS Class (for customers using a BSF 1 meter) and LGS Class (for customers using BSF 2, 3, and 4 meters).[34]

Q. WHAT ARE THE ARGUMENTS AGAINST SPLITTING THE GS CLASS BY BSF?

[33] *Id.*
[34] Docket No. 300100-215-GR-23, Order p. 4 (December 29, 2023)

A. The best argument against splitting the GS Class by BSF is that customers sharing a common meter size are heterogeneous. They do not share attributes that would imply that they have similar costs of service. For example, meter size has a low correlation with gas volume consumed.[35] Also, customers with the same BSF charge often have significantly different load factors, with some using gas primarily for winter heating and others for cooking or other industrial processes that may be consistent throughout the year.

Q. DESCRIBE THE PROPOSAL TO SPLIT THE GS CLASS BY VOLUME

A. EGU's Volumetric Study divided the GS Class into three groups based on their annual gas purchases.[36] GS Customers were divided into hypothetical GSS, GSM, and GSL classes. GSS Class customers used less than 150 DTh/yr, GSM use 150 to 1,000 DTh/yr, and GSL use more than 1,000 DTh/yr. The Volumetric Study also showed intra-class subsidy, as listed in Table 6.1. Note that the Volumetric Study shows a higher level of subsidy than the BSF Study, but this could possibly be improved by manipulating the billing determinants.

Q. WHAT ARE THE ARGUMENTS AGAINST SPLITTING THE GS CLASS BY VOLUME?

A. During informal discussions with the Division, EGU has raised several credible and serious objections to splitting the GS Class by volume.

First, some large number of customers would drift between classes periodically as their usage varied. This would make it very difficult to ensure that these customers were not either over or under paying and that EGU was not either losing money or over earning. Billing would become inaccurate for these customers. Class changing would happen on a delay as meters are only read once month and as part of different billing cycles. This means that two customers, each using the same amount of gas every day, could end up paying different amounts if their meters are read on

[35] DPU Exhibit 6.06, EGU Response to DPU Data Request 24.04.
[36] DPU Exhibit 6.03, EGU Response to DPU Data Request 12.02.

different days. This would potentially be confusing and angering for customers who could unexpectedly be put into another class.

Some of these problems could be addressed if EGU changed its over 1 million meters to some variety of real time smart meter, which would be very expensive and time consuming. Perhaps these issues could also be ameliorated by only moving customers to the class appropriate to their level of usage once per year. This would make the accounting easier and be somewhat less confusing and aggravating for customers, but it would make it even more difficult to match class revenue to cost of service over time, increasing the risk that EGU would under or over earn. This would be somewhat mitigated by the CET.

Second, EGU says its billing system, like its meters, is not suitable to accommodate this type of class drift. Much of the work would have to be done manually, which would be expensive and reduce accuracy. And while the exact cost of upgrading the billing system, like EGU's meters, is unknown,[37] it would likely offset much of the benefit of splitting the GS Class.

These problems do not affect transportation customers because these customers decide on their usage and class in advance and are charged separate fees for straying from their committed usages.

Q. DESCRIBE THE PROPOSAL TO SPLIT THE GS CLASS BY FUNCTION.

A. Grouping customers into classes based on what I will refer to as their function (for example residential, commercial, industrial) is theoretically advantageous because functional groups should be more homogenous than those based on BSF or volume. Customers who are grouped this way should have more similar costs of service and more similar volumes, load factors, infrastructure requirements, and customer service needs.

[37] DPU Exhibit 6.07, EGU Response to DPU Data Request 24.01.

This was the most common class structure used by LDC's in my study; 17 of 21 of the tariffs studied had some form of functional class structure.[38] The Division did not propose to study this option in this rate case because EGU does not systematically track this information about all its customers. There is no reason to do so because EGU doesn't use this information in billing.

Q. WHAT IS YOUR RECOMMENDATION FOR THE GS CLASS?

A. The Commission's Order for this rate case should include a provision starting an investigatory docket to determine a class structure for EGU that better reflects cost causation and reduces intra and inter-class subsidization.

In informal conversations with the DPU, EGU has stated that it would not have the time and capacity to implement any changes to the class structure that the Commission would order in this rate case before new rates would take effect. EGU noted that such a change would require significant (and potentially expensive) changes to its billing system and the staff required is currently very busy working on changes to data systems resulting from the recent sale of the Company to Enbridge Gas. I have found no basis to doubt or dispute this assertion.

An investigatory docket should analyze and compare the three classification options I have already discussed (dividing the GS Class by BSF, Volume, or Function), the possibility of reducing inter and intra-class subsidy by manipulating billing determinants, and any other scheme that parties may suggest. It should determine a reasonable technique for estimating the cost to serve the various classes under these scenarios. It should also calculate and consider implementation costs for each of these options.

Changing EGU's class structure to address the tens of millions of dollars per year of intra-class subsidies will be a significant and costly change. Studying the issue in a

[38] DPU Exhibit 6.01, Peer LDCs.

thorough and methodical way to design a significantly better structure should ensure that the process does not have to be repeated for several decades.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.