

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF THE APPLICATION
OF DOMINION ENERGY WYOMING TO
INCREASE DISTRIBUTION RATES AND
CHARGES AND MAKE TARIFF
MODIFICATIONS

Docket No. 30010-187-GR-19

DIRECT TESTIMONY OF
JORDAN K. STEPHENSON
FOR
DOMINION ENERGY WYOMING

November 1, 2019

DEW Exhibit 3.0

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1 I. INTRODUCTION

2 Q. Please state your name and business address.

3 A. Jordan K. Stephenson, 333 South State Street, Salt Lake City, Utah 84111.

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

5 A. I am employed by Dominion Energy Services, Inc. (“DES”) as Manager of Regulation.
6 My qualifications are detailed in DEW Exhibit 3.01. I am filing testimony on behalf of
7 Dominion Energy Wyoming (“Dominion Energy,” “DEW” or the “Company”).

8 Q. Were the attached Exhibits 3.01 – 3.26 prepared by you or under your direction?

9 A. The inflation factors shown in DEW Exhibit 3.13 were prepared by Global Insight. All
10 other exhibits were prepared under my direction.

11 Q. What general areas does your testimony address?

12 A. My testimony explains why the proposed year-end test period of the 12 months ending
13 December 2019 best reflects the conditions that will exist during the rate-effective period.
14 I also describe the proposed revenue requirement and deficiency resulting from the
15 December 2019 test period.

16 II. BASE AND TEST PERIODS

17 Q. What base period is the Company proposing to use in this case?

18 A. The Company proposes to use as the base period the 12-month period ending December
19 31, 2019.

20 Q. What test period is the Company proposing to use in this case?

21 A. The Company proposes to use as the test period the 12-month period ending December
22 31, 2019 with six months of actuals through June 2019 and six months of forecasts
23 through December 2019. As I discuss later, this test period most closely reflects the
24 conditions that will exist during the rate-effective period beginning in September 2020.

25 **Q. Is this test period consistent with the methodology the Company used in the last**
26 **General Rate Case?**

27 A. Yes. In Docket No. 30010-135-GR-14 filed on May 1, 2014, the Company projected 12-
28 months of data in order to calculate its year-end 2014 test period. This test period was not
29 contested and was ultimately approved by the Commission. In this case the Company is
30 projecting 6 months of data to calculate its year-end 2019 test period.

31 **Q. How does the 2019 test period compare with the rate effective-period?**

32 A. The rate-effective period will begin September 1, 2020. It is unknown when the rate-
33 effective period will end, but if history is any indication, the rate-effective period could
34 extend beyond 2021. The Company's proposed 2019 test period, using year-end data, is
35 a better reflection of the conditions DEW will encounter during this rate-effective period
36 than a historical 2018 test period would be. This is so because the Company's proposed
37 test period reflects expenses and investment from January 2019 through December 2019.
38 The year-end 2019 test period therefore best reflects the conditions that will occur while
39 rates are in effect. By contrast, if earlier data were used, that data would less-accurately
40 reflect conditions expected to occur during the rate-effective period.

41 **Q. Do you think the synchronization of investment, revenues and expenses is an**
42 **important factor to consider?**

43 A. Yes. Synchronization is an essential part of creating an accurate forecast. There is
44 obviously a direct link between the number of customers served by the system, the
45 revenues generated by the system, and the investment needed to provide service to the
46 Company's customers. As the number of customers rises, the investment needed for the
47 system and the corresponding revenue from those customers also increases. Depreciation
48 expense, property taxes and deferred income taxes are also linked to investment. The
49 Company has considered all of these items together to develop a test period that best
50 reflects the conditions that will occur during the rate-effective period.

51 **Q. How have you synchronized the rate base, expenses and revenues?**

52 A. I projected investment and other rate base accounts for 2019. I included the capital

53 expenditures in the 2019 investment amounts and included any incremental revenue and
54 volumes from new customer growth in the revenue forecasts for 2019. I then adjusted the
55 depreciation expense, property taxes and deferred income taxes to match the investment.

56 **Q. What is the general approach you have taken to develop the 2019 test period and**
57 **revenue requirement?**

58 A. The foundation for the test period ending December 2019 is the Company's historical
59 financial information for the 12 months ended December 2018 as filed in the Company's
60 most recent results of operations report. These amounts can be found on column B of
61 DEW Exhibit 3.02. I then adjusted revenues, expenses, and rate base to reflect the
62 amounts anticipated to exist on December 31, 2019 (Section II A. – Section II F. below).
63 I then applied regulatory adjustments required in past rate cases to the 2019 forecasted
64 numbers (Section III "Regulatory Adjustments" below). The total of these forecasting
65 and regulatory adjustments is summarized on column C of DEW Exhibit 3.02. Column
66 D presents the imputed tax adjustment. Columns B, C and D are added together to
67 calculate the adjusted system total in column E. Finally, I apportioned the amounts to the
68 Utah or Wyoming jurisdiction by direct assignment or by allocation using one of three
69 allocation factors: gross plant, rate base, or gas sales (throughput). The Wyoming
70 jurisdictional amounts are shown in column F.

71 **Q. Considering this analysis, what are the major drivers of the proposed rate increase?**

72 A. As Mr. Mendenhall explains in his direct testimony, the requested increase is largely due
73 to the growth in rate base resulting from capital investments placed into service since the
74 Company's last rate case. Including 2019, the Company will have invested over \$34
75 million in capital since the last rate case to improve its system. This capital investment
76 was needed to replace aging infrastructure and expand the system. The projected net
77 plant for 2019 is \$21 million higher than the net plant approved in the last general rate
78 case. Depreciation expense and return on rate base have corresponding increases due to
79 the amount of capital spending during the last five years.

80 Total adjusted O&M expenses included in the 2014 general rate case (2014 test period)
81 were \$6.5 million, compared to \$5.6 million projected in 2019, a 14% *decrease* over this

82 five-year period. Corporate allocated costs have contributed to this decrease since the
83 merger between Questar Corporation and Dominion Energy, Inc. (“DEI”) in 2016. In
84 2015, the final full year prior to that merger, the Company received \$49 million in total
85 corporate allocated costs from Questar Corporation. In 2018, allocated costs from DES
86 were only \$34 million.

87 **Q. Please explain the adjustments you have made to revenue, expense, and rate base**
88 **accounts that you expect to occur and have included in the 2019 test period values.**

89 A. DEW Exhibit 3.02, column C, provides the total of all material changes in the test period
90 from December 2018. DEW Exhibit 3.03 provides a summary of the changes in revenue,
91 expenses, and rate base by adjustment and shows how these adjustments add up to the
92 total reflected in column C of DEW Exhibit 3.02. DEW Exhibits 3.04 through 3.24
93 provide a detailed calculation of each adjustment. I provide a reference of where each
94 adjustment can be found in the summary DEW Exhibit 3.03. I also discuss the detail of
95 each adjustment.

96 **A. Rate Base**

97 **DEW Exhibit 3.03 through Exhibit 3.09.**

98 **Q. Please explain how rate base was projected for the test period.**

99 A. I’ve shown the rate base adjustments by FERC account in DEW Exhibit 3.03, Rows 31
100 through 51. Rate Base items were calculated using two approaches. First, accounts
101 expected to experience significant changes were forecasted using known and measurable
102 changes that would occur during 2019. I used the historical monthly balances for all
103 other accounts. The table below lists each account included in Rate Base, as well as the
104 description and methodology used.

Account	Description	Forecast Methodology
101	Gas Plant in Service	Projected monthly amounts
106	Completed Construction not Classified	Projected monthly amounts
108, 111, 254	Accumulated Depreciation	Projected monthly amounts
154	Materials & Supplies	Historical monthly amounts
165	Prepayments	Historical monthly amounts
190/282	Accumulated Deferred Income Taxes	Projected monthly amounts

235-1	Customer Deposits	Historical monthly amounts
252	Contributions in Aid of Construction	Historical monthly amounts
253-1	Unclaimed Customer Deposits	Historical monthly amounts
255	Deferred Investment Tax Credits	Projected monthly amounts

105 Below is a detailed description of each projected rate base account calculation.

106 **1) Gas Plant in Service (Account 101)**

107 **Q. Please explain how you made the forecasts to the Gas Plant in Service Account**
108 **(Account 101).**

109 A. I calculated the projected Gas Plant in Service (Accounts 101/106) balances by starting
110 with actual balances by FERC account (DEW Exhibit 3.04, columns A and B). I then
111 added the net 2019 capital additions (columns C and D) to calculate the projected
112 December 2019 balance (columns E and F).

113 DEW Exhibit 3.05 page 1 shows the calculation of the net additions for 2019. I took the
114 capital budget amounts by FERC account for 2019 (DEW Exhibit 3.05, page 1, columns
115 A and B), and I removed the retirements expected to occur during 2019 (columns C and
116 D). Lastly, I added the amounts in the Construction Work in Progress (Account 107) and
117 Completed Construction Not Classified (Account 106) at the end of 2018 that will be
118 closed in 2019 (columns E and F), and removed the 2019 expenditures expected to be in
119 Construction Work in Progress at the end of the year (columns G and H). The sum of
120 these changes results in the 2019 net additions, shown in columns I and J. As shown, the
121 total net additions amount to \$280.5 million in 2019 (column I, line 32), of which, \$5.4
122 million are directly assigned to Wyoming.

123 **2) Accumulated Depreciation (Accounts 108, 111 and 254)**

124 **Q. Please explain how you made the forecasts to Accumulated Depreciation (Account**
125 **108).**

126 A. Dominion Energy has projected that the Accumulated Depreciation/Amortization
127 (Accounts 108 and 111) will increase by \$20.5 million between December 2018 and
128 December 2019 resulting in an ending balance of \$820.4 million for the test year (DEW

129 Exhibit 3.06, column D, line 12). Account 254 – Other Regulatory Liabilities has
130 amounts associated with depreciation expense of future removal costs and will change as
131 assets are depreciated. The total depreciation expense booked to the 254 account is
132 shown on line 11 of Exhibit 3.06.

133 **3) Miscellaneous Customer Credits and Seasonal Accounts (Account 252 and 154)**

134 **Q. Please explain how you made the forecasts to customer credits and other seasonally**
135 **varying accounts.**

136 A. The Miscellaneous Customer Credits (Account 252) are projected to be \$0 going forward
137 due to changes in the main line policy. Historically, the first customer receiving service
138 from a main would pay for a large portion of the expenses associated with the main, and
139 if additional customers connected within a five-year period, the Company would refund a
140 portion of that main contribution back to the first customer. In 2014, this policy was
141 changed and now no refundable contributions are collected. As a result, as contributions
142 under the old policy have expired, this account balance has been reduced each year. This
143 reduction is shown in Exhibit 3.07. The total balance will reach \$0 by the end of 2019.

144 The Materials and Supplies balances (Account 154), Prepayments (Account 165),
145 Customer Deposits (Account 235), and Unclaimed Customer Deposits (Account 253.1)
146 are seasonal in nature. I forecasted the seasonal fluctuations using the historical seasonal
147 pattern from 2018, consistent with the Company's methodology in Docket No. 30010-
148 135-GR-14 and approved by the Commission.

149 **4) Accumulated Deferred Income Taxes (Account 190 and 282)**

150 **Q. Please explain how you made the forecasts to Accumulated Deferred income taxes**
151 **(Accounts 190 and 282).**

152 I calculated the deferred income taxes account balances (Account 282) for 2019 by taking
153 projected investment, depreciation, and tax amounts and projecting their impact on
154 deferred income taxes, consistent with the Company's methodology in Docket No.
155 30010-135-GR-14 and with Commission precedent. (DEW Exhibit 3.08, line 5).

156

5) Cash Working Capital

157 **Q. Is the Company proposing that any cash working capital be included in rate base in**
158 **this case?**

159 A. No.

160 **Q. Has the Company included a working electronic model that shows the calculations**
161 **for the rate base referenced above?**

162 A. Yes. Included in this filing as DEW Exhibit 3.09 Wyoming Rate Case Model, is a
163 working Excel model that includes all calculations for rate base as well as all other
164 revenue requirement calculations referenced in the proceeding testimony. The model also
165 includes cost-of-service and rate design calculations.

166 ***B. Forecasted Expenses***

167 **DEW Exhibit 3.03, column 7 and DEW Exhibit 3.10.**

168 **Q. What is the Company projecting for test period O&M expense?**

169 A. A summary of 2018 base period expenses, as well as forecasted 2019 expenses, are
170 shown in DEW Exhibit 3.10. As page 1, column D, line 53, shows, the Company is
171 projecting direct 2019 Wyoming O&M expenses to be \$5.7 million.

172 **Q. What approach did you use to adjust historical O&M expenses to calculate the**
173 **forecasted test period O&M expenses?**

174 A. I forecasted the two major components that make up operating and maintenance
175 expenses, labor and non-labor, using different methods. To do so, it was necessary to
176 identify and split the historical labor and non-labor expenses by FERC account. DEW
177 Exhibit 3.10, page 2, shows test-period expenses separated by FERC account and cost
178 component. Labor and labor overhead make up approximately \$76.6 million of the total
179 2019 O&M expense (DEW Exhibit 3.10, page 2, column A, line 53), and approximately
180 \$3.3 million of the total Wyoming O&M expense (Column D, Line 53). I included all
181 other O&M expenses in the non-labor categories (columns B and E).

182

183 **Q. How did you forecast the labor and labor overhead O&M expenses?**

184 A. Projected amounts for labor and labor overhead O&M expenses are shown in DEW
185 Exhibit 3.11. Overall labor expense (line 11) in 2019 is expected to remain relatively flat
186 compared to 2018, as normal labor expense growth is offset by labor savings related to a
187 voluntary retirement program announced in 2019 (line 2).

188 **Q. How did you forecast the non-labor O&M expenses?**

189 A. The detailed calculation of non-labor O&M expenses is shown in DEW Exhibit 3.12.
190 Actual expenses were used through June 2019 and July through December 2019 expenses
191 were forecasted. The basis for the forecasted non-labor O&M expenses was the historical
192 O&M expenses through December 2018 (Column A). I increased or decreased the
193 historical expenses using the 2019 inflation factors from the Global Insight Power
194 Planner report (column C). DEW Exhibit 3.13 includes the pages from this report used in
195 the forecast. DEW Exhibit 3.12 Column D shows the total projected expenses from
196 January through December of 2019 after inflation. The Wyoming amounts are shown on
197 Column E. As shown on row 60, I also reduced the inflated expenses related to cost
198 saving initiatives separate from the voluntary retirement program mentioned previously.
199 The Wyoming 2019 non-labor O&M expense is shown in column E, row 61.

200 **C. Revenue**

201 **DEW Exhibit 3.03 column 6, and DEW Exhibit 3.14.**

202 **Q. How have you estimated usage per customer for the test period?**

203 A. The long-term trend of usage-per-customer has been declining over the last few decades.
204 The table below shows the usage-per-customer for 2017, 2018, and projected 2019.

	Usage Per Customer (Dth)	Change From Prior Year (Dth)
Historical 12 Months Ended December 2017	130.55	
Historical 12 Months Ended December 2018	129.57	-0.98
Projected 12 Months Ended December 2019	129.47	-0.10

205 The projected usage-per-customer is 129.47 Dth in 2019. This forecast was developed
206 using statistical time series methods on 20 years of monthly historical usage through
207 2018.

208 **Q. How have you estimated the number of customers for the test period?**

209 A. The estimated 2019 customer totals used in this case are based on the Company's most
210 recent Integrated Resource Plan filed June 13, 2019. In 2018, customer growth was
211 largely flat. This trend is expected to continue for both the residential and commercial
212 construction sectors. The IRP projections show that the Company will serve 27,808
213 customers on average in in 2019, a slight increase from 27,749 in 2018.

214 **Q. How did you calculate revenues for the test period?**

215 A. Revenues for the GS class were based on the projected customer numbers and the
216 currently allowed revenue-per-customer under the Conservation Enabling Tariff
217 ("CET"). All other rate classes were based on projected customer numbers and expected
218 volumetric annual usage. DEW Exhibit 3.14 shows the revenue detail for 2019. I
219 projected revenues through December 2019 using anticipated customers and usage.

220 ***D. Bad Debt***

221 **Q. What bad debt rate does the Company propose to use?**

222 A. The Company proposes to use the same bad debt percentage currently in use, the bad debt
223 percentage of 0.24%. The bad debt adjustment is shown in DEW Exhibit 3.15.

224 ***E. Depreciation Expense***

225 **DEW Exhibit 3.03, column 5 and DEW Exhibit 3.16.**

226 **Q. Are you proposing any changes to depreciation rates in this case?**

227 A. Yes. The Company conducts a depreciation study every five years on distribution and
228 general plant in service. In 2018, the Company hired Gannett Fleming to conduct a
229 depreciation study on its 2017 investment. This is the third study performed by the
230 Company. A copy of the study is attached in DEW Exhibit 3.16.

231 **Q. When was the last study performed?**

232 A. The last study was performed on 2012 plant and was completed in 2013. The rates from
233 that study were ultimately approved in Docket No. 30010-135-GR-14.

234 **Q. What are the results of the new study?**

235 A. DEW Exhibit 3.17 summarizes the change in depreciation expense if the proposed study
236 is approved. The overall impact to annual depreciation expense for Wyoming customers
237 is an increase of \$32,052 (line 145). Distribution Plant increased by a total of \$28,114.
238 This is a result of decreasing depreciation rates and increased depreciation related to a
239 depleted reserve variance balance. General Plant increased by a total of \$3,938, which is
240 again a reflection of decreasing depreciation rates offsetting increased depreciation
241 expense related to a depleted reserve variance balance.

242 **Q. Please highlight the key drivers in the distribution plant depreciation expense**
243 **change?**

244 A. The depreciation rates are based on the projected lives of the assets as well as the
245 expected net salvage value of each asset group. Column D of DEW Exhibit 3.17 shows
246 the currently approved rates and column I shows the proposed rates. There are three
247 accounts that decrease depreciation expense by a combined \$6 million annually as a
248 result of the depreciation study. A summary of the impacts of these accounts are shown
249 in the table below:

Account	Description	Exhibit Reference	Total System Impact	Wyoming Impact
Account 376	Mains	Line 28	(\$3.7M)	(\$111,288)
Account 380	Services	Line 43	(\$1.6M)	(\$73,623)
Account 381	Meters & Installation	Line 48	(\$700,882)	(\$19,167)

250

251 Depreciation decreased as a result of increased service life for each of these accounts.

252 **Q. Please explain the reserve variance and how that impacts depreciation expense.**

253 A. When a depreciation study is performed, the depreciation is calculated back to the
254 beginning of the asset life at both the current depreciation rate and the proposed
255 depreciation rate. The difference in the accumulated depreciation must then be returned
256 to customers if it is overcollected, or collected from customers if it is undercollected. At
257 the time of the last study, the Company had a total reserve variance balance of \$86
258 million for Distribution Plant. At that time, this resulted in an amortization for
259 Distribution Plant amounts of approximately \$6 million per year the reserve variance for
260 General Plant was approximately \$2.6 million. Based on the 2017 study, this reserve
261 variance balance has been depleted, and the reserve variance of \$8.6 million per year has
262 been removed. Because the Company was amortizing this reserve variance back to
263 customers, a decreased balance results in an increase in depreciation expense.

264 **Q. How was depreciation expense forecasted?**

265 A. Depreciation rates shown in DEW Exhibit 3.17 were applied to the projected plant
266 balances to calculate an annual depreciation expense for 2019. DEW Exhibit 3.18 shows
267 a summary of the adjustment. Column B shows the depreciation expense for the 12
268 months ended December 2018. Column C shows the projected depreciation expense for
269 2019. Column D shows the projected depreciation expense for the month of December
270 2019. Column E shows the annualization of the December 2019 depreciation amount.
271 Column F shows the proposed adjustment to the system total depreciation expense.
272 Column G shows the Wyoming adjustment to depreciation expense.

273 ***F. Taxes Other than Income Taxes***

274 **DEW Exhibit 3.03, column 7 and DEW Exhibit 3.19**

275 **Q. How did the Company forecast Taxes Other Than Income Taxes?**

276 A. The detail for this forecast is shown in DEW Exhibit 3.19. Total other taxes for 2019 are
277 expected to be about \$3.7 million higher than the 2018 period amounts due mainly to an
278 increase in property taxes (line 1). Dominion Energy's assessed property valuation has
279 increased due to increased capital additions. This adjustment is included as part of the
280 forecasted expense adjustment and can be seen on DEW Exhibit 3.03, column 7, line 26.

281 **III. REGULATORY ADJUSTMENTS**

282 **A. *Underground Storage***

283 **DEW Exhibit 3.03, column 3 and DEW Exhibit 3.20.**

284 **Q. Please explain the adjustment for Gas Stored Underground.**

285 A. Pursuant to the final order in Docket No. 30010-GR-93-24, Account 164, Gas Stored
286 Underground - Current, is to be accounted for in the Company's pass-on cases and
287 excluded from test-year rate base. This is accomplished in pass-on cases by allowing a
288 return on the actual average balance in this account to be entered as a gas cost in the 191
289 Account. This adjustment removes the total balance of Account 164 from the rate-base
290 calculation.

291 **B. *Wexpro Adjustment to Production Plant***

292 **DEW Exhibit 3.03, column 4 and DEW Exhibit 3.21.**

293 **Q. Please explain the adjustment for Wexpro investment.**

294 A. In accordance with the Wexpro Agreement, Wexpro adds 6.3% of Dominion Energy's
295 production plant to the Wexpro investment as a general plant allowance when calculating
296 the Wexpro service fee charged to Dominion Energy. The Wexpro Agreement also
297 provides that the production plant component in each Dominion Energy rate base plant
298 account should be reduced by 6.3%. This adjustment will continue to decrease over time
299 as this plant fully depreciates.

300 **C. *Removal of Energy Efficiency Expenses***

301 **DEW Exhibit 3.03, column 2 and DEW Exhibit 3.22**

302 **Q. Should energy efficiency expenses be removed?**

303 A. Yes. The energy efficiency program revenues are collected from customers through the
304 demand-side-management amortization rate. When revenues are collected, an offsetting
305 expense is made to the 908007 expense account. These revenues are not collected
306 through distribution non-gas rates and are not included in the 2019 projected revenue
307 calculation. Therefore, the 2019 energy efficiency expenses should be removed as well.

308 DEW Exhibit 3.22, line 13, shows the monthly entries and the removal of these expenses.

309 ***D. Income Tax Reform***

310 **DEW Exhibit 3.03, column 8 and DEW Exhibit 3.23**

311

312 **Q. Can you explain how the Tax Cuts and Jobs Act of 2017 impacts the revenue**
313 **requirement in this docket?**

314 A. On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (“TCJA”) reduced the
315 corporate federal income tax rate from 35% to 21% effective January 1, 2018. The
316 projected 2019 tax expense in this filing is based on the updated tax rate. In addition, the
317 Company has determined that the excess deferred income tax balance related to TCJA at
318 the end of 2017 was \$252,244,435. Additional detail on this balance is shown in the
319 table below:

Category	Excess Deferred Income Tax Balance (2017)	Gross Up	Total	WY Allocation
Plant-Related EDIT	\$178,519,818	\$ 58,715,839	\$237,235,657	\$7,117,070
Other Non- Plant Related EDIT	\$ 11,294,098	\$ 3,714,680	\$ 15,008,778	\$450,263
Total EDIT	\$189,813,916	\$62,430,519	\$252,244,435	\$7,567,333

320

321 These balances must be amortized as a reduction to income tax expense over time. In
322 Docket No. 30010-182-GR-19, the Company submitted a calculation of the excess
323 deferred income taxes attributable to Wyoming customers. In that Docket, the Company
324 provided plant-related and non-plant related EDIT amortization amounts. It is necessary
325 in this docket to return both Plant-Related and non-plant related amortization going
326 forward.

327 **Q. How does the Company propose treating the ongoing Plant-Related EDIT balance**
328 **in this docket?**

329 A. Annual amortization of the plant-related EDIT under the ARAM method in 2018 was
330 originally estimated to be \$5,284,619. Dominion has now finalized its 2018 tax return
331 and that amount has been revised to \$4,151,794. DEW Exhibit 3.23, Column C, line 6
332 shows that \$124,554 of the 2018 EDIT amortization is allocable to the Wyoming
333 jurisdiction. This jurisdictional allocation is based on the balances in the accumulated
334 deferred income tax account at the time of the amortization. This amount has been
335 deferred and the Company proposes to return the amount to customers in its fall 2020
336 pass-on. In addition, the Company will include this amortization as a reduction to
337 expense in its 2019 test period as an estimate for the ongoing EDIT amortization going
338 forward with a corresponding adjustment to rate base of \$90,915, which is related to the
339 EDIT amortization amount prior to the tax gross up. This will assure that the amortization
340 benefit is returned to customers effective September 1, 2020 and beyond.

341 **Q. How does the Company propose treating the Non-Plant Related EDIT balance in**
342 **this docket?**

343 A. Regarding the other non-plant related EDIT of \$450,263, the Company proposes that this
344 category be amortized over 5 years. This results in an additional amortization of \$90,053
345 and a corresponding annual rate base increase of \$65,732. This is shown in DEW Exhibit
346 3.23, Column D, lines 6 and 8, respectively.

347 **Q. Is the Company proposing any changes to the current tax surcredit 1?**

348 A. Yes. The tax surcredit 1 adjusts the approved base DNG rates, which were based on a
349 35% federal tax rate, to account for the decrease in the federal income tax rate to 21%. In
350 this docket, the Company is using the current federal income tax rate and as such, no
351 additional sur-credit is required. The Company proposes that the tax surcredit 1 rate
352 cease at the time the new base DNG rates in this case are placed into effect. The removal
353 of the surcredit is shown in DEW Exhibit 5.06.

354

355 *E. Pension Removal*

356 DEW Exhibit 3.03, column 9 and DEW Exhibit 3.24

357 **Q. Is the Company proposing changes to the way Pension expense is included in the**
358 **revenue requirement going forward?**

359 A. Yes. The Company is proposing that pension related rate base and credit items be
360 excluded from the 2019 test period. The impact of this adjustment is shown in Exhibit
361 3.24. Column C lines 1-3 show the elimination of \$27.8 million related to the pension
362 portion of ADIT and \$112.5 million related to the deferred pension asset, totaling \$84.7
363 million in net rate base. Line 6 shows the elimination of \$4.6 million in pension expense
364 credits. Of this amount, \$158,014 is attributable to Wyoming (line 5).

365
366 **Q. Why is the Company proposing this Pension expense adjustment?**

367 A. In the years prior to 2017, the Company regularly contributed cash payments to the
368 pension plan in accordance with IRS funding requirements. In 2017, Dominion Energy,
369 Inc. contributed \$75 million to the Questar Gas Company (now Dominion Energy
370 Wyoming) pension fund. As a result of this contribution funded by Dominion Energy
371 shareholders, the Company has not contributed to the plan in 2017 and 2018, and does
372 not anticipate making cash contributions in the test period. This elimination of pension
373 contribution reduces the overall revenue requirement. The table below shows the annual
374 contributions since the last general rate case through 2019.

In millions	2013	2014	2015	2016	2017*	2018	2019
QGC/DEW Contributions	\$29.45	\$21.35	\$33.47	\$9.09	\$0	\$0	\$0

375 **\$75m contributed by Dominion Energy, Inc. shareholders*

376 The 2017 contribution by Dominion Energy, Inc. has resulted in a large and growing
377 pension asset, and a negative pension accrual. Because cash contributions by Dominion
378 Energy Wyoming are not required in the test period, and because this pension credit was
379 caused by a shareholder contribution to the pension asset, it is appropriate to remove
380 these items from the test period.

381

IV. COST OF CAPITAL

382

DEW Exhibit 3.25

383

Q. What is the cost of debt included in the average 2019 test period?

384

A. The Company has included a cost of debt of 4.37% in the 2019 test period. This is a decrease from the 5.30% cost of debt included in the most recently approved general rate case test period, and a slight decrease from the actual cost of debt of 4.40% in 2018.

385

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Exhibit 3.25 provides a more detailed breakdown of the components of debt and the cost of debt for the last general rate case (column C), year-end 2018 (column D), and the average 2019 test period (column E).

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Q. What is the cost of equity included in the average 2019 test period?

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A. The Company has included a cost of equity of 10.50% in the 2019 test period. This is discussed more thoroughly in the Direct Testimony of Mr. Robert B. Hevert.

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Q. Please provide the capital structure and total cost of capital DEW is proposing for the 2019 test period.

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A. Although equity is anticipated to be 60% of total capital in the average 2019 test period (Exhibit 3.25, row 28), the Company is proposing a capital structure consisting of 55% equity and 45% debt. This equity level is consistent with Provision 25 of the Merger Stipulation in Docket 30010-180-GA-18 and 30025-1-GA-16 as discussed by Mr. Mendenhall in his testimony. At the costs mentioned above, this amounts to a total weighted cost of capital of 7.46%, as follows:

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	YE 2019 CAP STR		Weighted
	Weight	Cost	Cost
Long Term Debt	45.00%	3.75%	1.69%
Short Term Debt	0.00%	0.00%	0.00%
Common Equity	55.00%	10.50%	5.78%
	100.00%		7.46%

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V. PROJECTED DEFICIENCY AND REVENUE REQUIREMENT

405

Q. Have you calculated a total revenue requirement for this case?

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A. Yes. Based on the projected capital structure and a 10.5% return on equity incorporated together with the forecasted data and regulatory adjustments, I calculated the total Wyoming revenue requirement to be \$15.5 million. (DEW Exhibit 3.02, column H, line 3).

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Q. Using the currently-allowed revenue per customer, what is the projected revenue deficiency for the test period?

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A. DEW Exhibit 3.02 shows that, for the proposed test period, the Wyoming operations of the Company would be expected to earn 2.87% return on equity. This results in a revenue deficiency of \$3.5 million (column G, line 3).

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Q. Have you made a similar calculation of the revenue deficiency using volumetric revenues for the GS class instead of the allowed revenue-per-customer?

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A. Yes. DEW Exhibit 3.26 shows that, for the test year, the Wyoming operations of the Company would be expected to earn 1.90% return on equity during the rate-effective period, absent rate relief in this docket. This amounts to a revenue deficiency of \$3.9 million.

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Q. Does the difference cause the total revenue requirement to change?

422

A. No. The allowed revenue requirement does not change. A summary of the two calculations is shown in the table below:

423

	Current Revenue	Deficiency	Revenue Requirement
CET Allowed Revenue	\$12.0 Million	\$3.5 Million	\$15.5 Million
Volumetric Revenue	\$11.6 Million	\$3.9 Million	\$15.5 Million

424

Rates will be set on the total revenue requirement, not the deficiency, thus, the end results will be the same regardless of how one calculates revenue deficiency.

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426 **Q. Has the Company included a working electronic model for the revenue requirement,**
427 **cost-of-service, and rate design proposals in this case?**

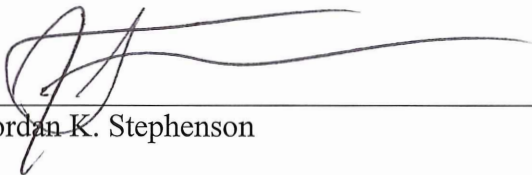
428 A. Yes. Included in this filing as DEW Exhibit 3.09 Wyoming Rate Case Model, is a
429 working Excel model that includes all revenue requirement, cost of service, and rate
430 design calculations. The cost of service calculations are performed in the yellow tabs and
431 the rate design calculations are in the green tabs. All other tabs are used for calculating
432 the revenue requirement.

433 **Q. Does that conclude your testimony?**

434 A. Yes.

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

I, Jordan K. Stephenson, being first duly sworn on oath, state that the answers in the foregoing written testimony are true and correct to the best of my knowledge, information and belief. Except as stated in the testimony, the exhibits attached to the testimony were prepared by me or under my direction and supervision, and they are true and correct to the best of my knowledge, information and belief. Any exhibits not prepared by me or under my direction and supervision are true and correct copies of the documents they purport to be.



Jordan K. Stephenson

SUBSCRIBED AND SWORN TO this 1st day of November, 2019.





Notary Public