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ENERGY TEXAS, INC.'S STATEMENT §
OF INTENT AND APPLICATION FOR §
AUTHORITY TO CHANGE RATES §
§
§

BEFORE THE STATE OFFICE
OF
ADMINISTRATIVE HEARINGS



SUPPLEMENTAL SETTLEMENT TESTIMONY OF
GRANT GERVAIS
RATE REGULATION DIVISION
PUBLIC UTILITY COMMISSION OF TEXAS
OCTOBER 5, 2018

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3

1 **I. PROFESSIONAL QUALIFICATIONS**

2 **Q. Please state your name and business address.**

3 A. Grant Gervais, 1701 N. Congress Avenue, Austin, TX 78711-3326.

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

5 A. I am employed by the Public Utility Commission of Texas (“PUC” or “the
6 Commission”) as a Rate Analyst in the Tariff and Rate Analysis Section of the Rate
7 Regulation Division.

8 **Q. Did you file direct testimony on August 8, 2018 and errata testimony on August
9 16, 2018 in this proceeding?**

10 A. Yes.

11 **Q. What are your principal responsibilities as a Rate Analyst for the Public
12 Utility Commission of Texas?**

13 A. My principal responsibility is to analyze utility tariff filings, cost allocation, and
14 rate design. My responsibilities include preparing and presenting testimony as an
15 expert witness on cost allocation and rate design in docketed proceedings before
16 the Commission and the State Office of Administrative Hearings (“SOAH”).

17 **Q. Please state your educational background and professional experience.**

18 A. I have provided a summary of my educational background and regulatory
19 experiences in my previously filed direct testimony in this docket.

20 **Q. Have you previously filed direct testimony in a Commission proceeding?**

21 A. Yes. See my previously filed direct testimony in this docket for a list of my
22 previously filed testimony.

23

1 **II. SCOPE OF TESTIMONY**

2 **Q. What is the purpose of your testimony in support of settlement in this**
3 **proceeding, Docket No. 48371, *Entergy Texas, Inc.’s Statement of Intent and***
4 ***Application for Authority to Change Rates?***

5 A. My testimony will address the reasonableness of the unopposed stipulation filed on
6 October 5, 2018 (“Stipulation”) with regard to the agreed customer charges and
7 cost recovery factor baseline values.

8

9 **III. SUMMARY OF RECOMMENDATIONS**

10 **Q. What is your recommendation?**

11 A. Based on my review, and given the positions and recommendations of the parties
12 in this proceeding, the stipulated customer charges and cost recovery factor
13 baselines represents a reasonable compromise that would conserve resources
14 compared to continued litigation. I recommend that the Commission approve the
15 customer charge and baseline terms of the Stipulation.

16

17 **IV. BENEFITS OF THE STIPULATION**

18 **Q. What are some benefits of the stipulation?**

19 A. The terms of the Stipulation address a broad range of issues. The resolution of the
20 customer charge and baseline issues as reflected in the Stipulation represents an
21 appropriate and reasonable balancing of interests of ETI and its customers. The
22 final customer charge and baseline terms are the result of a negotiated compromise
23 to which the settling parties agreed after lengthy and detailed discussions. If

1 implemented successfully by the Company, the terms of the settlement agreement
2 would, among other benefits:

- 3 • Establish base-rate-related information (baselines) for certain parameters used
4 in potential future Purchased Power Cost Recovery Factor (PCRf),
5 Transmission Cost Recovery Factor (TCRF), and Distribution Cost Recovery
6 Factor (DCRF) proceedings.
- 7 • Withdraw ETI's requested FERC and Deferred Tax Accounting (DTA) riders.
- 8 • Flow-back unprotected excess Accumulated Deferred Federal Income Tax
9 (ADFIT) to ETI customers using a separate rider.

10

11 **V. TERMS OF THE STIPULATION**

12 **Q. What are the primary rate design and Tariff terms of the Stipulation?**

13 A. ETI requested moving the Residential customer charge to cost at \$13.64 per month
14 in its initial application, while OPUC witness Clarence Johnson recommended
15 keeping the customer charge at the currently effective \$7.00.¹ The Stipulation
16 specifies that the customer charge for the Residential class will be \$10 per month,
17 which represents a \$3 increase from the currently effective \$7 per month.

18 ETI requested moving the Small General Service customer charge to cost at \$19.43
19 in its initial application, while OPUC witness Clarence Johnson recommended
20 "limiting the customer charge to a percentage increase no higher than the
21 percentage increase in the total retail base revenues allowed by the Commission."²

¹ Direct testimony of Clarence L. Johnson at 50.

² *id.*

1 The Stipulation specifies that the Small General Service class customer charge will
2 increase to \$14.19 per month, which represents an increase of \$3.99 from the
3 currently effective \$10.20 per month. Additionally, ETI withdraws its request for
4 changes to Schedules Interruptible Service (IS) and Standby Metering Service
5 (SMS).

6 **Q. Are the agreed rate design & Tariff terms reasonable?**

7 **A. Yes. The rate design and Tariff agreements represent a reasonable compromise**
8 among the positions of various parties. In light of the costs of continued litigation,
9 it is reasonable for the Commission to approve the agreed rate design terms.

10

11 **VI. AGREEMENT ON COST RECOVERY FACTOR BASELINES**

12 **Q. How were the agreed PCRf, TCRf and DCRf baselines values developed?**

13 **A. Staff developed the stipulated baseline values consistent with the approach that was**
14 used to establish the Commission-adopted baseline values in Docket No. 41791,
15 *Application of Entergy Texas, Inc. for Authority to Change Rates and Reconcile*
16 *Fuel Costs*, except for the following adjustments:

- 17 • The Company's cost of service study was scaled-down to the settlement level
18 of revenues by decreasing in equal proportion all line items in the Company's
19 cost of service study, with the exception of those that are plant-related.
- 20 • The baseline values were adjusted to reflect the agreed revenue distribution.
- 21 • All Plant-related ADFIT has been included in the calculation of rate base, not
22 just the portion related to liberalized depreciation.

- 1 • Each cost recovery factor baseline now includes functionalization factors to be
2 used in allocating costs that are not directly assignable to the specified Cost
3 Recovery Factor.

4 **Q. Are the agreed baseline values reasonable and in the public interest?**

5 A. Yes. While parties take no position on the individual components of the class cost
6 of service, and thus the exact number that represents cost for each baseline-value
7 parameter, the agreed baseline values shown in Attachment A of the Stipulation are
8 reasonable and are consistent with the agreed terms of the stipulation. In the context
9 of the case as a whole, as well as the costs of continued litigation, the stipulated
10 PCRF, TCRF, and DCRF baseline values are reasonable and should be approved.
11 As set out in the Stipulation, all the parties agree that any information used to
12 develop the baselines is non-binding and not to be treated as precedent in any other
13 proceeding of any kind, and does not reflect an agreement on any methodology that
14 may or may not have been used to derive those baselines.

15
16 **VII. CONCLUSION**

17 **Q. Please summarize your recommendation.**

18 A. Taken as a whole, and given the costs associated with continued litigation, the rate
19 design and baseline terms of the Stipulation are reasonable. I recommend that the
20 Commission approve these portions of the Stipulation.