State of Utah

Department of Commerce
Division of Public Utilities

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Action Request Response

To: Utah Public Service Commission

From: Utah Division of Public Utilities

Chris Parker, Director

Artie Powell, Manager

Doug Wheelwright, Utility Technical Consultant

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Date: June 17, 2019

Re: Action Request Response and Comments Regarding Docket No. 18-057-09. Dominion Energy Utah, 2018 Quarterly Integration Progress Reports.

Recommendation (No Action)

The Division of Public Utilities (Division) recommends that the Public Service Commission of Utah (Commission) take no action at this time regarding the Integration Progress Report (IPR) for the third quarter of 2018 submitted by Dominion Energy Utah (Gas Utility).

Issue

On May 16, 2019, the Gas Utility submitted its 4th Quarter 2018 Integration Progress Report. On that same date, the Commission issued an Action Request to the Division with a due date of June 17, 2019. Additionally, on that same date, the Commission issued a Notice of Filing and Comment Period stating that comments on the Integration Progress Report (IPR) are due to the Commission by June 17, 2019 with reply comments due by July 2, 2019.

These are the Division's comments and its Action Request Response.

Background

On January 31, 2016, Dominion Resources (Dominion) and Questar Corporation (Questar) signed a merger agreement. On September 14, 2016, the Commission issued its order approving a joint stipulation and the acquisition of Questar by Dominion. As part of that order, Paragraph 36 of the joint stipulation was adopted, which addresses reporting to the Commission on "planned and accomplished" tasks related to the merger. The joint stipulation identified 57 individual commitments that were agreed to by Dominion and Questar (the Applicants). One commitment called for the Gas Utility to work with the Division and the Office of Consumer Services (Office) to develop an Integration Progress Report. This report would be filed quarterly and would include transition and transaction costs.

The intent of the quarterly filing is simply to monitor and report the integration activity and the costs associated with the Applicants' merger, not to justify such costs nor to seek cost recovery.

Discussion

Fourth Quarter 2018 Report

Each progress report has provided information that the Gas Utility purports to show that it is meeting its merger commitments and provide the Commission with information regarding how the merger is proceeding. With this eighth submitted report, the Gas Utility included eight exhibits. With each IPR the Gas Utility has numbered its exhibits consecutively so these eight exhibits are numbered 39-46 inclusive.

Exhibit 39. Dominion Energy Capital Expenditures YTD December 31, 2018.

The merger commitment #8 is an effort to ensure the continued investment in total capital expenditures. This began in 2017 with a minimum required investment of $209 million, and in 2018 the required investment should be at least $203 million and in 2019 the capital investment should be at least $233 million. To satisfy this commitment the Gas Utility shows that its 2017

Capital Expenditures were $211 million and for 2018 its capital investment was $212 million which demonstrate that it is meeting its commitment in this area.

Exhibit 40. Moody's Investor Service Credit Opinion 30 January 2019.

This exhibit is provided to demonstrate that the Gas Utility is meeting commitment #24 "to maintain credit metrics that are supportive of strong investment-grade credit ratings (targeting the Single-A range) for Dominion Questar Gas." This Moody's report gives the Gas Utility an A2 negative credit profile. Its Moody's Rating outlook states: "The negative outlook for Questar Gas reflects the company's financial profile, which has been weak for the rating since Dominion acquired the company in 2016."

Exhibit 41. S&P Global Ratings, Ratings Direct December 27, 2018.

This exhibit also purports to show that the Gas Utility is meeting its commitment #24 to maintain credit metrics with strong investment-grade credit ratings. This S&P Ratings Direct shows that in its opinion Dominion Energy Inc. is stable even with, or because of, "the expected SCANA Acquisition." The rating outlook reflects the expectations that Dominion's utility businesses will continue stable and profitable as they are currently. Particularly for the Utah regulated natural gas utility, S&P gave Questar Gas Senior Unsecured debt rating a BBB+ and its Commercial Paper an A-2 rating.

Exhibit 42. Charitable Contribution – Dominion Energy Utah.

This exhibit refers to the level of the Gas Utility's charitable giving in metric #31. Specifically, the Gas Utility committed to, at shareholders' expense, increase its historic levels of corporate contributions by $1 million "per year for at least five years…" In 2016 and later, after the acquisition was finalized, the Gas Utility spent $1,522,447, $2,788,234, and $2,786,925 in 2016, 2017, and 2018, respectively.

Exhibit 43. Questar Gas Company 12 Months Ended 2018 O&M and A&G per customer (Annual Results of Operations).

This exhibit shows the Gas Utility's O&M and G&A per customer. Standard #39 was set in an effort to keep spending in control. The baseline was established at $138.24 per customer. The O&M and A&G for the 12 Months Ended 2018, according to the exhibit, was $114.30 per customer, which is 83% of the baseline.

Exhibit 44. Wexpro Company Consolidated Financial Statements.

The Audited financial statement for Wexpro Company were provided as part of merger commitment #50 where it states that it "will make annual financial statements for Wexpro and Quester Pipeline available to regulators."

Exhibit 45. FERC Financial Report FERC FORM No. 2 Annual Report of Major Natural Gas Companies and Supplemental Form 3-Q: Quarterly Financial Report.

The FERC Form 2 was also provided as part of merger commitment #50 where it commits to "make annual financial statements for Wexpro and Quester Pipeline available to regulators."

Exhibit 46. Dominion Energy Utah/Wyoming's Customer Satisfaction Standards Report (CSSR) for the 4th quarter ended December 2018.

The Gas Utility's CSSR for the 4rd Quarter of 2018 reports the results ended December 2018. In matric #47 the parties agreed that "If the Dominion Questar Gas service levels become deficient, meaning they fall short of the Customer Satisfaction Standards as shown in the report, Dominion Questar Gas will file a remediation plan with the Commission explaining how it will improve and restore service to meet the Customer Satisfaction Standards."

In the three most recent IPR Action Request Responses, the Division noted deficiencies in areas of the CSSR. The Gas Utility acknowledged these deficiencies and stated that it was implementing corrective action by hiring and training more customer service representatives and replacing the transponders on the meters. The Division determined that these metric shortfalls may or may not be a byproduct of the merger.

The Division notes that in the 2nd quarter IPR the Gas Utility stated that it "should be fully staffed in the fourth quarter" and that the transponder replacement program "is scheduled to be complete in 2019." The corrective measures for customer services matrix are a few months behind and the transponder replacement program has fallen a year behind. This is evident in its statement in this IPR that the customer service areas would be back in compliance "by the end of the 2nd quarter of 2019" and that "the transponder replacement program is expected to be complete in 2020".

Specifically, regarding the Gas Utility's progress in these deficient areas, we see:

Billing Metric

#1 read each meter monthly.

This metric has not ended much different than it started. A year ago, it began at 93.8% for the fourth quarter of 2017 up to 97.8% for the second quarter of 2018 and down again to 96.7% for the third quarter of 2018 and ending in the fourth quarter of 2018 at 94.1%.

#4 percent of billing inquiries requiring investigation responded to within 7 business days.

This metric has dropped from 99% in the third quarter of 2018 to 93% in the fourth quarter.

#5 response time to investigate meter problems and notify customer within 15 business days.

This metric shows that the Gas Utility is making marked improvement from a low of 73% in the first quarter of 2018 to 95% in the fourth quarter.

Customer Care

#1, Percentage of calls answered within 60 seconds after customer chooses menu option.

This is showing a slight improvement by stopping the downward slide from a low of 75.8%, now showing a small improvement to a current measurement of 83.1%.

#3 average wait for customer after menu selection.

The goal is less than 45 seconds. In the fourth quarter of 2017, the wait time was 29 seconds and, in the third quarter of 2018, it was 124 seconds, now it is beginning to head in the right direction and is down to 88 seconds, which is still nearly twice the acceptable limit.

#4 callers that hang up after menu choice is made.

The standard for this metric is less than 2%. For the fourth quarter 2017 the statistic was .9% while in this most recent quarter it is 2.2% which is down significantly from a high in the second quarter of 3.7%, so progress is being made.

#5 amount of time talking with customer and completing request.

The standard for this metric is less than 5 minutes. For the fourth quarter 2017 the statistic was 4.9 minutes while in this most recent quarter it is 5.1 minutes, which is just slightly out of compliance.

Service Call

1 the service technician was courteous.

This metric is slightly under its goal.

3 the service technician was able to help me quickly.

This metric is slightly under its goal as well.

6 Emergency calls – company representative is onsite with 1 hour of call.

This matrix is also slightly under its goal.

In summary, although still not meeting the above mentioned customer service standards, Dominion is meeting the vast majority of standards.

It is possible (although not certain) that these CSSR deficiencies are not a direct result of the merger and could be considered normal business problems. However, they do cause the Division concern as more senior employees take severance packages and headcount is reduced, resulting in poorer customer relations.

Transition and Transaction Costs. The Gas Utility did not provide an exhibit in this filing to show the transaction and transition costs as required by the Commission's order. However, after corresponding with the Gas Utility, the Division was told that there have been no additional transition or transaction costs for the quarter so the figures provided in the previous report are the most up to date information.

Conclusion

The Division finds that the Gas Utility is compliant and has materially met its requirement to report to the Commission its merger progress as required in paragraph 36 of the Stipulation. No action is requested or required of the Commission. The quarterly filing does not require Commission acknowledgement or approval but is intended to flag any changes that may occur that could affect rates, customer service, or system reliability.

The Division also notes that this recommendation should not be construed in any way as an endorsement or preapproval that these costs or actions are prudent, necessary, or in the public interest. These issues will be addressed in the next general rate case or other appropriate proceeding. Quarterly reports will still need to be filed by the Gas Utility until the conclusion of the next general rate case. The Gas Utility's letter and attachment meet the requirements for this report.

Cc: Kelly Mendenhall, Dominion Energy Utah
Michele Beck, Office of Consumer Services