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Department of Commerce
Division of Public Utilities

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ACTION REQUEST RESPONSE

To: Public Service Commission

From: Division of Public Utilities
Chris Parker, Director
Energy Section
Artie Powell, Manager
Doug Wheelwright, Technical Consultant
Eric Orton, Technical Consultant

Date: March 15, 2019

Subject: Dominion Energy, Docket Nos.
19-057-04 – 191 Pass- Through Application
19-057-05 - Adjustment to the Daily Transportation Imbalance Charge
19-057-06 - Conservation Enabling Tariff

RECOMMENDATION:
After a preliminary review of the applications, the Division of Public Utilities (Division) recommends the Public Service Commission of Utah (Commission) approve, on an interim basis, the requested rate changes in Docket Nos. 19-057-04 (191 Account) and 19-057-05 (Daily Transportation Imbalance Charge) with an effective date of April 1, 2019. These requested rate changes should be approved on an interim basis in order to allow additional time for the Division to complete an audit of the individual entries in the respective accounts. The Division also recommends that the Commission approve the requested rate change in Docket No. 19-057-06 (Conservation Enabling Tariff). This Docket does not require an audit and does not need interim

approval. If approved, the requested rate changes in the 191 Account docket and the Conservation Enabling Docket together will increase a typical GS customer's annual bill by $14.67 or 2.42%.

ISSUE:
On March 1, 2019, Questar Gas Company dba Dominion Energy Utah (Dominion or Company) filed the applications identified above with the Commission and the Commission subsequently issued an Action Request to the Division. This memo is the Division's response to the Action Request for all three Dockets.

Docket No. 19-057-04 – The 191 Account Pass-Through filing asks for Commission approval to increase the commodity rate components of the Company's Utah natural gas rates by $17.418 million and decrease the supplier non-gas cost rate components by $4.191 million for a net increase of $13.227 million. Based on current rates, if the proposed increase is approved, a typical GS residential customer using 80 Dth per year (typical GS residential customer) will see an increase of $9.58[1] in their annual bill, which represents an increase of 1.58%, independent of any other increase or decrease.

Docket No. 19-057-05 – The Daily Transportation Imbalance Charge filing is a request to adjust the imbalance charge calculation approved in Docket No. 14-057-31. The transportation imbalance charge began in February 2016 and is required to be recalculated twice each year as part of the 191 pass-through filing. The revised calculation is based on updated volumes through January 31, 2019. If approved, the proposed rate would increase from $0.08122 to the proposed rate of $0.08323. This rate applies to transportation customers with daily imbalance volumes outside the ± 5% tolerance level.

Docket No. 19-057-06 – The Conservation Enabling Tariff (CET) filing is a request to amortize the January 2019 over-collected balance of $2.867 million. The previous filing was an amortization of a $9.153 million over-collection. Reducing the over-collected amortization amount or customer credit results in an increase in the rate. If this CET amortization request is

[1] Exhibit 1.7, Column F, Line 13.

approved, a typical GS residential customer will see an increase of approximately $5.11 or 0.84% in their annual bill, independent of any other increase or decrease.

If all the requested changes are approved, a typical GS customer will see an increase of approximately $14.67 or a 2.42% increase in their annual bill.

DOCKET NO. 19-057-04 COMMODITY GAS COST AND SUPPLIER NON-GAS COSTS

(191 Account Semi-Annual Pass-Through)

This filing is based on projected Utah gas costs of $464.741 million[2] for the forecast test year ending March 31, 2020. The commodity portion of the gas cost represents an increase of $17.418 million and the supplier non-gas cost portion (SNG) represents a decrease of $4.191 million for a combined net increase of $13.227 million.[3] The projected increase in the commodity cost is due primarily to the removal of the credit amortization of the over-collected balance in the 191 account. The amount of the decrease in SNG cost is related to a lower under-collected balance and subsequent amortization.

The test-year cost of gas consists of cost-of-service gas from Wexpro, contract and market purchases as well as storage and transportation costs. The forecast price for cost-of-service production is $3.98 per Dth[4] compared to $4.12 per Dth[5] in the previous filing. Market and contract purchases for natural gas are projected to be slightly lower at $2.40 per Dth[6] compared to $2.54 per Dth[7] in the previous filing. Due to the large volume of cost of service gas from Wexpro, market purchases are planned only during the winter months.

[2] Exhibit 1.5, Page 1, Line 15, Column E.
[3] Pass-Through Model, Utah Summary by Class.
[4] Exhibit 1.4, Page 1, Column D, Line 12.
[5] Docket No. 18-057-14, Exhibit 1.4, Page 1, Column D, Line 12.
[6] Exhibit 1.4, Page 1, Column D, Line 13.
[7] Docket No. 18-057-14, Exhibit 1.4, Page 1, Column D, Line 13.

Transportation costs have increased from $0.51 per Dth[8] in the previous filing to $0.52 per Dth[9] in the current application. The increase in transportation costs is due to a number of factors. Kern River Gas Transmission Company (Kern River) recently modified its rate structure due to the lowering of the corporate income tax rate; however the total cost of some of the Kern River contracts increased slightly due to additional days of usage for leap year. In contrast, Dominion Energy Questar Pipeline (DEQP) recently received a ruling from FERC and will not be required to reduce tariff rates due to the tax law change.[10]

One contract that has changed in the current filing is the DEQP peak hour transportation contract. DEU is the only customer utilizing peak hour service from DEQP and the amount of the price increase is very close to the amount disallowed by the Commission. Additional information concerning the increase in the peak hour contract has been included in SNG portion of this memo.

In the previous filings, the 191 balancing account was over-collected by $32.036 million and the Company established a credit amortization of $0.28833 per Dth to return the over-collection to customers. As of January 31, 2019, the commodity portion of the 191 Account was under-collected by $7.691 million and the Company is proposing to establish a debit amortization of $0.06922 per Dth to recover the under-collection from customers. The combination of the change in gas cost and the change in the amortization rate results in a combined increase in the commodity cost from $3.12882 to the proposed rate of $3.28557 per Dth or an increase of $0.15675 per Dth.[11] The Division will continue to monitor the balance in the 191 account on a monthly basis.

Gas Supply

For the test year, April 2019 through March 2020, the Company is projecting a total system requirement of 118.593 million Dth.[12] From the total requirement amount, 114.999 million

[8] Docket No. 18-057-14, Exhibit 1.4, Page 1, Column D, Line 15.
[9] Exhibit 1.4, Page 1, Column D, Line 15.
[10] Order Terminating FERC Form No. 501-G Proceedings, February 19, 2019.
[11] Exhibit 1.6, Page 1, Column F, Line 9.
[12] Exhibit 1.4, Page 2, Column B, Line 3.

Dths[13] will be used to meet the projected sales requirement with 3.594 million Dths used for gas volume reimbursement due to gathering, transportation, distribution fuel and shrinkage. Of the total gas requirement, 56.0%[14] will be satisfied from the Wexpro cost-of-service production, 16.4%[15] will be satisfied under current purchase contracts and 27.6%[16] will be purchased with future contracts and spot market transactions. The total expected fuel cost for the test period is $480.441 million.[17]

The cost-of-service gas from all Wexpro production indicates a total cost of $264.331 million at an average cost of $3.98 per Dth,[18] which is lower than in previous filings. A large portion of the recent reduction in the price of Cost-of-Service gas can be attributed to the reduction in the federal tax rates. Cost-of-service production is reported separately as Wexpro I and Wexpro II. The separation of the cost allows the Company and the Division to monitor and compare the total cost and production volume under the separate agreements. Wexpro I production has a projected cost of $218.540 million at an average cost of $4.15 per Dth[19] including gathering costs. The volume from Wexpro I wells represents approximately 77% of the total cost-of-service production. Wexpro II production has a projected cost of $45.791 million at an average cost of $3.32 per Dth[20] including gathering and represents approximately 23% of total production.

While the average price of Cost-of-Service gas from Wexpro has come down, the price of gas produced by Wexpro remains significantly higher than the projected market price. Wexpro has reported that the new drilling in the Wexpro II properties is producing gas at below market prices; however with only 23% of the total volume coming from Wexpro II wells, the total cost-of-service price remains well above the projected market price.

The cost-of-service gas production includes the operator service fee (OSF) payable to Wexpro of $232.048 million.[21] As part of its audit and review of the 191 account, the Division is reviewing

[13] Exhibit 1.6, Page 1, Column E, Line 4.
[14] Exhibit 1.4, Page 2, Column B, (Line 1 / Line 3).
[15] Exhibit 1.2, Column B, Line 3 / Exhibit 1.4, Page 2, Column B, Line 3.
[16] Exhibit 1.2, Column B, Line 4 & 5 / Exhibit 1.4, Page 2, Column B, Line 3.
[17] Exhibit 1.4, Page 1, Column B, Line 17.
[18] Exhibit 1.4, Page 1, Column D, Line 12.
[19] Exhibit 1.4, Page 1, Column D, Line 5.
[20] Exhibit 1.4, Page 1, Column D, Line 10.
[21] Exhibit 1.1, Page 21, Line 1642.

the calculations and costs associated with the OSF in this filing as well as previous pass-through filings. Once the audit of the prior periods is complete, the Division will recommend that some of the prior pass-through filings that were approved with interim rates be made permanent.

Natural Gas Prices

The market price forecast anticipates average natural gas price of [redacted] per Dth during the summer months and [redacted] per Dth in the winter months and is based on an average of future price projection from two different forecasting entities, CERA and PIRA. The two price forecasts along with the average of the two forecasts is displayed in Chart 1 below.

Chart 1 – CONFIDENTIAL

[redacted]

The forecast price for natural gas in the test period is slightly higher than the previous forecast for the summer months and slightly lower during the winter months. Since market purchases are anticipated only during the winter months, the Company model uses the price for spot purchases during only the winter months. In the current filing, the Company uses an average forecast price of $2.40 per Dth[22] for spot and contract purchases. Chart 2 below provides a comparison of the forecast market prices used in the current and the two previous pass-through applications (Docket Nos. 18-057-14 and 18-057-04) and has been included to show how the forecast price has changed over the past 12 months. The solid line included in the graph is the historical first of month spot price for natural gas at Opal, Wyoming. (Opal FOM) The historical price has been included to show the fluctuation in the market price and to provide a comparison of the forecast

[22] Exhibit 1.2 Column C, Line 6.

price used to establish rates in previous filings compared to the actual FOM market price. The chart also shows how market prices can deviate from the anticipated price. It should be noted that the March 1, 2019 market price was well above the forecast market price.

Chart 2 CONFIDENTIAL

A comparison of the forecast price used to set rates compared to the actual first of the month price is also helpful to understand the reasons for the over and under collection of gas costs in the 191 balancing account. As shown in the graph, the actual first of the month price for natural gas was significantly higher than the forecast price during the last heating season and is the primary reason for the under-collected balance.

Pricing Hedges

The Wexpro production and the Company's gas storage facilities play an important role in the Company's plan to "hedge" against natural gas price volatility while meeting its total supply requirement. The current practices generally allow the Wexpro production to flow during the summer months to satisfy the summer demand in addition to allowing the Company to inject gas into storage for later use. Gas that has been injected into storage is withdrawn during the high demand winter heating season. The use of storage gas reduces but does not eliminate the need to purchase gas during the high demand winter months.

Supplier Non-Gas Costs (SNG)

In contrast to the price volatility that can occur with the market price of natural gas, the SNG costs have historically been relatively stable and predictable since these costs are set by contractual transportation and storage agreements and tariffs. These costs are associated with gathering and processing the Wexpro gas from the well-heads to market hubs, transporting

market and Wexpro gas from market hubs to city gates and storing the gas in available facilities for later withdrawal during the winter months. While the contract amounts are relatively stable, the estimation and collection of these costs occur through volumetric rates, which are set assuming normal weather conditions. Variations in the actual volumetric sales due to changing weather conditions will impact the collection of these costs and will result in the over or under collection of SNG costs.

The forecast rates are structured so that the SNG balance is intended to have an over-collected balance of $20.0 million in the spring and a $20.0 million under-collected balance in the fall. The process of under and over collection during the year is intended to minimize the amount of interest paid or collected by the Company on the SNG costs included in the 191 balance. The amortization of the over or under collection is established annually in the spring pass-through filing. The Company is projecting total SNG costs for the test period of $107.342 million[23] for the forecast test-year plus a $2.440 million amortization of the under collected amount from the previous period for a total of $109.783 million.[24] If the current rates are not adjusted, the SNG revenue is projected to collect $113.974 million[25] resulting in an estimated over collected balance of $4.191 million.[26] In this filing, the Company is requesting a 3.68%[27] decrease in the total SNG rates in order to collect the forecast SNG cost and the adjusted amortization amount.

SNG costs for transportation services have increased in recent years due to new and renegotiated contracts and the addition of peak hour contracts. The current filing includes a $0.874 million peak hour contract with Kern River and $1.464 million peak hour service contract with Dominion Energy Questar Pipeline (DEQP).

As noted briefly above, a portion of the previous peak hour contract was disallowed by the Commission. In Docket No. 17-057-20, the Commission determined that DEU acted unreasonably in the way it selected its wind speed modeling inputs and overstated the peak hour

[23] Exhibit 1.6, page 2, Column D, Line 1.
[24] Exhibit 1.6, page 2, Column D, Line 3.
[25] Exhibit 1.6, page 2, Column D, Line 4.
[26] Exhibit 1.6, page 2, Column D, Line 5.
[27] Exhibit 1.6, page 2, Column D, Line 7.

requirement by 44,000 Dth/day or approximately 18%.[28] Applying the 18% adjustment factor to the $1,487,815 peak hour contract resulted in an adjustment of approximately $262,000. As a result of the Commission ruling, DEU has renegotiated a new two year peak hour contract with DEQP for lower volumes. The new contract includes 66,333 Dth compared to the original contract amount of 83,333 Dth, however the price per Dth increased from $5.95 per Dth to $7.36 per Dth for a total price of $1,464,138 which is very close to the original contract price. In response to Division inquiry, the Company indicated that the new rate is lower than the maximum rate approved by FERC.

The current filing does include a credit of $262,000 for the disallowed portion of the DEQP peak hour contract as ordered in Docket No. 17-057-20. In the next pass-through filing the $262,000 will have been returned to customers and the Company will again be paying its sister company nearly the same dollar amount for a 20% reduction in the peak hour contract volume. DEU is the only customer utilizing peak hour service from DEQP. The timing and the amount of the increase in the rate raise the question of whether they are related to the Commission disallowance. While this individual contract raises a concern, the proposed base gas cost for customer rates in the current filing will decrease slightly from $3.41715 per Dth to $3.21635 per Dth or a decrease of $0.2008 per Dth.[29]

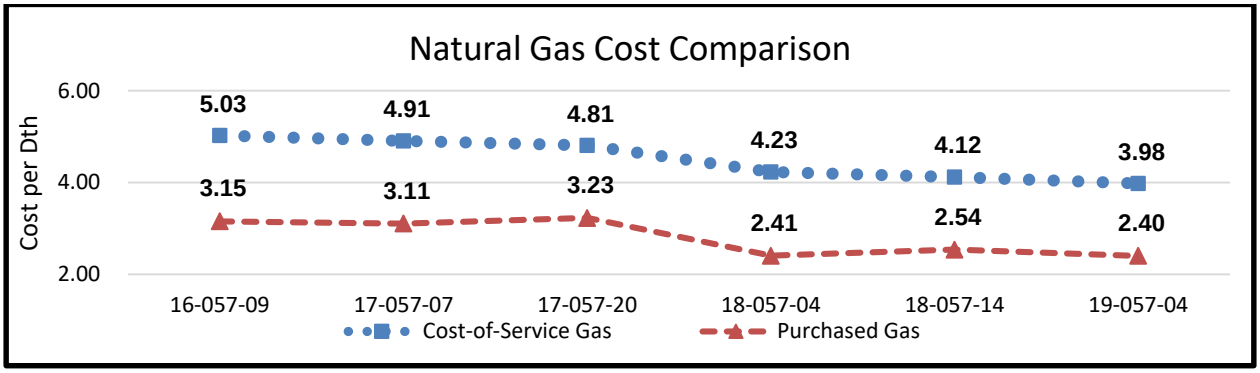
Comparison to Previous Filing

DEU Exhibit 1.1 provides a detailed review of the actual natural gas production for each of the Wexpro I and Wexpro II wells for the last 12 months. The volumes identified in Exhibit 1.1, column E, reflect the historical well-head production; however, the price identified in column D represents the forecast price used in the test period. The historical volume and forecast price are used only to estimate the royalty payment for the test period. Well-head volumes do not include fuel gas, processing, and lost and unaccounted for gas and represent the lowest price per Dth prior to losses and processing.

[28] Docket No. 17-057-20, Report and Order, Page 16.
[29] Exhibit 1.6, Page 1, Column F, Line 7.

The Company's application provides a forecast of anticipated costs and revenue for the test period as Exhibit 1.4. In order to compare the projected costs in the current filing with previous pass-through filings, the Division has prepared Chart 3 below. This chart provides a comparison of projected price per Dth for cost-of-service and purchased gas compared to the previous 5 pass-through filings. The dotted line indicates the forecast cost-of-service price per Dth for gas production and includes both Wexpro I and Wexpro II production. The dashed line indicates the forecast price for purchased gas included in each filing.

Chart 3



In the current filing, the cost-of-service gas has decreased to $3.98 compared to $4.12 per Dth in the previous filing and purchased gas has decreased to $2.40 compared to $2.54 per Dth. While the price of cost-of-service production has come down, the market price continues to be significantly lower than the Wexpro production. The Company has not indicated when it anticipates the cost-of-service price to be comparable with market purchases.

Effect on a Typical GS Customer

If the proposed rates are approved independently, a typical GS residential customer would see an estimated increase of $9.58 in their annual bill or an increase of 1.58%.[30] The Division recommends the Commission approve the Application on an interim basis, with an effective date of April 1, 2019.

[30] Exhibit 1.7, Line 14, Column F.

DOCKET NO. 19-057-05 - TRANSPORTATION IMBALANCE CHARGE

In Docket No. 14-057-31, the Commission approved a supplier non-gas charge to transportation customers for daily nomination imbalance volumes that were outside of a ±5% daily tolerance threshold. This rate applies to transportation customers that were taking service under MT, TS and FT-1 rate schedules and any amount collected under the rate is credited to GS customers through the 191 account. The rate is intended to charge transportation customers for SNG services when used and was implemented in part to improve the daily accuracy of the gas nomination process. The Commission order specified this rate must be reviewed with each pass-through docket and in the next general rate case.

The Company began to impose the imbalance charge as of February 1, 2016. This rate applies to transportation customers only if their individual daily gas nomination amount is outside the ±5% daily tolerance limit. Only customer nominations outside the tolerance limit are assessed this charge and the specific dollar amount paid by all transportation customers is identified as a separate line item in the monthly 191 financial information. For calendar year 2018, transportation customers paid $649,204 or an average of $54,100 per month in imbalance charges, which were credited to the 191 account.[31]

The proposed new rate of $0.08323 per Dth is an increase from the current rate of $0.08122 per Dth and is calculated based on the historical imbalance volumes for the previous 12 months ended January 31, 2019. The Division continues to review Exhibit 1.1, which includes the daily nomination and imbalance information for 856 transportation customers and includes 313,770 lines of information. The accuracy of the nomination process and the impact of transportation customers on the Company's distribution system continues to be a concern.

While it does appear the nominations have become more accurate since this rate was imposed, a number of individual customers with gas nominations still fall outside the acceptable range. There is also a large variation in the size of customers using the transportation rate. In response to a data request, the Company provided additional information to include the marketing agents

[31] 191000 Calculation for Utah, Actual 2018 through December 31, 2018

for each contract number. In reviewing the information from Exhibit 1.1, the Division noted the following;

1. The 23 largest customers use 60% of the total transportation volume and 80% of volume is attributed to 78 of the largest customers. While these large customers account for 80% of the total volume, they represent only 54% of the total Dth outside the tolerance limit. The majority of the large use customers continue to be more accurate with the daily nomination process and could potentially have the most impact on the distribution system if their nominations were not accurate.
2. The remaining 778 customers represent only 20% of the total volume and individually will have a lesser impact on the distribution system. While these smaller customers represent only 20% of the total volume, they have paid a larger portion of the penalty and represent 45% of the total Dth outside the tolerance limit. Smaller transportation customers appear to be using natural gas primarily for seasonal heating, are less accurate in the nomination process, and pay a greater portion of the imbalance rate.
3. Most of the daily nominations are made through marketing companies and not all of the marketing companies have the same level of accuracy with the daily nomination process. One marketing company represents the majority of the smaller volume users. This company represents [redacted] of the total number of TS customers but has [redacted] of the total nomination volume. Even though this particular marketing company manages [redacted] of the total nomination volume, its customers are responsible for [redacted] of the Dth outside the tolerance limits. The disparity may be simply due to the nature of the usage by these smaller customers. The DPU will continue to monitor the imbalance charge and usage for broader issues.

The Division has reviewed the calculation and the information provided by the Company but has not completed an audit of the individual entries and the credits to the 191 account. The Division will continue to analyze the historical nominations and will make recommendations if necessary. Since credits from TS customers flow through the 191 account, the Division recommends approving the change to this rate on an interim basis until an audit of the 191 account has been completed.

Effect on TS Customers

The proposed change has the potential to affect transportation customers but the affect will not be the same for each customer. As mentioned above, this rate applies to a transportation customer only when its individual daily gas nominations is outside the ±5% tolerance limits. The imbalance charge may apply to some customers on a regular basis while others may occasionally be affected, depending on the accuracy of the customer's daily nomination process. This rate also has a related affect on GS customers as the imbalance charge collected from TS customers is credited to the 191 account. All amounts collected under this rate are credited to the SNG collection amount and would likely have a minor impact on the balance of the over or under collection in the 191 account for GS customers.

The Division recommends the Commission approve the Application on an interim basis, with an effective date of April 1, 2019.

DOCKET NO. 19-057-06 – CONSERVATION ENABLING TARIFF BALANCING ACCOUNT)

In Docket No. 09-057-16, the Commission authorized the Company to establish and utilize a CET balancing account 191.9. The CET is a mechanism designed to ensure the Company collects from GS customers only the Commission authorized revenue per customer. The tariff sets forth procedures for recovering the allowed distribution non-gas (DNG) revenue per customer by means of periodic adjustments to rates. The rate changes requested in this Docket affect only the CET component of the distribution natural gas (DNG) rates of the GS rate class.

Rate Details

In this filing, the Company proposes to amortize the January 2019 over-collected balance of $2.867 million. Exhibit 1.1 provides a summary of the accounting entries and monthly balances from August 2018 through January 2019. Exhibit 1.2, provides a summary of the changes in the winter and summer usage blocks. The CET amortization rates reflected in the GS Rate Class

tariff sheets filed with this application will change both blocks 1 and 2 of the summer and winter rates.

Effect on a typical GS Customer

If approved independently, a typical GS rate class customer would see an increase in its annual bill of approximately $5.11 or 0.84%. The Division recommends the Commission approve the Application with an effective date of April 1, 2019.

SUMMARY AND CONCLUSION

The Company filed three independent dockets with an effective date of April 1, 2019. Each docket has been independently evaluated and the customer impact for each docket has been calculated. Since all of the dockets have the same effective date, the combined change in customer rates has been calculated. Below is a summary of the individual change of each docket and the net customer impact if all three dockets are approved.

Docket	Title	$ Change	% Change
19-057-04	191 Pass-Through	$9.58	1.58%
19-057-05	Transportation Imbalance	N/A	N/A
19-057-06	Conservation Tariff (CET)	$5.11	0.84%
	COMBINED IMPACT	$14.67	2.42%

The net impact if all three of the dockets are approved is an increase of $14.67 or 2.42% to a typical GS customer's annual bill. The Division supports and recommends the rate changes requested in Docket Nos. 19-057-04 and 19-057-05 be approved by the Commission on an interim basis with an effective date of April 1, 2019 until the Division can complete an audit of the entries in the respective accounts. The Division also supports and recommends the rate changes requested in Docket No. 19-057-06 be approved by the Commission with an effective date of April 1, 2019. This docket does not require an audit and does not need interim approval. The proposed changes are in the public interest and represent just and reasonable rates for Utah customers.

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