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, Energy Section Manager
Doug Wheelwright, Technical Consultant
Jeff Einfeldt, Utility Analyst

Date: August 30, 2019

Re: **Docket No. 19-057-14**

Dominion Energy Utah Results of Operations Report for the Twelve Months Ended December 31, 2018. Division's Review and Recommendation – No Action.

RECOMMENDATION (No Action)

After a review of the above mentioned report, the Division of Public Utilities ("Division") recommends the Public Service Commission of Utah ("Commission") take no action.

ISSUE

On May 10, 2019, Dominion Energy Utah ("DEU") filed its Results of Operations ("Report") for the year ended December 31, 2018, as called for in the Commission's Order in Docket No. 93-057-01. The Commission issued an Action Request on May 10, 2019, directing the Division to review the Report and make recommendations with an original due date of June 10, 2019. The Division requested an extension. The Commission granted an extension to September 3, 2019 to review the Company's results. This memorandum is the Division's response to the Action Request.

ANALYSIS

The Results of Operations report submitted by DEU is in the same format and uses the same model as previous Results of Operations submitted to the Commission annually and in prior rate cases. The current filing includes both unadjusted and adjusted results on a system average and Utah average jurisdictional basis. The fully adjusted results include the normalization and annualized adjustments consistent with previous Results of Operations and general rate cases. A description of each adjustment is included in the filing. The descriptions reference the docket numbers where the Commission order resulted in an adjustment to earnings.

On July 20, 2012, the Commission held a technical conference to discuss the 2011 Results of Operations Reports. At that technical conference many of the adjustments were discussed in detail, and as a result of the discussion there was a change made to the Labor Adjustment. That change was incorporated in subsequent reports (including the current report) and in the 2013 general rate case.

The State Tax Adjustment that addressed the allocation of the parent company state income taxes to affiliates has been eliminated since the parent company (previously Questar Corporation, currently Dominion Energy) ceased the state tax allocation practice. All other adjustments have remained consistent. The details of the adjustments are included in the model filed with the report. The Division finds the model to be consistent with prior year filings.

The Division used two primary review procedures in reviewing the Results of Operations under this Action Request. The first procedure compared the current year Results of Operations to the prior year report. The second procedure compared and reconciled the current Results of Operations to the information used by DEU to generate Dominion Energy's SEC 10K filing for the same period. In previous years, Division staff requested DEU prepare a comparison of the actual results to the forecast using the Commission's authorized capital structure and costs approved in Docket No. 13-057-05. DEU included a comparison of the 2018 actual results to the 2018 forecast in the report filed with the Commission. This comparison is on page 70 of DEU's 2018 Annual Results of Operations filing with the Commission.

Page 5 of the Annual filing is Utah – DEC 2018 Adjusted Avg Results. This page starts with actual results for Total DEU, then shows the adjustments and imputed tax adjustment for Total DEU to arrive at Adjusted System Total and the Utah Jurisdiction DNG Related results. The following table provides summary information for comparative purposes. The table also includes the forecast summary information using the Commission's authorized capital structure and costs approved in the company's most recent completed rate case, Docket No. 13-057-05. All numbers reflect Utah Jurisdiction DNG Related amounts (in millions).

	Dec-18	Dec-17	Forecast Dec-18
Revenues	$ 345	$ 350	$ 350
Total O&M	116	138	121
Depreciation and Amortization	71	65	67
Taxes other than Income	23	21	22
Income Taxes	24	35	26
Net Operating Income	$ 110	$ 91	$ 115
Net Utility Plant	$ 1,701	$ 1,804	$ 1,788
Other Rate Base Accounts	(255)	(471)	(319)
Total Net Rate Base	$ 1,446	$ 1,333	$ 1,469
Earned Return on Rate Base	7.61%	6.82%	7.82%
Earned Return on Equity	9.79%	8.26%	10.20%

In DEU's last general rate case, the Commission authorized an Earned Return on Rate Base of 7.64% and an Earned Return on Equity of 9.85%[1]. The Division notes per the 2018 annual Results of Operations, DEU reports a return on rate base of 7.61% and a return on equity of 9.79%, which is slightly less than authorized.

For the last General Rate Case the authorized Overall Cost of Capital was as follows:

[1] In the Matter of the Application of Questar Gas Company to Increase Distribution Rates and Charges and Make Tariff Modifications, Docket No. 13-057-05, pg. 34.

	Percent of Total	Cost	Weighted Average
Long-term Debt	47.93%	5.25%	2.52%
Common Stock Equity	52.07%	9.85%	5.12%
Total	**100.00%**		**7.64%**

DEU reports the actual average Capital Structure for the 13 Months ending December 31, 2018 as:

	Percent of Total	Cost	Weighted Average
Long-term Debt	51.71%	3.94%	2.04%
Common Stock Equity	48.29%	9.85%	4.76%
Total	**100.00%**		**6.79%**

As noted above, the second review procedure was to reconcile the Results of Operations to DEU's financial information incorporated in the parent company's (Dominion Energy) SEC Form 10K. A reconciliation to the financial information included in the parent 10K allows the Division to rely on the external auditors' work and opinion regarding the financial activity contained in the10K as it relates to DEU's Annual Results of Operations.

In Addition, the Division compared the adjustments made to the year end 2018 Results of Operations to the adjustments made in the prior year. The adjustments made in 2018 and 2017 are summarized and explained in detail by various categories and are included in the Summary of Adjustments section in each year's filing. A description of the adjustments for 2018 begins on page 31 of the filing. The adjustments are summarized as follows:

Adjustment	Page #	2018 Amount	2017 Amount	Difference
Average Rate Base	31	$ (120,425,705)	$ (80,181,864)	$ (40,243,841)
Energy Efficiency	36	(24,077,931)	(20,972,049)	(3,105,882)
Underground Storage	38	(44,167,774)	(52,891,067)	8,723,293
Wexpro Plant	40	(251,286)	(287,796)	36,510
Transition Costs	42	204,311	7,601,327	(7,397,016)
Corporate Overhead	-	-	19,706,989	(19,706,989)
Bad Debt	44	(732,946)	(1,000,511)	267,565
Incentive Plans	47	(2,418,721)	(1,085,730)	(1,332,991)
Event Tickets	50	-	-	-
Advertising	54	(6,000)	(5,896)	(104)
Donations and Memberships	58	(146,932)	(186,416)	39,484
Reserve Accrual	62	(503,153)	(4,667)	(498,486)
Labor	64	2,599,124	2,669,523	(70,399)
Tax Reform Surcredit 2	66	(9,486,726)	-	(9,486,726)

One purpose of the comparison was to note material differences between the years and to determine if the differences were proper. Another purpose was to evaluate the 2018 adjustments to determine if the presentation, explanations, and balances were consistent and accurate and that the assumptions and the computation of the adjustments appeared proper and accurate.

DEU made one new adjustment to the 2018 Results of Operations to account for the Tax Reform Surcredit 2 for $(9,486,726). This adjustment accounts for the reduction in income tax rate from 35% to 21% pursuant to the Tax Cut and Jobs Act signed into law effective January, 1, 2018. This adjustment relates specifically to the accrued income tax expense reduction for the period January 1, 2018 through May 31, 2018 that is being returned to ratepayers pursuant to settlement in Docket No. 17-057-16. This adjustment is a decrease to expenses. The return to ratepayers for this accrual was completed in July 2019 (see Docket No. 17-057-26).

DEU made an adjustment in 2017 to account for its share of corporate overhead from the parent company Dominion Energy. Corporate overhead was not allocated or charged to DEU during 2017 because the accounting system responsible for the allocation had not been fully integrated by year end. The 2017 adjustment is based on the corporate allocation received for the first quarter 2018 of $4.927 million. This amount was annualized to estimate the corporate overhead for 2017 of $19.707 million. No adjustment for Corporate Overhead was needed in 2018 because the financial system was fully integrated for 2018.

The Division notes the following based on its analysis of the remaining adjustments.

- Bad Debt Expense adjustment for 2018 was $(732,946), while the adjustment for 2017 was $(1,000,511), representing a decline from the prior year. Bad Debt expense continues to be calculated using a three year average.

- The Incentive Plan adjustment removes incentive compensation expenses related to financial goals that were either paid directly by DEU or allocated from Dominion Energy. Because the incentive plan payouts vary, a three year average of payouts related to operation goals has been used in the calculation of normalized incentive plan expenses. The adjustment for 2018 was $(2,418,721), while the adjustment for 2017 was $(1,085,730). Overall incentive payments increased in 2018.

- The Reserve Accrual includes legal liabilities associated with the Company's self-insurance program and represents DEU's best estimate of legal costs annually. The annual accrual is then adjusted to the average of the actual legal payments for the last 5 years. The adjustment for 2018 was $(503,153) based on an annual accrual of $645,691, while the adjustment for 2017 was $(4,667) based on an annual accrual of $143,507. The five year average of actual legal payments made has been trending down for the past several years.

- The Labor Adjustment calculation includes a capitalization ratio, which is a measure of the portion of labor and overhead costs that are capitalized and not currently expensed. The Company uses a five-year average for ratemaking and for calculating results of operations. This adjustment decreased from $2,669,523 in 2017 to $2,599,124 in 2018. This decrease was due to a continual decline in the actual capitalization ratio for the year to 49.04% and a decline in the 5 year average capitalization ratio to 52.57%.

CONCLUSION

Based on the Division's review and comparison of DEU's Results of Operations for the year ended December 31, 2018, nothing came to the Division's attention of a material nature to indicate any need for modification of the filing or for action to change the Results of Operations as filed. Therefore, the Division recommends the Commission take no further action in this matter.

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