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

Eric Orton, Utility Technical Consultant

Doug Wheelwright, Utility Technical Consultant

Date: February 8, 2019

Re: **Approval of Modifications to Dominion Energy Tariff Section 2.06**

Docket No. 19-057-T01

Recommendation (Approval)

The Division is not opposed to the language change as identified in section 2.06 of the Dominion Energy Utah Tariff. The language of the Tariff will have no impact on customer rates or charges and is the first step in the review and possible reallocation of Supplier Non-Gas (SNG) and Commodity cost in customer rates. The Company has discussed the specific SNG and Commodity cost that it believes should be moved to better align cost-of-service production with market purchases but is not asking for approval of the change in this Docket. Since the allocation of SNG and Commodity cost has not been examined for some time, the Division recommends that any change from the current allocation or assignment of Commodity or SNG cost be submitted by the Company as part of the next general rate case and not as part of the next 191 Pass-Through filing. A general rate case provides a greater amount of time for the Division to review all of the relevant issues and allows for additional input and review from interested parties.

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Issue

On January 22, 2019, Dominion filed an application for approval to change the definition for gas commodity and SNG cost in Section 2.06 of the Company's Utah Tariff. On January 22, 2019, the Commission issued an action request to the Division requesting an investigation. On January 29, 2019, the Commission held a Scheduling Conference and parties agreed on dates for comments from the Division and other parties and established a hearing date of February 15, 2019. On January 31, 2019, the Commission issued a supplemental action request and asked for additional investigation and explanation for five specific issues. This memo is the Division's response to the Action Request and comments related to the investigation of the Company's application.

Background

In this filing, Dominion has proposed a change in the language of the Tariff as a first step to possible changes in the way certain costs are classified between Commodity and SNG costs that are used to calculate customer rates. In a future proceeding, the Company will likely propose that all gathering and processing cost incurred prior to the gas entering the interstate transmission lines regulated by the Federal Energy Regulatory Commission (FERC) be considered and included as commodity costs instead of SNG costs.

Prior to filing this application, the Company held a technical conference on October 25, 2018 to explain the reasons for the proposed change and specific accounts that would be impacted. The technical conference was held at that time due to the recent filing of the semi-annual 191 pass through filing in Docket No. 18-057-14. Since the Commodity and SNG costs are included in each of the 191 filings, a comparison of the proposed change was explained using the values identified in the most recent 191 filing. Specifically, the Company proposed to move QEPFS/Tesoro Field Services Demand and Commodity charges along with Wexpro I and Wexpro II Gathering Charges from SNG to Commodity charges. Using the numbers from Docket No. 18-057-14, the proposed change would move $25.107 million from SNG to Commodity. In addition, the Company proposed to move ACA (FERC) charges and Commodity storage charges from Commodity to SNG. Again, using the numbers from Docket No. 18-057-

14, the proposed change would move $0.666 million from Commodity to SNG. While the allocation of SNG and Commodity cost is impacted by a realignment of these charges, total gas cost to the Company remains the same. The proposed change will have an impact on the calculation of rates for GS customers, the transportation imbalance charge and the rate for IS customers.

Discussion

The proposed change would better align the costs associated with the cost-of-service gas production and the cost that is included in the market purchased gas. The Division supports the change but is concerned with making this change as part of a future 191 filing, which has little input from interested parties as well as a shortened review period. While it is unknown if any of the parties would oppose a change in the designation of SNG and Commodity cost, this issue has not been addressed for some time and all parties should have the opportunity to evaluate the potential impact to the various rate classes.

In review of previous Commission decisions and in discussions with the Company, it is unclear when the current cost allocation of SNG and Commodity cost was established or the primary reasons for the current designation. In the Commission order from Docket No. 84-057-07 (General Rate Case) it appears that the Company proposed the current method of allocating SNG cost. "The Company proposed method of allocation of supplier non-gas costs in connection with this case would arrive at a result that would closely approximate the pre-reorganization allocation of costs."[1] Prior to the filing of the general rate case, it appears that the Company had recently gone through a corporate and organizational restructuring. "The Division testified that the Questar reorganization has created a new corporate structure wherein Mountain Fuel is no longer the corporate parent, but is in fact a separate, independent company within the Questar family."[2] The approved SNG cost allocation in that case "substantially coincide with previous cost allocation determinations made by this Commission at a time when Mountain Fuel's

[1] Final Report and Order on Revenue Deficiency, Rate Design and Cost Allocation, Docket No. 84-057-07, April 30, 1985, page 19.
[2] Ibid, p. 16.

operations included both transmission and distribution activities."[3] The Division has not been able to determine if the SNG cost allocation has been modified or changed since that time. A review of the SNG and Commodity cost and potential changes to the cost allocation is likely overdue for review and possible reallocation appears to be warranted. The Division commends the Company for bringing this issue forward for review.

During the October 25, 2018 Technical Conference, the Company presented a number of slides to explain the proposed changes and identified the individual components of total gas cost from the most recent pass-through Docket No. 18-057-14. Slide #17 included a breakdown of the proposed changes in the allocation of SNG and Commodity cost and included the cost allocation factors, which were previously determined in a general rate case. While the majority of the costs included in the 191 filing have a cost allocation factor based on the total commodity sales (Factor #2), some of the categories have a cost allocation based on peak day demand (Factor #1). For each of the categories that were proposed to be changed between SNG and Commodity, all of the cost allocation factors remained unchanged with the exception of the Other Transportation Charges. This category was identified to change from the commodity sales allocation factor #2 to allocation factor #1. A change in the allocation factor would result in a change to the total SNG cost for Utah and the Division would not support a change to the allocation factors outside of a general rate case. In discussions with Company representatives it was determined that a change in the allocation factor would not be included if a change in the SNG and Commodity cost were proposed in a 191 pass-through filing.

The Company states in the application that with the proposed change in the SNG and Commodity cost "there is no change in the total gas cost collected in the pass-through. Therefore, the overall impact to the typical customer would have stayed the same."[4] However, while the total amount collected is the same for the Company, the effect on a typical GS customer is not the same.

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[3] Ibid, p. 20.
[4] Direct Testimony of Jessica L. Ipson, Page 5, Line 104.

As part of the analysis and review of the proposed changes, the Company prepared exhibits for Docket No. 18-057-14 as if the SNG and Commodity changes had been in place for that pass-through filing. DPU Exhibit 1.1 has been included with this memo and is the exhibit used in the last pass-through filing to calculate the impact of the 191 filing on a typical GS customer bill. DPU Exhibit 1.2 is the same schedule but incorporates the proposed changes in the SNG and Commodity categories as outlined by the Company. A comparison of these two schedules shows that a typical GS customer would pay $0.22 more on an annual basis and the monthly collection amount would also change. Even though the monthly Dth usage remains the same, the amount billed to the customer would be lower during the colder months of the heating season and higher during the warmer months. The difference in the collection appears to be due to the winter and summer differential in the SNG portion of the calculated rates. The Division is continuing to work with the Company to analyze and understand this change.

In addition to the impact to GS customers, the proposed changes would also have an impact on IS and TS customers. IS customers would be affected since the calculation of the rate is slightly different than the calculation for GS customers. The Company has estimated that the total amount collected from all IS customers would increase by approximately $41,000 during the year. TS Customers would also be impacted in a different way as the reallocation would impact the calculation of the Transportation Imbalance Charge. DPU Exhibit 1.3 has been prepared by the Company to demonstrate how the imbalance charge would be calculated under the proposed changes. If the proposed SNG and Commodity changes had been in place in the last filing, the imbalance charge would have increased from $0.08122 to $0.08273 per Dth.

Conclusion

In this filing, the Company has asked only for approval for minor changes to the language to Section 2.06 of the Dominion Energy Utah Tariff. The Company has not asked for approval to reallocate the cost between SNG and Commodity and approval of the Tariff change does not include approval to move or reallocate costs between SNG and Commodity. The Division recommends that any change or reallocation of cost should be presented as part of the next general rate case when there is likely to be the greatest participation from interested parties and

where rates are appropriately determined. The last time this issue was addressed was over 34 years ago in a general rate case and the Company should include the recommended changes as part of the next general rate case, which will be filed in approximately 5 months. The Division is not opposed to the proposed language change as identified for section 2.06 of the Dominion Energy Utah Tariff and believes that a review of the cost allocation within the 191 account is warranted. The language of the Tariff will have no impact on customer rates or charges and is the first step in the review and possible reallocation of Supplier Non-Gas (SNG) and Commodity cost in customer rates.

Cc: Kelly Mendenhall – Dominion Energy
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