State of Utah

Department of Commerce
Division of Public Utilities

CHRIS PARKER
Executive Director

ARTIE POWELL
Director, Division of Public Utilities

GARY HERBERT
Governor

SPENCER J. COX
Lieutenant Governor

Action Request Response

To: Public Service Commission of Utah

From: Utah Division of Public Utilities
Artie Powell, Director
Brenda Salter, Utility Technical Consultant Supervisor

Date: August 31, 2020

Re: **Docket No. 20-057-10,** Dominion Energy Utah Results of Operations Report for the twelve months ended December 31, 2019.

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 18, 2020, Dominion Energy Utah ("DEU") filed its Results of Operations ("Report" or "ROO") for the year ended December 31, 2019, as called for in the Commission's Order in Docket No. 93-057-01. The Commission issued an Action Request on May 18, 2020, directing the Division to review the Report and make recommendations with an original due date of June 17, 2020. The Commission granted the Division's request for an extension to August 31, 2020 to allow for further review of the Company's Report. 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 annually to the Commission 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.

The Division used two primary review procedures in reviewing the Results of Operations. 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 audited financial statements 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. On page 68 of the 2019 Report, the Company included a comparison of the 2019 actual results to the 2019 forecast

Page 5 of the Annual filing is Utah – DEC 2019 Adjusted Average Results. It begins with historical 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 applicable rate case, Docket No. 13-057-05.[1] All numbers reflect Utah Jurisdiction DNG Related amounts (in millions).

[1] The most recent DEU rate case was Docket No. 19-057-02 which took place in 2019 but was not effective until March 2020. The rate case applicable to the 2019 ROO is Docket No. 13-057-05.

	Dec-18	Dec-19	Forecast Dec-19
Revenues	$ 345	$ 360	$ 365
Total O&M	116	128	122
Depreciation and Amortization	71	73	72
Taxes other than Income	23	25	24
Income Taxes	24	23	26
Net Operating Income	$ 110	$ 111	$ 115
Net Utility Plant	$ 1,701	$ 1,869	$ 1,930
Other Rate Base Accounts	(255)	(234)	(288)
Total Net Rate Base	$ 1,446	$ 1,635	$ 1,642
Earned Return on Rate Base	7.61%	6.77%	7.40%
Earned Return on Equity	9.79%	8.18%	9.38%

In DEU's 2013 general rate case, the Commission authorized an earned return on rate base of 7.64% and an earned return on equity of 9.85%.[2] The Division notes, per the 2019 annual Results of Operations, DEU reports a return on rate base of 6.77% and a return on equity of 8.18%, which is less than authorized.

For the 2013 general rate case the authorized overall cost of capital was as follows:

	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%**

[2] In the Matter of the Application of Dominion Energy Utah to Increase Distribution Rates and Charges and Make Tariff Modifications, Docket No. 13-057-05, pg. 34.

DEU reports the actual average capital structure for the 13 Months ending December 31, 2019 as:

	Percent of Total	Cost	Weighted Average
Long-term Debt	51.71%	3.94%	2.04%
Common Stock Equity	48.29%	8.18%	3.95%
Total	**100.00%**		**5.99%**

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 audited financial statements. The Division relies on the external auditors' work and opinion regarding the financial activity as well as DEU's Annual Results of Operations.

In addition, the Division compared the adjustments made to the year end 2019 Results of Operations to the adjustments made in the prior year. The adjustments made in 2019 and 2018 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 2019 begins on page 30 of the filing. The adjustments are summarized as follows:

Adjustment	2019 Page #	2018 Amount	2019 Amount	Difference
Rate Base	34	$ (120,425,705)	$ (72,027,484)	$ 48,398,221
Energy Efficiency Adjustment	36	(24,077,931)	(28,247,505)	(4,169,574)
Underground Storage	38	(44,167,774)	(45,965,723)	(1,797,949)
Wexpro Plant Adjustment	39	(251,286)	(220,015)	31,271
Transition Costs	-	204,311	-	(204,311)
Bad Debt Adjustments	41	(732,946)	(544,427)	188,519
Incentive Plans	44	(2,418,721)	(2,558,543)	(139,822)
Event Tickets	47	-	-	-
Advertising Adjustment	51	(6,000)	(5,318)	682
Donations & Memberships	55	(146,932)	(120,424)	26,508
Reserve Accrual	59	(503,153)	86,018	589,171
Labor Adjustment	61	2,599,124	296,986	(2,302,138)
Pension Adjustment	63	-	874,030	874,030
Tax Reform Surcredit 2	-	(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 2019 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 included a new adjustment in the 2019 Results of Operation in the amount of $874,030 to account for Docket No. 19-057-02, which removes the pension credit, asset, and liability from revenue requirement. This adjustment has two components one is an $88,464,003 reduction to rate base and the other is an $874,030 increase to expense.

DEU made an adjustment in 2018 to account for transition costs related to the Dominion-Questar merger. In 2019, no transition or merger costs were recorded.

In 2018 DEU made a $(9,486,726) adjustment to account for a company created sur-credit to return the income tax reduction benefits to customers as a result of the impacts of the "Tax Cut and Jobs Act" signed into law in January of 2018. No adjustment was made in 2019.

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

- Bad Debt Expense adjustment for 2019 was $(544,427), while the adjustment for 2018 was $(732,946), 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 2019 was $(2,558,543), while the adjustment for 2018 was $(2,418,721). Overall, incentive payments increased in 2019.

- 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 2019 was $86,018 based on an annual accrual of $253,343, while the adjustment for 2018 was $(503,153) based on an annual accrual of $645,691.

- 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 $2,599,124 in 2018 to $296,986 in 2019. This decrease was due to the movement of the actual capitalization ratio for the year to 49.71% and the 5 year average capitalization ratio to 50.07%.

CONCLUSION

Based on the Division's review and comparison of DEU's Results of Operations for the year ended December 31, 2019, 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