BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

COST OF SERVICE AND RATE DESIGN ISSUES FOR DOMINION ENERGY UTAH	Docket No. 20-057-11 **Summary Report of the Cost-of-Service and Rate Design Task Force**

Submitted by

Division of Public Utilities

June 29, 2021

Questar Gas Company dba Dominion Energy Utah (DEU or Company), The Division of Public Utilities (Division or DPU), the Office of Consumer Services (Office or OCS), The Utah Association of Energy Users (UAE), American Natural Gas Council (ANGC), Nucor Steel-Utah (Nucor), US Magnesium LLC, and Federal Executive Agencies (FEA), (collectively, Parties) respectfully submit this Final Report in response to the Scheduling Order issued by the Utah Public Service Commission (PSC) on June 25, 2020.

BACKGROUND

In Docket No. 19-057-02, The Company's most recent general rate case, (Rate Case), parties raised the issue of splitting the TS class to better accommodate the different sizes of customers. However, there was insufficient evidence to support any particular split of the class. On February 25, 2020 the PSC issued a Report and Order in the Rate Case and said, "We also find that a separate proceeding following our final order on the rates in this case is an appropriate and reasonable means to evaluate the TS class composition and other cost allocation issues associated with rate classes. It will provide adequate time for study before DEU files its next GRC. Accordingly, we will establish an investigatory proceeding in a new docket shortly after the reconsideration period for this order concludes." Report and Order issued February 25 2020, Docket No. 19-057-02, page 45.

The Parties met on May 19, 2020 in a scheduling conference to develop a preliminary schedule and determined that a scoping meeting should be held to determine what issues the Parties should study. The first scoping meeting was held on June 8, 2020, and a second scoping meeting was held on June 15, 2020. The Division filed a scoping report on June 22, 2020, outlining the topics known at the time, and tentative dates for when each topic might be studied.

The Parties discussed and agreed that the topics addressed in the Division's scoping report were not the only issues that could be discussed and that other issues could be discussed as they were discovered.

Thereafter, the Parties met to discuss issues identified in the Division's scoping document, and to discuss what other issues should be reviewed. DEU provided information and presentations at each of these meetings to explain findings. The date of each meeting is shown below, and the identified attachments are the presentations for each referenced meeting.

1. July 8, 2020 – Attachment 1
2. August 12, 2020 – Attachment 2
3. October 14, 2020 – Attachment 3
4. November 10, 2020 – Attachment 4
5. January 13, 2021 – Attachment 5
6. February 10, 2021 – Attachment 6
7. April 14, 2021 – Attachment 7

On March 17, 2021, the Company provided a status update presentation to the Commission to identify topics the Parties analyzed and to show what progress the Parties had made. A copy of that presentation is provided as Attachment 8.

This report addresses each issue the Parties reviewed, by topic, rather than addressing the work the Parties conducted in chronological order. While the discussions were useful to the Parties, they did not reach any consensus or settlement on any issue, and make no recommendations about how the task-force information is used in any future rate proceeding or what outcome is appropriate in the Company's next general rate case. Instead, this report contains a summary of the issues discussed by the Parties rather than advocacy for any particular position. The Parties are each free to take any position on any issue in future proceedings.

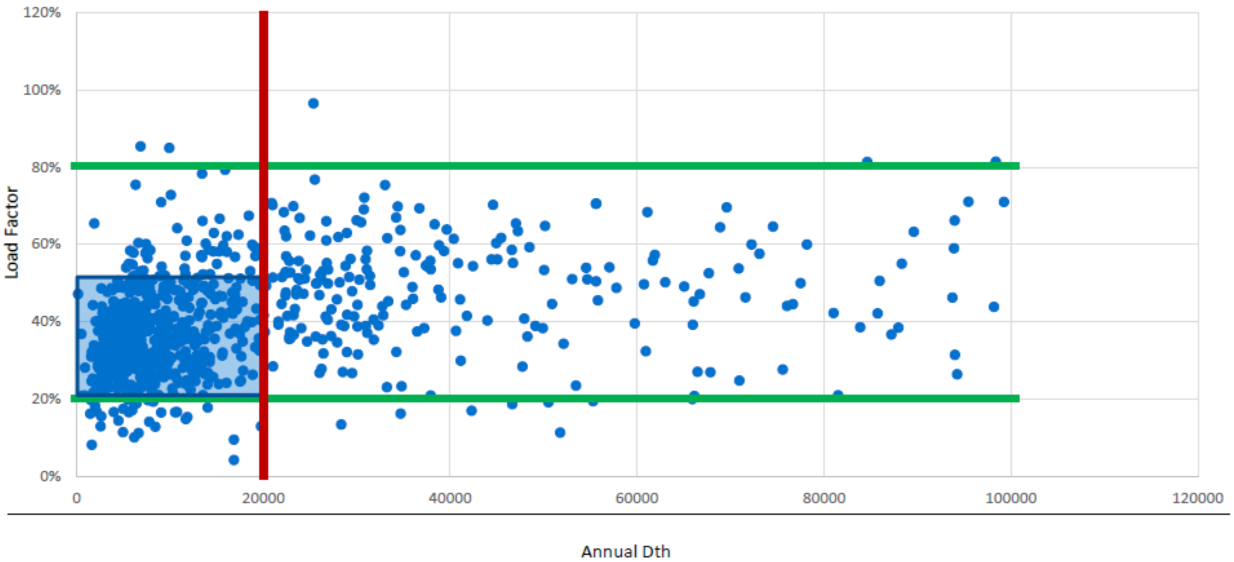
DISCUSSION

TS Class Issues

The bulk of the discussions in the meetings referenced above centered around splitting the TS class. The Parties considered a variety of approaches and different options for splitting the class based on customer size. On June 22, 2020, DEU provided the Parties with data regarding the size and load factor of all customers in the TS, TBF, IS, and MT classes to enable the Parties to independently analyze the data, and to be prepared to discuss splitting the TS class in the July 8 meeting. This data is included as Attachment 9.

At that meeting, the Parties discussed two proposals. The Company provided the chart in Figure 1 below (taken from the July 8 presentation) to show its analysis that considered both annual usage and load factor as possible ways to split the class.

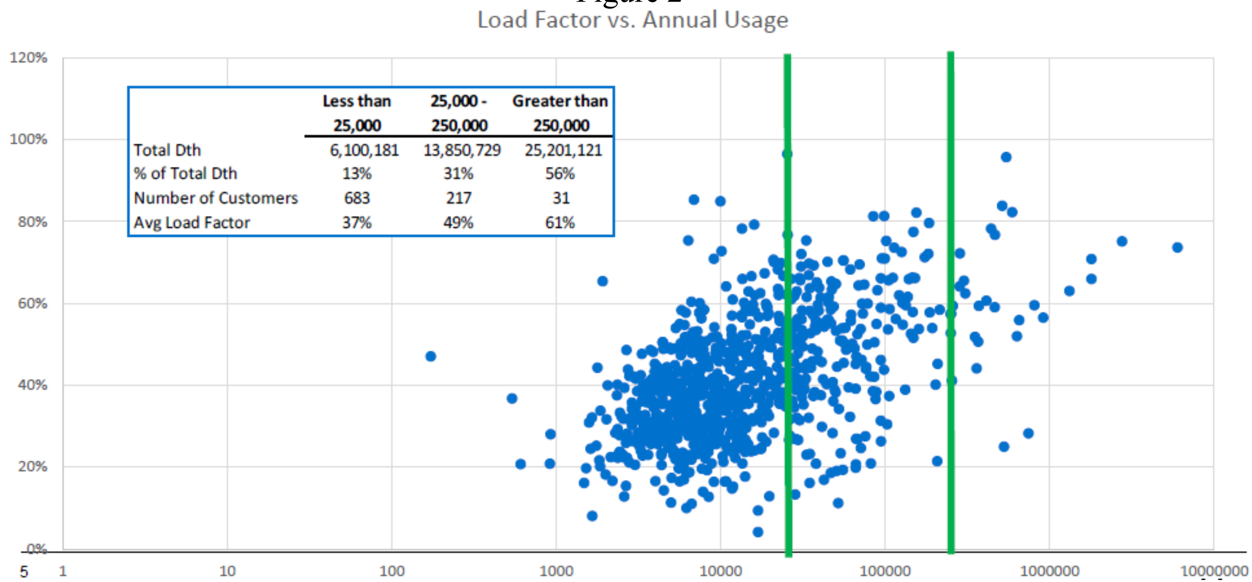
Figure 1



The chart shows a high concentration of customers with annual usage below 20,000 Dth/year, which is where the Company proposed to split the class. Though these customers also have a low load factor, the Parties did not discuss load factor as a way to split the class.

The DPU also suggested to split the class based on the annual usage of the customers. Accordingly, the Parties considered splitting the TS class into three different classes: (1) a small class for those using up to 25,000 Dth/year (TSS); a medium class for customers who use between 25,000 dth/year and 250,000 Dth/year (TSM); and a large class for those customers who use more than 250,000 Dth/year (TSL). The green lines in Figure 2 below (taken from the August 12 presentation) show how the customers would be split into classes using the DPU proposal.

Figure 2



After reviewing this data, the Parties determined that they would begin analysis on the Division's proposal because the first split at 25,000 Dth/yr was reasonably close to the Company's proposal of 20,000 Dth/yr but the additional split at 250,000 Dth/yr might give some insight to the classes that the Company's proposal would not show. Additionally, this approach allowed flexibility for future analysis. Specifically, the Parties could also conduct follow-up analysis with two classes—with the medium and large classes added together.

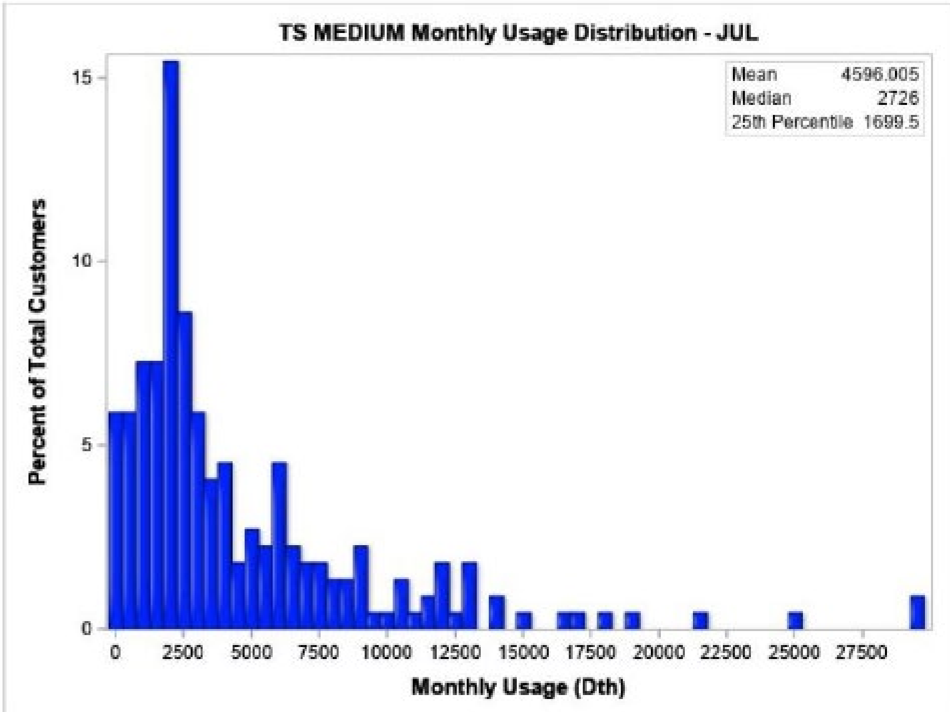
After seeing some of the analysis described above, the UAE also suggested a third approach, but with the caveat that in doing so UAE is not advocating for a TS class split in lieu of addressing TS class composition and cost allocation issues through rate design. The UAE suggested considering three classes of customers, but with different usage levels. The smallest class would be those who use less than 25,000 Dth/year, but the medium group would be those customers who use between 250,000 Dth/year and 325,000 Dth/year. The third, or large group, would be those customers who use more than 325,000 Dth/year. This change moved eight customers and about 2.2 million Dth/year from the large class to the medium class, relative to the Division's proposal, and showed results similar to the split proposed by the Division. The Company provided Attachment 10 to the Parties on April 7, 2021 to show the comparison between the Division's approach and the UAE's approach.

Using the DPU approach, the Company calculated all of its class Cost of Service (COS) studies and provided the results of those studies in the November 10, 2020 meeting. Unfortunately, the results of the COS studies only show the total dollar amount allocated to each class, so in the November 10, 2020 meeting, the Parties also discussed rate design proposals for the three classes. By carrying the COS results through to the rate design process, the Parties would be able to see final rates and the impacts those rates would have on customers.

Consequently, the Company designed illustrative rates, as discussed below. The illustrative rates were constructed by the Company for discussion purposes only and do not represent a consensus work product of the task force. In the TSS class, the block breaks were set up the same way as the Firm Sales (FS) class of customers. The first block was for all usage up to 200 Dth/month. The second block was for all monthly volumes between 201 and 2,000 Dth/month, and the third block was for all usage over 2,000 Dth/month. The Company did not use a fourth block since none of the customers in the small class would use more than 100,000 Dth/month as is currently used for the FS class. The rates for this class are shown on slide 4 of Attachment 5. A comparison was also calculated on slide 5 of Attachment 5 that shows how the bills of different sizes of customers in the small TS class would change if these rates were implemented. The Company showed the rate impact by comparing the rates if the classes were split against the rates that will be in effect when the Step 3 rates from the Rate Case Docket will go into effect in the fall of 2021. All three of the sample customers in the TSS class would have a reduction in their rates.

The Parties did not have a similar rate class on which it could mirror the block breaks when it analyzed the medium TSM class. Instead, the Company proposed a different rate design that deviated from the Company's long-time use of cost curves. The Company proposed to use two blocks. The first block was meant to collect roughly equal revenue from all customers in any month. To determine this block break, the Company looked at all of the medium TS customers during the month of July, when usage is low. Figure 3 below shows that the 25th percentile of customers will use about 1,700 Dth in the month that traditionally has the lowest usage. This means that these customers will use at least 1,700 Dth in any month of the year. The Company rounded 1,700 up to 2,000 Dth to coincide with the end of the 2nd block in the TSS class. The remainder of the costs were collected in the second block.

Figure 3



The rates for this class are shown on slide 7 of Attachment 5. Slide 8 of Attachment 5 shows how the bills of different sizes of customers in the medium TS class would change if these rates were implemented. The Company compared the calculated rates against the rates that will be in effect when the Step 3 rates from the Rate Case Docket will commence in the fall of 2021. All three of the sample customers in the TSM class would have a reduction in their rates, though the decreases are not as pronounced as the decreases in the TSS class.

In the large TSL class, the Company set up the block breaks the same way it did the Transportation Bypass Firm (TBF) class of customers. The first block was for all usage up to 10,000 Dth/month. The second block was for all monthly volumes between 10,001 – 122,500 Dth/month, and the third block was for usage between 122,501 - 600,000 Dth/month. The Company did not use a fourth block because none of the customers in the large class would use more than 600,000 Dth/month as is currently used for the TBF class. The rates for this class are shown on slide 9 of Attachment 5. The Company calculated a comparison showing how the bills of different sizes of customers in the TSL class would change if these rates were implemented. This comparison is shown on slide 9 of Attachment 5. The Company compared the calculated rates against the rates that will be in effect when the step 3 rates from the Rate Case Docket will commence in the fall of 2021. As shown on slide 10 of Attachment 5, all three of the sample customers in the TSL class would experience a rate increase if the calculated rates were implemented, ranging from a 10.5% increase to a 15.4% increase in step 3 rates.

GS Class Issues

The Report and Order in the Rate Case Docket did not specifically direct the Parties to analyze a potential split of the GS class, but DEU suggested that it be analyzed. The analysis of the GS class began in the August 12, 2020 meeting. The Parties reviewed a variety of options for grouping customers including the annual usage of the customers, load factors, residential vs. commercial, and even differences in plant costs. The Parties took data from this meeting with a plan to come to the next meeting with any ideas on how to split the GS class. The two key charts for the GS data can be seen on slides 16 and 17 of Attachment 2. When the Parties met again on October 14, 2020, there were no recommendations on how to split the GS class. The main difference between GS customers was annual usage. The Company's current rate design compensates for size by using a declining block rate. There was no further analysis performed on the GS class.

Allocations based on General Plant

In the Rate Case, the OCS proposed that account 403 be allocated differently but it recommended that it be examined as part of the next general rate case. The Parties discussed the possibility of reviewing this as part of the analysis in this Docket, but no party requested data or proposed new analysis.

Design Day (Demand Allocation using Design day vs Coincident Peak)

In the Rate Case Docket, questions arose regarding the Company's calculation of the design day allocation factor. This allocation factor has historically been calculated using a combination of actual daily meter read data and estimated data. Daily meter read information is available from transportation customers whose meters provide data through telemetry. The large majority of customers do not have telemetry, so the Company only has monthly meter read information for most customers. In the Rate Case Docket, one of the Parties requested that analysis be done on the highest sendout day of the year (Actual Peak) instead of the Design Day demand that had been used previously. Since actual daily usage is not available for most customers, the method used to analyze the Actual Peak still included estimates. Figure 4 below was from the last slide of the July 8, 2020 meeting and shows the comparison between the Design Day allocation factor traditionally used by the Company and the Actual Peak allocation factor. The two methods provide a very similar result.

Figure 4

Class	Design Day Dth	Design Day Portion	Actual Peak Dth	Actual Peak Portion
GS	1,156,610	80.2%	849,274	79.9%
FS	16,493	1.1%	13,850	1.3%
NGV	729	0.05%	656	0.06%
IS	0	0%	651	0.06%
TS	210,360	14.6%	159,276	15.0%
TBF	58,000	4.0%	38,605	3.6%
TOTAL	**1,442,192**	**100%**	**1,062,312**	**100%**

Costs of Firm Demand

The Parties reviewed whether the costs of increased firm demand in the Rate Case Docket resulted in the transfer of a material amount of firm TS contract quantity to interruptible status. The Company first analyzed this question in June of 2020, but because that was only 3 months after the demand rates had increased, few customers had changed their amount of firm transportation volumes. Since that time, the step two rates from the Rate Case were implemented, and customers have had time to make decisions about how much firm service they need. The Company recently updated its analysis and has included that as Attachment 11. The analysis shows that the total firm demand in the TS class as of April, 2021 is 206,501 Dth. Since July 1, 2019, customers have subscribed to 7,319 Dth less, but there has also been an increase of 832 Dth, for a net decrease of 6,487 Dth. This is a net decrease in firm demand subscription of 3.1%.

The UAE also proposed a new method of classifying costs between demand and throughput. This method of classification would reduce the monthly demand charge from $3.97

(step 3 rates) to $2.16. Though the total revenue collected would be the same, costs would be collected in volumetric rates instead of the demand charge.

A&G Expense Allocation

On page 29 of the Commission's Report and Order in the Rate Case, it stated, "ANGC argues that, based on the types and magnitude of the costs covered under the A&G category, many of the activities and associated costs covered under Account 923-outside services have no cost-causative relationship to DEU's gross plant investment, and that the Gross Plant factor base data includes not only distribution plant but also production gathering plant and intangible plant. We find that this issue warrants further evaluation in the cost-of-service and rate design docket we establish in this order, and we direct parties to address it in that docket." During the scoping meetings, the Parties discussed that data would be made available by the Company for analysis if requested. No Party requested any of the data and no Party conducted any new analysis.

Allocation of Peak Hour Costs to MT and IS Customers

On page 42 of the Commission's Report and Order the Rate Case, it stated, "The question of whether to apply this charge to the MT or IS customers is an element to be evaluated in the cost-of-service and rate design docket we establish in this order." The Parties addressed this issue in in the scoping meeting and determined that the Company would make data available for analysis if requested. On June 24, 2020, the Company provided monthly data for MT and IS customers (see Attachment 9). No Party requested further data, and no Party conducted new analysis.

TBF Class

On August 12, 2020, the Company provided the Parties with information related to the TBF class. The slides for that presentation can be found on pages 2-14 of Attachment 2. The presentation outlined the history of the class, why certain customers might bypass the DEU distribution system, and why those customers are a benefit to the distribution system even with a subsidized rate.

The Company also updated its break-even analysis using the step three rates from the Rate Case to determine if any changes should be made to the qualification criteria. The "break-even analysis" involves comparing a calculation of the cost of interconnecting with a nearby interstate pipeline to the rate that would be applicable to the TBF customers. This analysis helps establish the qualifying criteria for prospective TBF customers. There are two costs that are compared in the analysis. First, if a new customer were to bypass the distribution system, it would need to pay for an interconnect on an interstate pipeline and construct its own main line to its facility. The longer the new main is, the more expensive it will be. This cost to bypass is compared to the second cost in the analysis - the cost the customer would pay as a Dominion Energy customer over time. Since the distance from the nearest interstate pipeline is different for each customer, the analysis calculates a break even amount for different distances.

Slide 12 of Attachment 2 shows the results of the break-even analysis as it was used to design the qualification criteria in the Company's general rate case in 2013. Slide 13 was the updated analysis performed in this Docket. The blue line on slide 13 shows where customers would break even; or the point at which a customer could potentially benefit by bypassing the DEU distribution system. The red line represents the existing qualification criteria in the tariff

(350,000 Dth of annual usage plus 250,000 additional Dth for each mile away from the nearest pipeline). The existing qualification criteria is still pretty close to the break-even line, but the Company also added a potential new qualification criteria to the chart on the green line. This new criteria would change the base usage from 350,000 dth/year to 200,000 dth/year. The requirement of an additional 250,000 Dth for each mile away from the nearest pipeline would not change.

Open Enrollment for TS Customers

The Company met with a representative from ANGC on March 31, 2021 to explain the Company's logic and determine if there were any questions for the Parties to address related to the possibility of open enrollment for TS customers. As a result of those discussions, the Company provided slide 10 of Attachment 7 at the April 14, 2021 meeting. The Company explained that the existing enrollment deadlines are necessary to ensure that DEU can enter into supply contracts for its customers, install required telemetry equipment prior to the heating season, and to otherwise ensure that processes are in place to serve transitioning customers before TS service commences. No Party recommended any changes to that proceeding, and no Party requested further information.

Administrative Charge

During the March 31, 2021 meeting with ANGC, the Company and a representative of ANGC discussed in detail the costs that the Company uses to calculate the Administrative Charge. The Company followed up by providing similar information to the Parties during the April 14, 2021 meeting. These slides can be found in Attachment 7, slides 3 through 8.

Additional Topics Addressed

The topics discussed above were either specifically ordered by the Commission in its Report and Order in the Rate Case or were discussed by the Parties as topics of interest in the two scoping meetings held in June of 2020. As the Parties met, they identified two other topics for discussion.

The first topic was the use and calculation of load factors. The calculation of load factors was not an issue that Parties wanted to change or challenge; rather it was an issue that some of the Parties wanted to learn more about. The Company provided information in the August 12, 2020 meeting using slides 19-22 of Attachment 2. The Company showed how load factors are calculated and how one GS customer might have a low load factor while another customer might have a high load factor.

As the parties were exploring rate design options for the new TS classes, a question arose about a rate design method that is used in the industry called straight-fixed-variable (SFV) rates. The Company prepared slides 16-17 of Attachment 4 to explain the SFV rates and slides 14-15 to explain the Company's CET rates that are used in the GS class. The Parties did not explore any other rate design options.

CONCLUSION

The Parties were engaged during the last year of meetings and made good progress on exploring the issues that were outlined by the Commission in the Rate Case Order and the scoping meetings in this Docket. No requests for analysis were ignored. However, no consensus was reached on any issue. For the next general rate proceeding, Parties are free to take any position on any issue. The Parties look forward to putting the information gained during this process to use in future proceedings.