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ACTION REQUEST RESPONSE

To: Public Service Commission

From: Division of Public Utilities
Artie Powell, Division Director
Doug Wheelwright, Utility Technical Consultant Supervisor
JJ Alder, Utility Analyst
Vana Venjimuri, Utility Analyst

Date: October 19, 2020

Subject: Dominion Energy, Docket Nos.
20-057-14 – Pass-Through Application for an Adjustment in Rates and Charges for Natural Gas Service in Utah
20-057-15 – Application for an Adjustment to the Daily Transportation Imbalance Charge
20-057-16 – Conservation Enabling Tariff Application
20-057-17 – Low Income/Energy Assistance Application

RECOMMENDATION:
After a preliminary review of the applications, the Division of Public Utilities (Division) finds the proposed rates to be reasonable and recommends the Public Service Commission of Utah (Commission) approve the rates as outlined by Dominion Energy Utah (Dominion or Company).

Approval of interim rates applies to the requested rate changes in Docket Nos. 20-057-14 (191 Pass-Thru) and 20-057-15 (Daily Transportation Imbalance Charge). Approval of final rates are recommended for Docket Nos. 20-057-16 (CET), and 20-057-17 (Low Income Assistance Rate). All four Dockets have requested an effective date of November 1, 2020.

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The Company also filed Docket Nos. 20-057-18 (Energy Efficient Rate) and 20-057-19 (STEP Program), simultaneously and have the same effective date. The Division's responses to those Dockets are being filed under separate memos. If all six Dockets are approved, the combined changes will increase a typical GS customer's annual bill by $27.74 or 4.33%.

ISSUE:
On September 30, 2020, Dominion Energy Utah (Dominion or Company) filed the applications identified above and the Commission subsequently issued an Action Request to the Division. On October 8, 2020, the Commission held a scheduling conference on the above matter. The Commission's Scheduling Order established October 19, 2020, as the date the Division would file comments on the six Dockets.

Docket No. 20-057-14 – 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 $41.5 million and decrease the supplier non-gas cost rate components by $1.9 million for a net increase of $39.6 million. Based on current rates, if the Commission approves the proposed change, a typical GS residential customer using 80 Dth per year will see an increase of $28.40[1] in their annual bill, which represents an increase of 4.44%, independent of any other change.

Docket No. 20-057-15 – The Daily Transportation Imbalance Charge filing is a request to adjust the imbalance charge calculation approved in Docket No. 14-057-31. Consistent with that docket, the transportation imbalance charge began in February 2016 with a recalculation twice each year as part of the 191 pass-through filings. The revised calculation is based on updated volumes through August 31, 2020. If approved, the proposed rate would decrease from $0.07834 to the proposed rate of $0.07690. This rate applies to transportation customers with daily imbalance volumes outside the ±5% tolerance level.

Docket No. 20-057-16 – The Conservation Enabling Tariff (CET) filing is a request to amortize the August 2020 under-collected balance of $4.1 million. The previous filing was an amortization for an under-collected balance of $41.5 thousand. If the Commission grants this

[1] Exhibit 1.6, Column F, Line 13.

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application, a typical GS residential customer using 80 Dth per year will see an increase in their yearly bill of $3.24 or .51%, independent of any other increase or decrease.

Docket No. 20-057-17 – The Low Income/Energy Assistance filing is a request to adjust the collection rate in order to collect the approved $1.5 million, plus the under collected balance of $55,738. In addition to adjusting the rate, the proposed customer credit to low-income customers will increase from $77 to $79. If approved by the Commission, a typical residential customer using 80 Dth per year will see an increase in their yearly bills of approximately $0.03, independent of any other increase or decrease.

DOCKET NO. 20-057-14 COMMODITY GAS COST AND SUPPLIER NON-GAS COSTS (191 Account Semi-Annual Pass-Through)

This filing is based on projected Utah gas costs of $496,641,349[2] for the forecast test year ending October 31, 2021. The commodity portion of the gas cost represents an increase of $41.5 million and the supplier non-gas cost portion (SNG) represents a decrease of $1.9 million for a combined net increase of $39.6 million.[3] The driving force behind the price increase is higher forecasted gas costs for the test period. The gas price forecast is based on estimates from two independent agencies.

The test-year cost of gas consists of cost-of-service gas from Wexpro, contract and market purchases, and storage and transportation costs. The forecast price for cost-of-service production is $4.058 per Dth[4] compared to $3.964 per Dth[5] in the previous filing. Market and contract purchases for natural gas are projected to be higher at $3.14[6] per Dth compared to $2.07[7] per Dth 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 1.1, Page 2, Line 17, Column E.
[3] Pass-Through Model, Utah Summary by Class.
[4] Exhibit 1.2, Page 3, Column D, Line 20.
[5] Docket No. 20-057-07, Exhibit 1.2, Page 3, Column D, Line 20.
[6] Exhibit 1.2, Page 4, Column D, Line 6.
[7] Docket No. 20-057-07, Exhibit 1.2, Page 4, Column D, Line 6.

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In the previous filings, the 191 balancing account was under-collected by $19.711 million and the Company established a debit amortization of $0.43865 per Dth. As of August 31, 2020, the commodity portion of the 191 account was $24.862 million under-collected and the Company is proposing to establish a debt amortization of $0.22099 per Dth.

The Company has been recording the difference in timing between when it pays for commodity supplies versus when the Company receives cost recovery due to the Tax Cuts and Jobs Act of 2017 (TCJA). Beginning June 1, 2020, the Company began amortizing the balance of $1.0833 million to be returned over one year.[8] Tax Reform Surcredit 4 will continue as a credit amortization of $0.00972 per Dth.[9] The Company proposes to refund the full amount to ratepayers over the remaining 9 months.

The combination of the change in gas cost, the change in the amortization rate, and Tax Reform Surcredit 4 results in an increase in the commodity cost. The net impact is a change from $3.505 to the proposed rate of $3.874 per Dth or an increase of $0.36875[10] per Dth. The Division will continue to monitor the balance in the 191 account monthly.

RIN Proceed from CNG

In August 2020, renewable natural gas credits were generated through RNG sales at the Company's CNG Station. The RIN (Renewable Identification Numbers) proceeds totaled $20,428.[11] As a result, the company is proposing a credit of $0.09963 that will reduce the commodity cost for NGV customers.[12]

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 transporting market and Wexpro gas from market hubs to city gates and storing the gas in

[8] Exhibit 1.5, Page 1, Footnote 3.
[9] Exhibit 1.5, Page 1, Column D, Line 9.
[10] Exhibit 1.5, Page 1, Column F, Line 10.
[11] Pass-thru Application, Paragraph 18
[12] Exhibit 1.5, Page 6, Line 8

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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 Company implemented the changes to the SNG and Commodity cost allocation approved by the Commission in Docket No. 19-057-T01. With these changes, the Company now estimates that the SNG balance will swing between $14.0 million under-collected to $14.0 million over-collected. 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 Company is projecting total SNG costs for the test period of $84,592,897[13] for the forecast test-year plus a $962,115 amortization of the under collected amount from the previous period for a total of $85,555,012 million.[14] In the Company's last pass-through filing (Docket No. 20-057-07), an amortization rate was established based on the balance in the SNG account at the end of March 2020 and is set annually. In this filing, the Company is requesting to keep the amortization rate at $0.17652 to collect the forecasted SNG cost and the adjusted amortization amount.

Gas Supply

For the test year, November 2020 through October 2021, the Company is projecting a total system requirement of 118,199,213 Dth.[15] From the total requirement amount, 116,401,186 Dths[16] will be used to meet the projected sales requirement with 1,798,027 Dths used for gas volume reimbursement due to gathering, transportation, distribution fuel, and shrinkage. Of the total gas requirement, 50.4%[17] will be satisfied with the Wexpro cost-of-service production, 18.4%[18] will be satisfied under current purchase contracts and 32.0%[19] will be purchased with

[13] Exhibit 1.5, page 2, Column D, Line 1.
[14] Exhibit 1.5, page 2, Column D, Line 3.
[15] Exhibit 1.2, Page 3, Column C, Line 20 + Page 4, Column C, Line 6.
[16] Exhibit 1.5, Page 1, Column E, Line 6.
[17] Exhibit 1.2, Page 3, Column C / Exhibit 1.2, Page 3, Column C, Line 20 + Page 4, Column C, Line 6.
[18] Exhibit 1.2, Page 4, Column C, Line 3 / Exhibit 1.2, Page 3, Column C, Line 20 + Page 4, Column C, Line 6.
[19] Exhibit 1.2, Page 4, Column C, Line 4 & 5 / Exhibit 1.2, Page 3, Column C, Line 20 + Page 4, Column C, Line 6.

future contracts and spot market transactions. The total expected fuel cost for the test period is $496.641 million.[20]

The cost-of-service gas from all Wexpro production is projected to cost $237,715,652 at an average cost of $4.058 per Dth,[21] which is $0.094 higher than the previous filing. 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 $189,627,153 at an average cost of $4.22 per Dth[22] including gathering costs. The volume from Wexpro I wells represents approximately 76.7% of the total cost-of-service production. Wexpro II production has a projected cost of $48,088,498 at an average cost of $3.52 per Dth[23] including gathering and represents approximately 23.3% of total production.

The average price of Cost-of-Service gas from Wexpro has increased slightly from the previous filing and remains significantly higher than the projected market price.

The cost-of-service gas production includes the operator service fee (OSF) payable to Wexpro of $214,070,753.[24] As part of its audit and review of the 191 account, the Division is reviewing the calculations and costs associated with the OSF in this filing as well as previous pass-through filings.

Forecast Natural Gas Prices

The market price forecast anticipates an 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 are displayed in Chart 1 below.

[20] Exhibit 1.1, Page 2, Column C, Line 17.
[21] Exhibit 1.2, Page 3, Column D, Line 20.
[22] Exhibit 1.2, Page 3, Column D, Line 8.
[23] Exhibit 1.2, Page 3, Column D, Line 13.
[24] Exhibit 1.2, Page 1, Line 4 + Line 9.

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Chart 1 – CONFIDENTIAL

[redacted]

The forecast price for natural gas in the test period is higher than the previous two forecasts for both the winter and summer 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 $3.14 per Dth[25] 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. 19-057-18 and 20-057-07) 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).[26] The historical price has been included to show the fluctuation in the market price and to provide a comparison of the forecast price used to establish rates in previous filings compared to the actual FOM market price. The chart also shows how actual market prices can deviate from the anticipated price. It should be noted that the actual market price during the previous heating season was initially much higher than the forecast market price. Market prices trended downward, moving closer to forecasted values midway through the heating season. The current market price is also higher than the previous forecast.

[25] Exhibit 1.2, Page 4, Column D, Line 6.
[26] www.spglobal.com, S&P Global - Market Intelligence, SNL Bidweek Index

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Chart 2 – CONFIDENTIAL

[redacted]

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 higher than the forecast price during the previous 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. The 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.

Comparison to the Previous Filing

The Company's application provides a forecast of anticipated costs and revenue for the test period as Exhibit 1.2. 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 the projected price per Dth for cost-of-service and purchased gas compared to the previous five pass-through filings. The dotted line indicates the forecast cost-of-service price per Dth for gas

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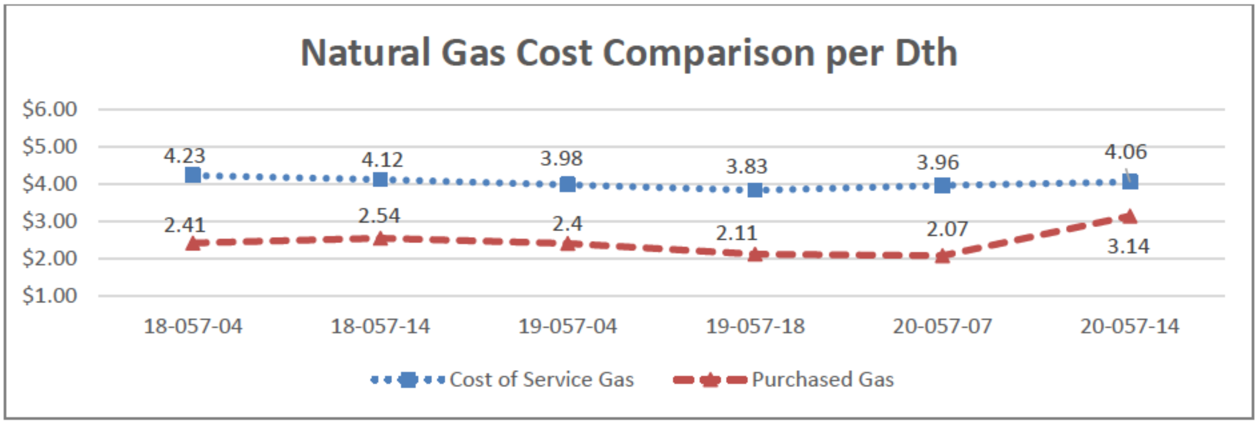
production and includes both Wexpro I and Wexpro II production. The dashed line indicates the forecast price for purchased gas included in each filing.

Chart 3



In the current filing, the cost-of-service gas has increased to $4.06 compared to $3.96 per Dth in the previous filing and purchased gas has increased to $3.14 compared to $2.07 per Dth. While the price of cost-of-service production has remained relatively consistent over the last several years, the market price continues to be lower than the Wexpro cost-of-service 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 $28.40 in their annual bill or an increase of 4.44%.[27] The Division recommends the Commission approve the Application with an effective date of November 1, 2020.

[27] Exhibit 1.6, Line 14, Column F.

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DOCKET NO. 20-057-15 - 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 the calendar year 2019, transportation customers paid an average of $64,433 per month in imbalance charges, which were credited to the 191 account.

The proposed new rate of $0.07690 per Dth is a decrease from the current rate of $0.07834 per Dth and is calculated based on the historical imbalance volumes for the previous 12 months ended August 31, 2020. The Division continues to review Exhibit 1.1, which includes the daily nomination and imbalance information for 1,032 transportation customers. 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, several 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 for each contract number. In reviewing the information from Exhibit 1.1, the Division noted the following:

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1. The 25 largest customers use 60% of the total transportation volume and 75% of the volume is attributed to 72 of the largest customers. While these large customers account for 75% of the total volume, they represent 52% 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 928 customers represent only 25% of the total volume and individually will have a lesser impact on the distribution system. While these smaller customers represent only 25% of the total volume, they have paid a larger portion of the penalty and represent 48% of the total Dth outside the tolerance limit. Smaller transportation customers appear to be using natural gas primarily for seasonal heating.
3. Most of the daily nominations for transportation customers are made through marketing companies and not all companies have the same level of accuracy with the daily nomination process. One marketing company represents the majority of the small volume customers. This company represents [redacted] customers but only accounts for [redacted] of the total nomination volume. Even though this particular marketing company manages [redacted] of the total volume, its nominations are responsible for [redacted] of the Dth outside the tolerance limits.

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 impact transportation customers but the effect will not be the same for each customer. As mentioned above, this rate applies to a transportation customer only when its daily gas nominations are outside the ±5% tolerance limits. The imbalance charge may apply to some customers regularly while others may occasionally be

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affected, depending on the accuracy of the customer's daily nomination process. This rate also has a related effect 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 November 1, 2020.

DOCKET NO. 20-057-16 – AMORTIZE THE CONSERVATION ENABLING TARIFF

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. Tariff §2.08 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 August 2020 under-collected balance of $4,119,108. Exhibit 1.1 provides a summary of the accounting entries and monthly balances from July 2019 through August 2020. 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 $3.24 or 0.51%. The Division recommends the Commission approve the Application with an effective date of October 1, 2019

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DOCKET NO. 20-057-17 – ADJUSTMENT TO THE LOW-INCOME ASSISTANCE/ENERGY ASSISTANCE RATE

The Division has reviewed the filing and exhibits and agrees with the calculations used to estimate the number of participants and the credit per customer. The proposed credit assumes 20,993 participants during the next 12 months and will adjust the allowed credit to $79.00 per customer. Exhibit 1.2 column (F) shows the new low-income assistance rate per Dth for each customer class. The projected payout fund calculation of $1,654,793 divided by the projected participants yields the payout per customer of $79.00. On August 17, 2020, DEU met with interested parties including the Division, the Office of Consumer Services, and AARP. Based on the available balance, the forecast collection amounts in the test period and the estimated number of participants, the proposed $79.00 per customer appears to be appropriate.

The number of participants in this program has been decreasing since its inception. It is unclear if improving economic conditions or if the mild winter temperatures have caused reduced participation.

Rate Details

In Docket No. 10-057-08, the Commission authorized the Company to establish an Energy Assistance Program with a target funding level of $1.5 million per year. Exhibit 1.1 of this filing provides a summary of the annual account balance in the 191.8 account for year 1 through year 9 and monthly accounting entries for year 10 (August 2019 – July 2020). As of July 2020, the Company had under-collected $55,738 since the beginning of the program. The combination of the unpaid balance and projected collections during the rate effective period will result in an allowed amount of $1,555,738 to be collected from customers during the test period.

Effect on a typical GS Customer

If approved independently, the effect of this change for a typical GS residential customer is an increase of $0.03 in their annual bill. The Division recommends the Commission approve the Application with an effective date of November 1, 2020.

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SUMMARY AND CONCLUSION

The Company filed six independent dockets with an effective date of November 1, 2020. This memorandum discussed four of the six dockets.[28] 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 for each docket and the net customer impact if all six dockets are approved.

Docket	Title	$ Annual Change	% Change
20-057-14	191 Pass-Through	$28.40	4.44%
20-057-15	Transportation Imbalance	N/A	N/A
20-057-16	CET	$3.24	0.51%
20-057-17	Low Income/Energy Assistance	$0.03	0.00%
20-057-18	Energy Efficiency Rate	$(4.36)	(0.68)%
20-057-19	STEP Program	$0.33	0.05%
	COMBINED IMPACT	$27.74	4.33%

The net impact if all six of the dockets are approved is an increase of $27.74 or 4.33% to a typical GS customer's annual bill. The Division also recommends the Commission approve the rates on an interim basis for some of the changes proposed by Dominion. Interim rates would apply to the requested changes in Docket Nos. 20-057-14 (191 Account), 20-057-15 (Daily Transportation Imbalance Charge), and 20-057-18 (Energy Efficiency). The proposed rate change for Docket No. 20-057-16 (CET), 20-057-17 (Low Income/Energy Assistance), and 20-057-19 (STEP) are not subject to the Division audit and can be approved as final rates. All six Dockets have an effective date of November 1, 2020. The proposed changes are in the public interest and represent just and reasonable rates for Utah customers.

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Michele Beck, Office of Consumer Services
Maria Wright, Division of Public Utilities

[28] Docket Nos. 20-057-18, 20-057-19 are discussed in separate memos.