State of Utah
Department of Commerce
Division of Public Utilities

MARGARET W. BUSSE
Executive Director

CHRIS PARKER
Director, Division of Public Utilities

SPENCER J. COX
Governor

DEIDRE HENDERSON
Lieutenant Governor

Redacted

ACTION REQUEST RESPONSE

To: Public Service Commission

From: Utah Division of Public Utilities
Chris Parker, Division Director
Artie Powell, Manager
Doug Wheelwright, Utility Technical Consultant Supervisor
Eric Orton, Utility Technical Consultant
Tyler McIntosh, Utility Analyst
Russ Cazier, Utility Analyst

Date: May 17, 2021

Subject: **Docket No. 21-057-11,** Pass-Through Application for an Adjustment in Rates and Charges for Natural Gas Service in Utah.

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 on an interim basis as proposed by Dominion Energy Utah (Dominion or Company).

This approval applies to the requested rate changes in Docket No. 21-057-11 (191 Pass-Through) with an effective date of June 1, 2021, as well as Docket No. 21-057-09, Daily Transportation Imbalance Charge, and Docket No. 21-057-10, Excess Deferred Income Taxes, simultaneously.

Redacted

The Division's response to these Dockets are being filed under separate memos. If all three Dockets are approved, the combined change will increase a typical GS customer's annual bill by $33.38 or 4.99%.

ISSUE:

On April 30, 2021, Dominion Energy Utah (Dominion or Company) filed the applications identified above and the Commission subsequently issued an Action Request to the Division. May 10, 2021, the Commission held a scheduling conference in the above matter. The Commission's Scheduling Order dated May 10, 2021, established May 17, 2021, as the date the Division would file comments on the three Dockets.

The 191 Pass-Through filing asks for Commission approval to increase the commodity rate components of the Company's Utah natural gas rates by $37.358 million and increase the supplier non-gas (SNG) cost rate components by $5.666 million for a net increase of $43.023[1] million. Based on current rates, if the Commission approves the proposed change, a typical GS residential customer using 80 Dth per year (typical GS residential customer) will see an increase of $30.08[2] in their annual bill, which represents an increase of 4.50%, independent of any other change.

This filing is based on projected Utah gas costs of $507,059,809[3] for the forecast test year ending May 31, 2021. The combined projected increase of $43.023 million is due to an increase in the amortization rate on the under-collected balance in the 191 account. The balance is under-collected as a result of purchased gas at extraordinarily high market prices caused by the severe weather event that occurred in Texas between February 13, and February 17, 2021. See Chart 1.

[1] Pass-Through Model, Utah Summary by Class.
[2] Exhibit 1.6, Column F, Line 13.
[3] Exhibit 1.1, Page 2, Line 17, Column E.

Redacted

Chart 1– CONFIDENTIAL

[redacted]

The large increase in this application is directly related to the spike in the market price that occurred during a few days in February. The Division has been in discussions with the Company to understand the unusual circumstances and the actions of the Company during this time. Based on a preliminary review, it appears that the Company took the appropriate actions to minimize the impact of the high market prices and the associated impact to customers. The Division will continue to review these events and if needed, could recommend adjustments during the more detailed 191 audit process.

The test year cost of gas consists of cost-of-service gas from Wexpro, contract and market purchases, plus storage and transportation costs. The forecast price for cost-of-service production is \$4.05 per Dth[4] compared to \$4.06 per Dth[5] in the previous filing. Market and contract purchases for natural gas are projected to be higher at \$3.22[6] per Dth compared to \$3.13[7] per Dth in the previous filing. Due to the large volume provided by cost-of-service gas from Wexpro, market purchases of natural gas are planned only during the winter months.

In the previous filing, the 191 account was under-collected by \$24.862 million and the Company established a debit amortization of \$0.22099 per Dth. As of March 31, 2021, the commodity portion of the 191 account was \$55.598 million under-collected and the Company is proposing

4 Exhibit 1.2, Page 3, Column D, Line 20.
5 Docket No. 20-057-14, Exhibit 1.2, Page 3, Column D, Line 20.
6 Exhibit 1.2, Page 4, Column D, Line 6.
7 Docket No. 20-057-14, Exhibit 1.2, Page 4, Column D, Line 6.

Redacted

the current debit amortization of $0.49074 per Dth in place. The proposed amortization will help collect the balance over the summer months even though gas usage is low during this period.

Supplier Non-Gas Costs

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 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 as is the case in this filing.

The forecast rates are structured so that the SNG balance is intended to have an over-collect $14.0 million in the spring, and under-collected $14.0 million in the fall. 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 account. The amortization of the over or under-collection is established annually in the spring pass-through filing.

The Company is projecting total SNG costs for the test period of $86.349 million[8] for the forecast test year plus a $5.373 million amortization of the under-collected amount from the previous period for a total of $91.722 million.[9] If the current rates are not adjusted, the SNG revenue is projected to collect $86.055[10] million.

Gas Supply

For the test year, June 2021 through May 2022, the Company is projecting a total system requirement of 120.233 million Dth.[11] From the total requirement amount, 117.192 million

[8] Exhibit 1.5, page 2, Column D, Line 1.
[9] Exhibit 1.5, page 2, Column D, Line 3.
[10] Exhibit 1.5, page 2, Column D, Line 6.
[11] Exhibit 1.2, Page 3, Column C, Line 20 + Page 4, Column C, Line 6.

Redacted

Dths[12] will be used to meet the projected sales requirement with 3.041 million Dths used for gas volume reimbursement due to gathering, transportation, distribution fuel, and shrinkage. Of the total gas requirement, 52.5%[13] will be satisfied from the Wexpro cost-of-service production, 30.7%[14] will be satisfied under current purchase contracts and 36.4%[15] will be purchased with future contracts and spot market transactions. The total expected fuel cost for the test period is $524.193 million.[16]

The cost-of-service gas from all Wexpro production is projected to cost $231.248 million at an average cost of $4.05 per Dth,[17] which is $0.01 lower 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 $185.825 million at an average cost of $4.28 per Dth[18] including gathering costs. The volume from Wexpro I wells represents approximately 75.9% of the total cost-of-service production. Wexpro II production has a projected cost of $45.422 million at an average cost of $3.30 per Dth[19] including gathering and represents approximately 24.1% of total production. While the average price of cost-of-service gas from Wexpro has come down, the price of gas produced by Wexpro remains significantly higher than the projected market price.

The cost-of-service gas production includes the operator service fee (OSF) payable to Wexpro of $201.920 million.[20] 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

[12] Exhibit 1.5, Page 1, Column E, Line 6.
[13] Exhibit 1.2, Page 3, Column C / Exhibit 1.2, Page 3, Column C, Line 20 + Page 4, Column C, Line 6.
[14] Exhibit 1.2, Page 4, Column C, Line 3 / Exhibit 1.2, Page 3, Column C, Line 20 + Page 4, Column C, Line 6.
[15] 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.
[16] Exhibit 1.1, Page 2, Column C, Line 17.
[17] Exhibit 1.2, Page 3, Column D, Line 20.
[18] Exhibit 1.2, Page 3, Column D, Line 8.
[19] Exhibit 1.2, Page 3, Column D, Line 13.
[20] Exhibit 1.2, Page 1, Line 4 + Line 9.

Redacted

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 is displayed in Chart 2 below.

Chart 2 – CONFIDENTIAL

[redacted]

The forecast price for natural gas in the test period is lower than the previous forecast for the summer months and higher than the previous forecast for the winter 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 $3.22 per Dth[21] for spot and contract purchases. Chart 3 below provides a comparison of the forecast market prices used in the current and the two previous pass-through applications (Docket Nos. 20-057-07 and 20-057-14) 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). 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.

[21] Exhibit 1.2, Page 4, Column D, Line 6.

Redacted

Chart 3 – 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 account. Excluding the events that occurred in February referenced above, the actual first of the month price for natural gas was lower than the forecast price during the last heating season. During the month of February, the 191 account was under-collected by $47.828 million and is the primary driver for the requested increase.

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. 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.

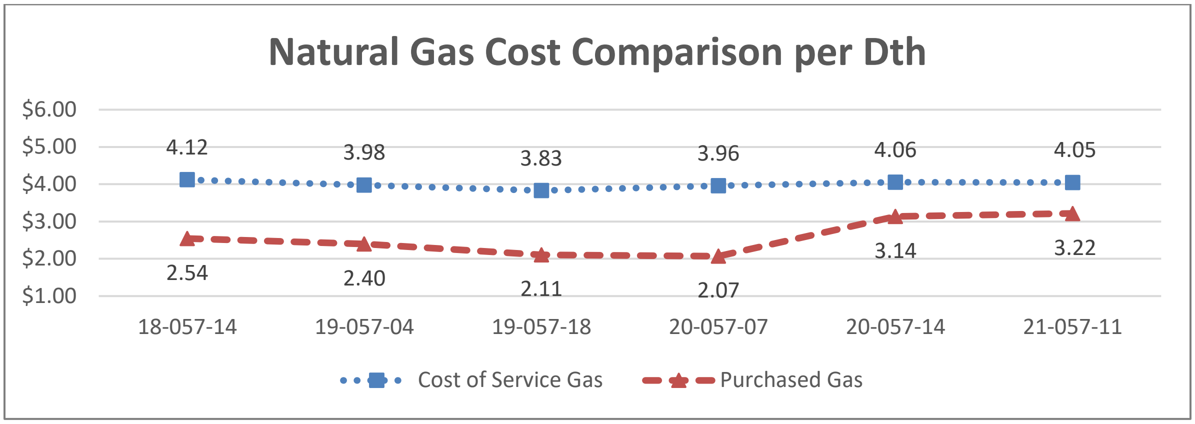
Comparison to Previous Filing

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 4 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-
into storage for later use. Gas that has been injected into storage is withdrawn during the high

Redacted

through filings. The dotted line indicates the forecast cost-of-service price per Dth for gas 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 4



In the current filing, the cost-of-service gas has decreased to $4.05 compared to $4.06 per Dth in the previous filing, and purchased gas has increased to $3.22 compared to $3.14 per Dth. While the price of cost-of-service gas has remained relatively stable over the last several years, the market price gas continues to be significantly lower in price than the Wexpro cost-of-service gas. The Company has not indicated when it anticipates its cost-of-service gas 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 will see an increase of $30.08 in their annual bill, or an increase of 4.50%.[22]

Conclusion

The Division recommends the Commission approve the 191 Pass-Through Application on an interim basis with an effective date of June 1, 2021. At this point, the Division has determined that the proposed rates are just, reasonable, and in the public interest.

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

Redacted

The Company also filed Docket No. 21-057-09, Daily Transportation Imbalance Charge, and Docket No. 21-057-10, Excess Deferred Income Taxes, simultaneously. If all three Dockets are approved, the combined change will increase a typical GS customer's annual bill by $33.38 or 4.99%. The Imbalance Charge Docket and the Deferred Income Tax Docket do not need interim approval.