State of Utah
Department of Commerce
Division of Public Utilities

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MEMORANDUM

To: Utah Public Service Commission

From: Utah Division of Public Utilities

Chris Parker, Director
Artie Powell, Energy Section Manager
Jeff Einfeldt, Utility Analyst

Date: August 14, 2019

Re: **Docket Nos. 09-057-16, 13-057-05**

Audit of Dominion Energy Utah Infrastructure Tracker Pilot Program.

SCOPE AND OBJECTIVE

The Division of Public Utilities ("Division") conducted an audit of Dominion Energy Utah's (DEU") Replacement Infrastructure Account. The audit includes a detailed review of the various cost elements included in the Account 107, sub-Account 376004. The Division reviewed costs incurred in the program from January 2016 through December 2018. The objective of our audit is to determine if the costs DEU included for recovery in the Replacement Infrastructure Tracker ("Tracker") are accurate, appropriate, and in compliance with the orders in Docket No. 09-057-16 and Docket No. 13-057-05 issued by the Public Service Commission of Utah ("Commission").

RECOMMENDATION

The Division performed an audit of DEU's actual Replacement Infrastructure Tracker expenditures for the period January 2016 through December 2018. The Division recommends the costs reported in the Tracker be included in rates, subject to a final prudence review in the next general rate case.

BACKGROUND

As part of the settlement stipulation in Docket 09-057-16, Parties agreed to implement an Infrastructure Tracker Pilot Program. The Infrastructure Tracker was designed to allow the Company to track and recover costs directly associated with replacement of aging infrastructure through an incremental surcharge to the GS, FS, IS, TS, MT, FT-1, and NGV rate schedules. The pilot program agreed to in Docket No. 09-057-16 applied to replacement of High Pressure (HP) feeder lines only. As part of the settlement stipulation in Docket No. 13-057-05, Parties agreed to modify the Infrastructure Tracker Pilot Program to include the replacement of certain Intermediate High Pressure (IHP) beltlines.[1] The surcharge is designed to track and collect costs of replacement infrastructure between general rate cases and may be adjusted semi-annually. The infrastructure replacement budget shall not exceed $65 million (adjusted for inflation) per year and all items included in the Tracker are subject to regulatory audit consistent with the audit procedures in the "Gas Balancing Account," Tariff Section 2.06. When the Company files a general rate case, all prudently incurred investment and costs associated with the Infrastructure Tracker will be included in general rates. As part of the stipulation agreement, the Company is required to file a general rate case at least every three years while the Infrastructure Tracker is in effect. The Company withdrew its general rate case in 2016, pursuant to the settlement stipulation reached in the merger with Dominion Energy and agreed DEU would not file a general rate case prior to July 1, 2019.[2]

AUDIT

The audit was conducted to verify a sampling of actual amounts listed on the report titled Cost Reports for 2018 Tracker Audit of 12/31/2018, which includes all entries from January 2016 through December 2018. In this file DEU included reports detailing all expenses for each feederline and beltline project. The Division reviewed this report, and selected a sampling of

[1] Docket 13-057-05, Settlement Stipulation, page 10.
[2] Docket 16-057-01, Settlement Stipulation, par. 33 (pg. 10)

transactions for which invoices and/or supporting documentation was requested for review. It should be noted that the invoice sample utilized for review purposes was judgmental. The Infrastructure Replacement projects are large capital projects, but over 85% of the costs are for the feederline contractor, Canyon Pipeline Construction Company, the various contractors for the beltline projects, and the cost of the pipe. The majority of the invoices reviewed were for these costs. DEU supplied copies of applicable documentation, invoices and/or schedules to support transactions selected. The documentation was verified and reconciled to the amounts presented on the Cost Tracking Report. This report is created for each Feederline or Beltline project and is a summary of all the costs associated with the specified project.

The Division also examined the actual costs compared to the budgeted amounts and a review of any reasons or explanations for deviation from the budget and reviewed the recorded transactions for mathematical accuracy. The Company reports the budget variances in the quarterly reports that are filed with the Commission and at the annual review meeting held in April of each year. As part of the audit, the Division verified the asset is in service at the time that an application is filed with the Commission to include those costs in the Tracker.

The Division meets with the Company annually to review the accounting procedures for the Tracker and concludes that the procedures are reasonable and DEU staff is complying with those procedures. The audit did not find any issues, but the Division notes that these expenses will be subject to review in the upcoming general rate case.

DISCUSSION

Since the pilot program became effective in June 2010, the Company has provided the Tracker impact on DEU's rate of return. For the period included in this audit, information for the 12 month periods ending December 2016, December 2017, and December 2018 were provided by the Company. These results were verified as part of the Infrastructure Tracker audit. Please see the table below:

Tracker impact on QGC's rate of return during the current reporting period			
	12 months ended December 2016	12 months ended December 2017	12 months ended December 2018
Infrastructure Replacement Tracker Revenue	$14,094,900	$22,229,744	$21,742,042
Return on Equity with Tracker	9.51%	8.26%	9.79%
Return on Equity without Tracker	7.37%	5.06%	6.90%
Difference in Equity	2.14%	3.20%	2.89%

Based on the information provided by the Company, the tracker has worked by allowing the Company to recover capital expenditures without filing a general rate case. By delaying the filing of a general rate case, other portions of the rate structure have not been reexamined and the Company has been allowed to retain the approved Return on Equity (ROE) of 9.85%.[3] Customers' rates have increased slightly as the result of the Tracker; overall rates have not changed substantially since the Tracker was implemented. If the Infrastructure Tracker was not in place the Company would have had the option to file rate cases to recover those costs. The Company's ROE has been higher with the Tracker for the 12 months ending December 2018, ROE with the Tracker was 9.79% versus 6.9% without the Tracker, but has not exceeded the allowed Return on Equity. The Division will continue to monitor the ROE in future periods and will notify the Commission of significant changes.

The Division acknowledges the possibility the Company could exceed its allowed Return on Equity. As demonstrated above, during the current period this has not been the case. The Division notes the accounting for the Tracker provides greater transparency for reviewing costs. A separate account was created to record the Tracker expenses and within that account the costs are recorded by project number and feeder line number or beltline segment.

[3] In the Matter of the Application of Questar Gas Company to Increase Distribution Rates and Charges and Make Tariff Modifications (Report and Order: February 21, 2014, P. 29).

CONCLUSION

The Division completed its audit of the Tracker and concludes the costs associated with the Tracker be included in general rates for the currently pending general rate case, subject to final prudence review. No major accounting issues came to the DPU's attention during its audit, however, DPU notes all aspects of the Tracker program are subject to review during the pending general rate case.

cc: Kelly Mendenhall, Dominion Energy Utah
Michele Beck, Office of Consumer Services