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Division of Public Utilities

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MEMORANDUM

To: Utah Public Service Commission

From: Division of Public Utilities

Chris Parker, Director
Artie Powell, Manager, Energy Section
Doug Wheelwright, Technical Consultant
Eric Orton, Technical Consultant

Subject: Docket No. 17-057-05, In the Matter of Dominion Energy Utah's Quarterly Integration Progress Reports

Date: October 10, 2017

ISSUE

On August 16, 2017, Dominion Energy Utah (Dominion) filed its Second Quarter 2017 Integration Progress Report (Report) related to the merger of Questar Corporation and Dominion Resources. On August 17, 2017, the Commission invited public comments on the report with a due date of October 2, 2017. At the request of the Division, on October 2, 2017, the Commission extended the comment period to October 10, 2017, with reply comments due on October 24, 2017. This memo provides the Division's comments to the Company's progress report.

BACKGROUND

On August 22, 2016, the Commission approved the Settlement Stipulation in Docket No. 16-057-01, In the Matter of the Joint Notice and Application of Questar Gas Company and Dominion Resources, Inc. of Proposed Merger of Questar Corporation and Dominion Resources, Inc. The settlement stipulation identified 57 individual commitments that were agreed to by the

Company. Paragraph 36 of the stipulation identifies one of the commitments and specifies a requirement for the Company to develop and provide integration progress reports. This commitment calls for the Company to work with the Division and the Office of Consumer Services (OCS) to develop the integration reporting requirements and will include transition and transaction costs. The first report was filed by the Company on April 17, 2017 and covered the period ending December 31, 2016. Additional reports are to be provided by the Company on a quarterly basis thereafter until the conclusion of the next general rate case. The current filing represents the second time integration reports have been filed and include information from the first quarter of 2017, along with additional information for year-end 2016 that was not available at the time of the April 17, 2017 filing. The Division will not attempt to address each of the merger commitments but has identified a few items of concern that should be addressed by the Company in future reports.

DISCUSSION

The quarterly filings that have been prepared to date include a number of attached schedules and exhibits. The schedules and attachments with each filing will likely change depending on the timing of the filing and depending on when specific information is available. While the same information will not be available with each filing, it is the Division's recommendation that those items that will be included in all of the filings should have the same attachment numbering sequence. For example, the report that identifies the transaction and transition cost to date is identified as Exhibit 8 in the first filing but is has been included as Exhibit 12 in the second filing. The report that identifies the O&M and A&G cost is identified as Exhibit 9 in the first filing but is included as Exhibit 13 in the second filing. Having a consistent reference number would allow parties to more easily compare the reports between the different reporting periods and may help avoid confusion.

Some of the exhibits provided in the second quarter 2017 report include year-end 2016 financial information. Since some of the year-end 2016 information was provided in the previous filing, this memo will refer to both the first and second quarter filings. The items below are specific items to be addressed by the Company or concerns regarding the content of the reports provided.

DEU Exhibit 12 is a list of the 2017 year-to-date cost allocation for transaction and transition costs that have been allocated to the various cost centers or operating entities. This report is helpful to monitor the transaction and transition cost allocation to the various entities but includes the information for only the first six months of 2017. Since a large portion of these costs may have been expended in prior periods, it would be helpful to see how previous costs have been allocated. In future reporting the Division would recommend that the Company include the cost allocation for each cost center or operating entity for both the current year as well as the total of all transition and transaction costs for each entity since the merger. This same report is identified as QGC Exhibit 8 in the first quarter integration report and includes the total transition and transaction costs for year-end 2016. While the Exhibit is marked as Exhibit 8, it was filed as Exhibit H with the PSC. It is confusing when the same report was included as Exhibit 12 for 2017, Exhibit 8 for 2016 and filed as Exhibit H.

DEU Exhibit 15 in the current filing is the 2016 audited financial report for Wexpro. Page 2 of the Consolidated Financial Reports for Wexpro includes the operating expenses and identifies a Merger and Restructuring cost of **$12.3 million** for 2016. This is the first time that the Wexpro financial information has been included, however the merger cost are different than the 2016 merger cost included in Exhibit 8 of the first quarter integration report. Exhibit 8, Column H, Line 19 identifies the 2016 merger cost for Wexpro of **$10.6 million**. The Company explained that the $1.7 million difference is due to cost cuts that were planned by Wexpro prior to the merger. It is unclear why the financial reporting has identified the additional amount as a merger related cost and regulatory reporting has not. The Division will continue to review this issue and believes that it is important to have the financial reporting for Wexpro so that a comparison of the merger costs identified by the Company can be performed. This concise information provides the Division with the ability to review the merger costs included in the audited reporting with the cost identified by the Company in the first quarter Exhibit 8 as merger costs.

DEU Exhibit 16 is a 190 page FERC form 2 for Dominion Energy Questar Pipeline's year-end 2016 financial report. This is the only financial information that the Company has provided for Questar Pipeline and it is significantly different than the pre-merger financial reporting that was previously available and included with the Securities and Exchange Commission (SEC) Form

10-K and 10-Q. The 2016 transaction and transition costs for Questar Pipeline identified for year-end 2016 in Exhibit 8 of the first quarter reporting cannot be verified or found in the FERC forms provided. DEU Exhibit 12 includes the second quarter transaction and transition costs allocated for Questar Pipeline but the Company has not provided the source of these costs or provided supporting financial reports. Since the transaction and transition costs are specifically identified in the merger agreement, the Division would recommend that the Company provide the financial reports in order to validate the accuracy of the costs allocated to Dominion Energy Questar Pipeline.

DEU Exhibit 12 is a breakdown of the year-to-date transition and transaction cost allocation for the operating entities and cost centers. Column D (Other Non DM) has been allocated $152,826 in transition and transaction costs that cannot clearly be identified to a specific entity. In Exhibit 8 of the first quarter report, this column and the associated cost was identified as an allocation to Questar Fueling. This entity was sold to American Natural Gas (ANG) on December 16, 2016 and is no longer part of Questar. The Division has been unable to determine the operating entity or cost center to which this portion of the cost has been allocated.

Column E of the same report is identified as Dominion Energy Questar and shows an allocated cost of $2.9 million for year-to-date 2017. In the previous report this was identified as Questar Corporation and totaled $41.9 million for year-end 2016. It is the Division's understanding that Questar Corporation was dissolved following the merger. The Company should provide verification that the transaction and transition costs that have been allocated to Questar Corporation or Dominion Energy Questar are not re-allocated to Questar Gas through corporate overhead allocation charges.

DEU Exhibit 13 (QGC Exhibit 9 in the First Quarter Report) is a calculation of the year-end 2016 O & M and A & G cost per customer for Questar Gas, Wexpro and Questar Pipeline. Footnote 1 states that the full allocation of Administrative and General cost from DRS has not been included for Questar Gas and Wexpro but the same reference is not included for Questar Pipeline. It is unclear to the Division why all of the A & G cost from DRS have not been included or when the allocation will be available. It is also unclear why the allocation of A & G cost to Questar Pipeline appears to be included. Due to the lack of verifiable financial reporting for Questar Pipeline, the Division cannot validate the cost identified in the report.

DEU Exhibit 14 is Dominion Energy Customer Satisfaction Standards Report (CSSR) for the 2nd Quarter ended June 2017. The Company identifies 3 areas where the Company has fallen below the established standards. The deficiency in meeting these standards may be unrelated to the merger but is a cause for concern. Two of the standards that are deficient are related to customer billing with the third in the customer care. It is the Division's belief that all of these issues are primarily related to the battery failure in the transponders used to gather customer usage. In previous meetings, the Company has indicated that the existing transponders are failing more frequently than anticipated and that the Company is undergoing a transponder replacement program. This is a major effort for the Company and it is not scheduled to be completed until 2019. During the last heating season the Division had a number of customer complaints relating to estimated billing and incorrect meter reading. In most of these cases, the problems relating to estimated billing or incorrect billing has been related to the transponder on the customer meter. This is an ongoing issue that will need to be understood and addressed by the Division and the Commission as we enter the current heating season. It is the Division's recommendation that the Commission order the Company to present at a technical conference to address the reasons for the current transponder failure and the corrective steps that have been completed and those that are planned and have yet to be completed.

CONCLUSION

It is the Division's understanding that the intent of the quarterly filing is to monitor the integration activity and the costs associated with the merger of Questar and Dominion. The quarterly filing does not require Commission acknowledgement or approval but is intended to monitor any changes that may occur that could impact rates, customer service or system reliability. In order for the Division or other parties to monitor the transaction and transition costs identified, the Company must provide adequate financial reporting for Questar Pipeline in order to compare pre-merger operations with post-merger operations. In order to monitor customer service quality, the Company has established standards and provides a monitoring report. Given the recent deficiency in the service quality standard, the Company should provide additional information to the Commission to address the current transponder replacement program and the associated cost and estimated completion date.

cc: Michele Beck, Director, Office of Consumer Services