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Division of Public Utilities

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ACTION REQUEST RESPONSE

To: Public Service Commission

From: Division of Public Utilities
Chris Parker, Director
Energy Section
Artie Powell, Manager
Doug Wheelwright, Technical Consultant
Eric Orton, Technical Consultant

Date: January 22, 2018

Subject: Action Request Response and Initial Comments Regarding Docket No. 17-057-05.

In the Matter of Dominion Energy Utah's Quarterly Integration Progress Reports.

RECOMMENDATION

The Division of Public Utilities (Division) recommends that the Public Service Commission of Utah (Commission) take no action at this time regarding the Integration Progress Report (IPR) for the third quarter of 2017 submitted by Dominion Energy Utah/Questar Gas Company (Company).

BACKGROUND

On January 31, 2016, Dominion Resources (Dominion) and Questar Corporation (Applicants) signed a merger agreement. On March 3, 2016, the Applicants petitioned the Commission for approval of the proposed merger agreement. On August 22, 2016, the Commission held a hearing regarding the joint stipulation and heard testimony supporting the proposed stipulation. On September 14, 2016, the Commission issued its written order approving the stipulation and thereby the merger.

Paragraph 36 of the stipulation addresses reporting to the Commission on "planned and accomplished" tasks related to the merger. The settlement stipulation identified 57 individual merger commitments that were agreed to by the Company. One commitment called for the Company to work with the Division and the Office of Consumer Services (Office) to develop an Integration Progress Report (IPR). This report would be filed quarterly and would include transition and transaction costs. The first IPR was filed on April 17, 2017 and covered the period ending December 31, 2016. The Division filed its Action Request Response on May 30, 2017. On August 16, 2017 the Company filed its second IPR. The Division filed its comments on October 10, 2017 and the Company filed reply comments on October 24, 2017 concluding with the offer of a technical conference to address the customer service metrics shortfalls mentioned in the Division's memo. On December 4, 2017, the Company submitted its third IPR to the Commission. On December 7, 2017, the Commission issued its Action Request to the Division directing the Division to Review the filing for Compliance and Make Recommendations. Additionally, the Commission pointed out that there is a discrepancy between the IPR and the Company's Results of Operations (ROO) also filed with the Commission and directed the Division to "evaluate these filings and provide a detailed explanation of the transition cost by Month and Reconciliation of these amount with the June 2017 ROO Report transition adjustment amounts." On December 8, 2017, the Commission issued a Notice of Filing and Comment Period directing that comments are due on January 22, 2018 with reply comments due February 8, 2018. On January 9, 2018 the technical conference was held where Company addressed plans to remediate its decreasing customer metrics.

These are the Division's comments and Action Request response to the third IPR.

DISCUSSION

Third Quarter Report

Filed with this third IPR, is:

1) Exhibit 17. A summary of the 2017 Involuntary Severance Plan Summary showing by month the number of positions that have been and will be eliminated by month from September 2017 through December 2018.

2) Exhibit 18. A copy of the Fitch Ratings for Dominion Resources and subsidiaries, including Questar, concluding with a warning that "A downgrade of two notches or more at DRI would also likely trigger a downgrade of Questar…"

3) Exhibit 19. A spreadsheet showing the transaction and transition costs for the Company and subsidiaries for YTD September 30, 2017. Different in this third quarter IPR is the separation of costs creating a third section entitled Allocated Costs. This removed the retention cost in the Questar column from the category of Transition Costs to that of Allocated Costs. The Company believes that as the merger progresses other changes like this might be necessary for clarity. Page two shows these cost for Dominion Energy Questar Pipeline (DEQP) subsidiaries.

4) Exhibit 20. A Power Point presentation from the Company dated October 23, 2017, which outlines the Company's new allocation practices as the merger order directed, stating that "No later than January 1, 2018, Dominion Questar Gas will present and review for informational purposed, Dominion Resources Inc., Cost Allocation manual…"

5) Exhibit 21. A copy of the Customer Satisfaction Standards Report (CSSR) for the third quarter ending September 2017, briefly addressing areas that are not meeting the standards.

Second Quarter Report

In the Division's comments regarding the second IPR, the Division mentioned six areas of concern. Those areas have been satisfactorily addressed by the Company and are no longer at issue.

Total Transition Cost

In this Action Request the Commission specifically directed the Division to examine the "Transition costs related to the merger for the period July 1, 2016 through June 30, 2017" as the Results of Operations (ROO) and the Integration Progress Report's (IPR) numbers do not match. Following the Division's review and information provided by the Company three areas need explanation in order to reconcile the two reports.

1) The time period that the Second Quarter IPR covers,

2) The difference in the Voluntary Severance Program, and

3) The difference in Total Transition Costs.

Regarding the first point, the description on line 18 of the second Quarter IPR "Total Transition Costs for 2016 and 2017" is an incorrect description of the dollar amounts in that particular line. The correct description should be "Total Transition Costs YTD 2017". The numbers reflect the account balances for January 1, 2017 through June 30, 2017 and do not include any of the cost for 2016.

Regarding the second point, the ROO in Docket No. 17-057-06 gave the total for the twelve months ending June 30, 2017 transition cost as $9,428,724, shown in the Transition Tab Column E line 3, entitled Total Transition Costs. Whereas the IPR in Docket No. 17-057-05 DEU Exhibit 12 column B line 18 is titled Total Transition Costs for 2016 and 2017 and shows a total of $5,013,854. This discrepancy is a timing issue. The second quarter IPR covers a period of January 2017 through June 2017, not including 2016, while the ROO covers the twelve months from July 2016 through June 2017. Attached to this memo as Exhibit #1 is a document titled Transition Related Expenses by Month. It shows that the $9,428,724 from the ROO is the June YTD IPR total plus the costs for 2016 (see the totals for columns C and D). This demonstrates that if these two reports covered the same time period the totals would match.

Regarding point three, if the first quarter IPR in Docket 17-057-05 Exhibit 8 (Commission's Exhibit "H") line18 column B, which covers the merger costs through December 2016, is added to the second IPR Exhibit 12 line 18 column B, the Total Transition Costs it would sum to $9,625,648 ($4,611,794 + $5,013,854). We would expect this total to be the same as the ROO total covering the same period. This however, is not the case. The ROO Total Transition Costs for these same 12 months is $9,428,724 while the IPR for the same time frame is $9,625,648 – a difference of $196,924. Following further review it was determined that this $196,924 was incorrectly included in line 17 of the first quarter IPR and should have been included line 1, titled Severance. This effectively increases the line item entitled Total Transaction Costs and decreases the line item entitled Total Transition Costs by the same amount. Therefore, the corrected severance amount (line #1) is $5,644,730 not $5,447,806 as was in the original Exhibit 8 of the first quarter IPR. Likewise, the corrected voluntary severance amount (Line #17) is $3,872,896 not the $4,069,821. The attached Exhibit #2 is a corrected Exhibit #8 provided by the Company.

The result of all these corrections and changes shows that the Total Transition Costs from the ROO of $9,428,724 now matches with the sum of the year ending IPR 2016 Total Transition Costs of $4,414,870 plus the June 30, 2017 YTD Total Transition Costs of $5,013,854 (4,414,870 + 5,013,854 = 9,428,724). Therefore, with the corrected first quarter IPR included, the ROO Transition Costs and the IPR Total Transition Costs now match.

CONCLUSION

The Division finds that the Company has materially met its requirement to report to the Commission its merger progress as required in paragraph 36 of the Stipulation and no action is requested of the Commission. 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 flag any changes that may occur that could impact rates, customer service or system reliability. The Division also notes that this recommendation should not be construed in anyway as an endorsement or preapproval that these costs or actions are prudent, necessary or in the public interest. These issues will be addressed in the next general rate case. Quarterly reports will still need to be filed by the Company until the conclusion of the next general rate case. The Company's letter and attachments meet the requirements for this report.

CC: Kelly Mendenhall, Questar Gas Company
Michele Beck, Office of Consumer Services