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# State of Utah Department of Commerce 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:** June 1, 2018

**Subject:** Comments Regarding Docket No. 17-057-05.

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

### **RECOMMENDATION (No Action)**

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 fourth quarter of 2017 submitted by Dominion Energy Utah/ (Company).

### **ISSUE**

On September 14, 2016, the Commission issued its order approving the acquisition of Questar Gas Company by Dominion Energy. As part of that order, Paragraph 36 of the stipulation was adopted, which addresses reporting to the Commission on "planned and accomplished" tasks related to the merger. The settlement stipulation identified 57 individual 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.

It is the Division's understanding that the intent of the quarterly filing is simply to monitor the integration activity and the costs associated with the merger of Questar and Dominion not to justify such costs nor to seek recovery.

## **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.

On May 1, 2018 the Company filed its "Dominion Energy Utah's 4th Quarter 2017 Integration Progress Report." On May 2, 2018, the Commission issued a Notice of Filing and Comment Period stating that comments on the IPR are due to the Commission on June 1, 2018 with reply comments due on June 18, 2018.

These are the Division's comments for the fourth IPR.

## **DISCUSSION**

### **Fourth Quarter Report**

Each IPR has provided information that the Company purports to show that it is meeting its merger commitments. With this the fourth IPR, the Company includes nine exhibits as follows:

Exhibit 22. A summary of the 2017 Capital Expenditures. This report shows that the Company's Capital Expenditures were \$201.977 million on a Utah basis.

Exhibit 23. A chart representing the Involuntary Severance Plan Summary. This chart shows that 56 positions have been or will be eliminated

Exhibit 24. A copy of the S&P Global Rating of Questar Gas Company. The bottom line is that Questar Gas Company has a BBB+/Stable/A. The target is Single A- range. The current S&P rating is slightly below the target rating. S&P has a cautious outlook based on the ultimate parent's business risks. Moody's rating it at A2 Stable.

Exhibit 25. A copy of the Moody's Investor Services Questar Gas Company Update to Credit Analysis. Moody's rating of Questar Gas Company is at A2 Stable, again with cautions based on the actions of the parent company.

Exhibit 26. A summary of the Company's Charitable Contributions for 2017. This report represents the charitable contributions for 2014 through 2017 ranging from \$1.741 million in 2014 to \$2.788 million in 2017. From the Merger in 2016, through 2017 the Company has increased its charitable giving by over \$1 million per year as promised.

Exhibit 27. A summary of the Transition and Transaction costs of the merger. This specifies that the Transaction Costs thus far are \$100.595 million and the Transition costs thus far are \$21.195 million. Of note is the Transition Costs where Retention Costs went down in 2017 but both Voluntary and Involuntary Severance Costs went up. Also, Curtailment of Supplemental Executive Retirement Plan went up by \$10.005 million, and Curtailment of Pension/Medical/Life Plans was included in 2017 adding \$12.895 million.

Exhibit 28. A copy of the Questar Gas Company 12 months ended 2017 O&M and A&G per customer. Noteworthy on that sheet is that, thus far, these expenses went down from 2016 to 2017. However, Administrative and General Expense "Does not include full allocation of costs from DRS", so we don't have a final number yet. Generally however, expenses have gone down from 2016 resulting in a lower O&M and A&G cost per customer than 2016.

Exhibit 29. A copy of QPC's FERC form 552. Although the title for the exhibit was FERC form 552, FERC form 2 was submitted by the Company. The error was calling it FERC form 552. It should have been labeled FERC form 2.

Exhibit 30. A copy of the Customer Satisfaction Standards Report (CSSR) for the fourth quarter ending December 2017, briefly addressing the two areas that are not meeting the standards which are both apparently caused by Transponder battery failure. Also the first sentence of paragraph incorrectly refers to the CSSR as Exhibit 29. It should be Exhibit 30.

### **Other Issues**

The Division believes it may be premature to draw conclusions about commitment #7. The commitment states, "Dominion Questar Gas will be managed from an operations standpoint as a separate regional business under Dominion with responsibility for managing operations to achieve the objectives of customer satisfaction; reasonable rates; reliable service; customer, public, and employee safety; environmental stewardship; and collaborative and productive relationships with customers, regulators, other governmental entities, and interested stakeholders. Dominion Questar Gas will have its own local operating management located in Salt Lake City, Utah." The Company concludes that: "Dominion Energy continues to comply with the commitment." The issues under investigation in Docket No. 18-057-07, Dominion Energy Utah's Gas Line Coverage Letter, and the resultant order may contradict this conclusion. The Division, therefore, reserves its opinion and recommendations regarding the Company's compliance with Merger Commitment #7.

### **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 or required of the Commission. 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