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Department of Commerce
Division of Public Utilities

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ACTION REQUEST RESPONSE

To: Utah Public Service Commission

From: Division of Public Utilities

Chris Parker, Director
Artie Powell, Manager, Energy Section
Doug Wheelwright, Technical Consultant
Carolyn Roll, Technical Consultant

Date: July 21, 2017

Subject: Docket No. 17-057-06. Action Request from the Commission to review and make recommendations. Questar Gas Company's Results of Operations Report for the Twelve Months Ended December 31, 2016. In the Matter of Questar Gas Company Financial Documents Filed in 2017. Division's Review and Recommendation – No Action.

RECOMMENDATION (NO ACTION)

After a review of the above mentioned report, the Division of Public Utilities (Division) recommends that the Public Service Commission of Utah (Commission) take no action.

ISSUE

On April 17, 2017, Dominion Energy Utah fka Questar Gas Company (Company) filed its December 2016 Results of Operations as called for in the Commission's Order in Docket No. 93-057-01. On April 20, 2017, the Commission issued an Action Request to the Division to review the Report and make recommendations. The Commission asked the Division to report back by

May 22, 2017. On May 17, 2017 the Division requested an extension for additional time to review the Company's results. The Commission granted the extension with a due date of July 21, 2017. This memorandum is the Division's response to that Action Request.

DISCUSSION

The Results of Operations report submitted by the Company is in the same format and uses the same model as previous Results of Operations submitted to the Commission annually and in prior rate cases, the most recent being Questar Gas Company General Rate Case Docket No. 13-057-05. The filing includes both unadjusted and adjusted results on a system average and a Utah average jurisdictional basis. The fully adjusted results include the normalization and annualized adjustments that are consistent with previous Results of Operations and General Rate Cases. A description of each adjustment is included in the filing. The descriptions reference the docket or dockets numbers where the Commission Order resulted in an adjustment to earnings.

On July 20, 2012 a technical conference was held to discuss the 2011 Results of Operations Reports. At that technical conference many of the adjustments were discussed in detail, and as a result of the discussion there was a change made to the Labor Adjustment. That change was incorporated in subsequent reports and in the 2013 General Rate Case. All other adjustments have remained consistent and the State Tax Adjustment has been eliminated since Questar Corporation no longer allocates a portion of state income tax to the affiliates. The details of the adjustments are included in the model that was filed with the report; the Division finds the model to be accurate and consistent.

The Division's review of the Annual Report under this Action Request was done using two review procedures. The first procedure was comparing information given and adjustments made for the year ended December 31, 2015 Annual filing to the same information given and adjustments made for the December 31, 2016 Annual filing. The second procedure was to review and reconcile the year ended December 31, 2016 Annual filing to the Company's SEC 10K filing for the same period. In previous years Division staff requested that the Company prepare a comparison of the actual results to the forecast using the Commission's authorized capital structure and costs approved in Docket No. 13-057-05. The Company included a comparison of the 2016 actual results to the 2016 forecast in the report that was filed with the Commission. That report is also included in this memorandum as Attachment A.

Page 6 of the Annual filing is Utah – DEC 2016 Adjusted Avg Results. This page starts with actual results for Total Company, then shows the adjustments and imputed tax adjustment for Total Company to arrive at Adjusted System Total and the Utah Jurisdiction DNG Related results. The following table provides summary information for comparative purposes. The table also includes the forecasted summary information using the Commission's authorized capital structure and costs approved in Questar's most recent rate case, Docket No. 13-057-05. All numbers are the Utah Jurisdiction DNG Related results amounts ($000,000).

	Dec 2016	**Dec 2015**	**Forecast Dec 2016**[1]
Total Operating Revenues	$ 337	$ 322	$ 333
Total O&M Expenses	$ 128	$ 132	$ 130
Depreciation and Amortization	$ 59	$ 53	$ 60
Taxes Other than Income	$ 20	$ 18	$ 20
Income Taxes	$ 39	$ 35	$ 36
Net Utility Plant	$1,648	$1,474	$1,624
Other Rate Base Accounts	$ (443)	$ (375)	$ (430)
Total Net Rate Base	$ 1,205	$1,099	$1,194
Earned Return on Rate Base	7.61%	7.61%	7.28%

[1] Summary of Attachment A of this memorandum.

Earned Return on Equity	9.51%	9.59%	9.24%

In the Company's last general rate case, the Commission authorized an Earned Return on Equity amount of 9.85% and an Earned Return on Rate Base amount of 7.64%[2]. The Division notes that per the 2016 Annual filing the Company is earning less than its authorized Return on Equity of 9.85%.

For the last General Rate Case the Overall Cost of Capital was as follows:

Component	Percent of Total	Cost	Weighted Average
Long-term Debt	47.93%	5.25%	2.52%
Common Stock Equity	52.07%	9.85%	5.12%
TOTAL	100.00%		7.64%

In this Report the average Capital Structure for the 12 Months ending December 31, 2016 is:

Component	Percent of Total	Cost	Weighted Average
Long-term Debt	45.24%	5.30%	2.40%
Common Stock Equity	54.76%	9.85%	5.39%
TOTAL	100.00%		7.79%

As noted above the second review procedure was to reconcile the Annual results to the Company's SEC Form 10K. If the 10-K results can be reconciled to the Annual Report then the Division can take into account the external auditor's 10K audit opinion on the results shown in the Company's year-end filing. The Division can look to this audit to obtain assurance as to

[2] In the Matter of the Application of Questar Gas Company to Increase Distribution Rates and Charges and Make Tariff Modifications, Docket No. 13-057-05, pg. 34.

accounting correctness and accuracy for Annual Results of Operations based on unadjusted historical information under this review.

Another review procedure was to compare the adjustments made to the Results of Operations for the year ended December 31, 2016 to the adjustments made to the Results of Operations for the year ended December 31, 2015. In the 2015 and 2016 filings, the adjustments are summarized and explained in detail by various categories which are included in the Summary of Adjustments section in the filing. The adjustment section in the filing begins on page 33: Page 33 – Rate Base; Page 38 – Energy Efficiency; Page 40 – Underground Storage; Page 42 – Wexpro Plant; Page 44 – Bad Debt; Page 47 – Incentive Plans; Page 51 – Event Tickets; Page 55 – Advertising; Page 59 – Donations and Memberships; Page 63 – Reserve Accrual; and Page 65 – Labor.

One purpose of the comparison was to note material differences between the years and to determine if the differences were proper. Another purpose was to evaluate the 2016 adjustments to determine if the presentation, explanations, and balances were consistent and accurate and that the assumptions and the computation of the adjustments seemed to be proper and accurate. The Division noted that the adjustments in the various sections were consistent with adjustments that the Company makes to results of operations in its General Rate Case filings.

Based on the Division's comparison analysis and its review of the adjustments, it notes the following.

- Bad Debt Expense adjustment for 2016 was $(1,376,690), while the adjustment for 2015 was $(1,455,354). Only the DNG portion of bad debt is included in the calculations of the Results of Operations. This adjustment annualizes the DNG portion of bad debt experienced during the year to a 3-year average rate of bad debt. The bad debt ratio (net write-offs to total revenue) average for 2016 was 0.20% and the average for 2015 was 0.18%. The bad debt expense related to SNG and Commodity increased from 2015, resulting in an addition to bad debt expense for the DNG portion in 2016 results.

- The Incentive Plan adjustment removes incentive compensation expenses related to financial goals that were either paid directly by Questar Gas Company or allocated from Questar Corporation. Because the incentive plan payouts vary, a three year average of payouts related to operation goals has been used in the calculation of normalized incentive plan expenses. The adjustment for 2016 was $(1,912,367), while the adjustment for 2015 was $(2,605,120). The decrease is due to a decrease in the overall incentive payments in 2016. For Questar Corporation management incentive plan the bonus related to operating goals increased to 55.62% in 2016 from 50.59% in 2015. The employee incentive plans for both Questar Corporation and Questar Gas Company based the bonus paid in 2015 and 2016 on 100.00% of operating goals.
- The Reserve Accrual includes legal liabilities associated with the Company's self-insurance program and is based on a five year average of actual payments made. The adjustment for 2016 was $688,364, while the adjustment for 2015 was $(318,316). The five year average was $162.496 in 2016 and $295,310 in 2015. The Company accrual for legal expense in 2016 was $(525,868) resulting in the adjustment of $688,364 for 2016.
- The Labor Adjustment calculation includes a capitalization ratio, which is a measure of the portion of labor and overhead costs that are capitalized and not currently expensed. The Company uses a five-year average of this ratio for ratemaking and for stating results of operations. This adjustment decreased from $4,524,789 in 2015 to $3,832,194 in 2016. This decrease was due to the difference in the capitalization ratio of the five-year average compared to the current year. In 2016 the five-year average was 56.18% versus 52.40% for the twelve months ending December 2016. The five-year average in 2015 was 58.10% versus 53.77% for the twelve months ending December 2015. The Division notes that on the Labor Annualization Calculations schedule (page 66) The Expense/Capitalization Ratio notes reference "Average 12 Months Ending Dec 2011-Dec 2015" and "Actual 12 Months Ending Dec 2015". The Division verified with the Company that the ratios were calculated correctly using the five-year average of Dec 2012-Dec 2016 and the 12 months ending December 2016.

CONCLUSION

After performing the above procedures and after reviewing the results obtained from those procedures, nothing came to the Division's attention during its review that was of a material significance to indicate any need for modification of the filing or for action to change the Results of Operations as filed.

cc: Michele Beck, Office of Consumer Services
Barrie McKay, Dominion Energy Utah