

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

Pass-Through Application of Dominion Energy Utah for an Adjustment in Rates and Charges for Natural Gas Service in Utah	<u>DOCKET NO. 17-057-20</u> <u>REPORT AND ORDER</u>
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ISSUED: July 13, 2018

SYNOPSIS

The Public Service Commission of Utah (“PSC”) finds and concludes that most of the actions of Dominion Energy Utah (“DEU”) with respect to its entering into two contracts for peak hour services have been reasonable and prudent. The PSC finds and concludes that DEU’s modeling of wind speeds was unreasonable and imprudent, and orders a ratepayer refund based on a disallowance of \$262,000 per year of one of those contracts.

1. PROCEDURAL HISTORY

This proceeding arises out of the October 27, 2017 Stipulated Motion for Entry of Scheduling Order (“Stipulated Motion”) filed by DEU and supported by the Utah Division of Public Utilities (“DPU”) and the Utah Office of Consumer Services (“OCS”). The Stipulated Motion requests the PSC approve a schedule to address two separate firm peaking services agreements (*i.e.*, “Peak Hour Contracts”) DEU executed with Kern River Gas Transmission Company (“KRGTT”) and Dominion Energy Questar Pipeline (“DEQP”).

On November 6, 2017, the PSC issued a Scheduling Order and Notice of Hearing (“Scheduling Order”) adopting the schedule presented in the Stipulated Motion. On November 29, 2017, the PSC conducted a scheduling conference and issued an Amended Scheduling Order and Notice of Hearing (“First Amended Scheduling Order”).

On January 2, 2018, the Utah Association of Energy Users (“UAE”) filed a petition to intervene, which the PSC granted on January 24, 2018.

2. BACKGROUND

a. The Peak Hour Contracts

On May 18, 2017, DEU and KRGT entered into a Firm Peaking Transportation Agreement (“KRGT Contract”) for an equivalent of approximately 100,008 Dth/day¹ to be used during hours of high demand. The contract is effective from mid-November through mid-February during the 2017-2018 and 2018-2019 heating seasons. The contracted capacity expands by the equivalent of 15,000 Dth/day for the 2019-2020 heating season provided a new KRGT gate station is in service, as expected, by 2019. The annual cost for this service is \$874,000. DEU first included the annual cost for this service in its May 1, 2017 Pass-Through Application filed in Docket No. 17-057-07, *Pass-Through Application of Questar Gas Company for an Adjustment in Rates and Charges for Natural Gas Service in Utah*.²

On November 15, 2017, DEU and DEQP entered into a Firm Peaking Transportation Agreement (“DEQP Contract”) for the equivalent of 250,000 Dth/day to meet the balance of DEU’s peak hour need. In order to provide this service for DEU, DEQP will reserve and utilize capacity on the Overthrust Pipeline along with variable storage withdrawals to increase line pack on DEQP’s system that can be used to meet DEU distribution system’s fluctuating demand requirements.³ Similar to the KRGT Contract, DEU has subscribed to this service from mid-November to mid-February. The annual cost for this service is \$1,487,815. DEU first

¹ 100,008 Dth is currently the maximum capacity KRGT will provide, using line pack on its pipeline.

² Peak hour contract costs have also been the subject of PSC consideration in Docket No. 17-057-09, *Application of Dominion Energy Utah to Make Tariff Modifications to Charge Transportation Customers for Peak Hour Services*.

³ See DEU Direct Testimony of Schwarzenbach at lines 212-215.

included the annual cost for this service in its October 2, 2017 Pass-Through application filed in the instant docket.

b. DEU's Support for the Peak Hour Contracts

DEU testified there were three decisions leading to the procurement of firm peaking services for which prudence under Utah Code Ann. § 54-4-4 is applicable.⁴ The decisions were to: 1) calculate DEU's design peak day requirements; 2) calculate DEU's design peak hour (unsteady-state modeling) requirements; and 3) identify a solution to fulfill the peak hour requirements revealed by the design peak hour calculation.

DEU implemented a two-step process to determine its requisite level of firm peaking services. First, DEU calculates a design peak day by summing transportation customer demand and firm sales demand. According to DEU, the total transportation customer demand is assumed to be the total of transportation customers' contractual firm demand at the time the determination is made; any volumes above those contractual firm limits are available only on an interruptible basis during peak weather conditions.

DEU determines firm sales demand by estimating the statistical relationship between demand and certain variables known to affect it. In this instance, DEU conducts a multivariate regression analysis of historic daily firm sales data since 2004 using the following independent variables: temperature (based on a -5 degree Fahrenheit ("F") minimum daily mean temperature, or equivalently, 70 Heating Degree Days ("HDD"s), mean wind speed (26 miles per hour),

⁴ See June 12, 2018 Hearing Transcript at 8:1-10:2.

maximum wind gust speed (47 miles per hour), day of the week (Monday through Thursday, non-holiday), and prior-day usage (882,609 Dth).⁵

In the second step, DEU's System Planning and Analysis Group uses the design peak day estimate as a determinant in its unsteady-state models to simulate and forecast DEU's hourly needs⁶ on its high pressure distribution system, particularly during the design peak hour on the design peak day.⁷ DEU asserts that if the PSC determines that DEU's design peak day calculation is reasonable and in the public interest, then the design peak hour model must also be reasonable.⁸ DEU's two-step approach results in an estimated design peak day need of 1,342,344 Dth, which implies design peak hour need of 340,375 Dth/day, for the 2017-18 heating season.⁹

According to DEU, the design peak hour model indicates that during the peak hour on high-use days, usage on DEU's system typically exceeds the daily average by approximately 17 percent.¹⁰ DEU maintains that without additional firm capacity provided by firm peaking services, or its equivalent, during the design peak hour, the DEU system will experience potentially unsustainable pressure losses.¹¹ DEU confirms that the provisions of the Peak Hour Contracts will work effectively on both upstream pipelines.¹²

DEU asserts the PSC's determination in this matter should be based on what DEU knew at the time it made the decisions: that its model was sound and that no parties had previously

⁵ See DEU Direct Testimony of Landward at lines 64-80.

⁶ In 2010, DEU began unsteady-state modeling (discrete hourly flows), in addition to steady-state (daily average flows) modeling, of its high-pressure system. See DEU Direct Testimony of Platt at lines 32-37.

⁷ See *id.* at lines 40-42.

⁸ See June 12, 2018 Hearing Transcript at 9:15-18.

⁹ See DEU Direct Testimony of Platt, at lines 141-142.

¹⁰ See *id.* at lines 44-49.

¹¹ See *id.* at lines 61-64. See also DEU Exhibit 2.3.

¹² See DEU Direct Testimony of Schwarzenbach at lines 196-197.

taken issue with the model assumptions. DEU has utilized this model for many years, and until Docket No. 17-057-09, no party had raised any concerns about the model or claimed that the model required revisions. DEU maintains that at the time the decisions to procure firm peaking resources were made, the model was uncontested and is one reasonable way to estimate design peak day demand.¹³

3. POSITIONS OF THE PARTIES

The DPU testifies that both Peak Hour Contracts appear to be an expensive, unnecessary purchase to forestall a problem that may not exist, or for which other solutions might be found. The DPU finds fault in the accuracy of the underlying assumptions DEU relied on to calculate its design peak day requirement and the purported need for the Peak Hour Contracts. The DPU argues that the Peak Hour Contracts are not just, reasonable, or in the public interest.¹⁴

Generally, faults catalogued by the DPU addressing DEU's design peak day modeling include the following assertions: (a) the combination of independent variables (i.e., "regressors") used in the multivariate regression model was unreasonable; (b) design peak day assumptions DEU relied on to calculate the design peak day were unreasonable; and (c) the range of data used to model design peak day is unrepresentative of heating season behavior. The DPU also argues that modeling usage at the Lake Side plant based on Lake Side's usage history instead of assuming an even flow during peaking periods is the more reasonable approach. In light of the above concerns, the DPU states it is unable to evaluate the reasonableness of DEU's design peak day estimate and asserts the Peak Hour Contracts are not in the public interest. The DPU

¹³ See DEU Rebuttal Testimony of Mendenhall at lines 43-46.

¹⁴ See DPU Surrebuttal Testimony of Wheelwright at lines 123-125.

suggests DEU consider system enhancements, such as compressor installations or high-pressure feeder line enhancements. The DPU adds that system enhancements would provide DEU with tangible, controllable assets for the life of that asset.¹⁵

The OCS testifies that DEU has presented some necessary evidence, but the evidence was inadequate for the OCS to recommend that the total contractual amounts of DEU's Peak Hour Contracts is in the public interest. According to the OCS, the contractual amounts of the Peak Hour Contracts are the result of modeled design peak day conditions that are unreasonable, overly conservative, and unlikely to occur. The OCS supports a revision to DEU's design peak day model and assumptions. As a result of its analysis, the OCS claims DEU's modeling reveals the design peak day estimate is overstated by approximately 89,381 Dth/day, assuming a prior-day demand input level of 1,036,693 Dth¹⁶ (or by 126,206 Dth/day, assuming a prior-day demand input level of 882,609 Dth/day). This results in an overstated design peak hour demand of approximately 27,000 Dth/day, assuming a prior-day demand input level of 1,036,693 Dth (or 44,000 Dth/day, assuming a prior-day input level of 882,609).

The OCS also submits that DEU has about 80,000 Dth/day in unaccounted on-system line pack as an additional firm peaking resource, implying a total overstatement of between 107,000 Dth/day¹⁷ (assuming the higher prior-day demand assumption) and 124,000 Dth/day (assuming the lower prior-day demand assumption) in design peak hour demand. In addition to a revised

¹⁵ See DPU Direct Testimony of Orton at lines 208-254.

¹⁶ In his direct testimony, Mierzwa estimates DEU's design peak day demand is overstated by 126,206 Dth/day by assuming, among other things, DEU's initial prior-day demand input level; See OCS Direct Testimony of Mierzwa at lines 330-338. In surrebuttal, Mierzwa accepts a proposal made in DEU rebuttal testimony to increase the prior-day demand model input, resulting in a reduction to the OCS's revised design peak day/hour estimates. See OCS Surrebuttal Testimony of Mierzwa at lines 72-79.

¹⁷ See OCS Surrebuttal Testimony of Mierzwa at lines 219-225.

design peak day estimate, the OCS also requests additional guidance from the PSC on how to address similar issues that may arise in future DEU Pass-Through proceedings.

The OCS maintains DEU's design peak day modeling was deficient because the regression model should, but does not, account for the number of firm sales customers and should account for energy efficiency and conservation impacts on firm sales usage.¹⁸ In addition, the OCS asserts DEU's design peak day wind speed assumptions should be adjusted to reflect historical trends,¹⁹ and DEU should limit its actual daily usage data to only recent core winter seasons.²⁰ Additionally, the OCS recommends that going forward, DEU should compare the performance of its model under recent actual weather conditions to ensure the model's eventual estimates are reasonable. The OCS asserts its proposed revisions to the design peak day model result in reasonable assumptions, reasonable regressors, and representative model data.

4. LEGAL STANDARDS

Utah Code Ann. § 54-4-4 ("Statute") authorizes the PSC to investigate contracts or practices of DEU. The Statute further provides that if, in our determination of just, reasonable, or sufficient rates, we consider the prudence of an action taken by DEU or an expense incurred by DEU, we must apply the following standards in making the prudence determination:

- i) ensure just and reasonable rates for DEU's retail ratepayers in Utah;
- ii) focus on the reasonableness of the expense resulting from DEU's actions judged as of the time the action was taken;
- iii) determine whether a reasonable utility, knowing what DEU knew or reasonably should have known at the time of the action, would reasonably have incurred all or some portion of the expense, in taking the same or some other prudent action; and

¹⁸ See OCS Direct Testimony of Mierzwa at lines 72-75.

¹⁹ See *id.* at lines 68-71.

²⁰ See *id.* at lines 76-81.

- iv) apply other factors as determined by the PSC to be relevant, consistent with standards specified in § 54-4-4.

Additionally, the Statute allows us to find an expense fully or partially prudent, up to the level that a reasonable utility would reasonably have incurred. The statute does not offer guidance as to whether the standards should be given equal weight or whether one or more should be more significant in our analysis, and includes as the last standard a “catch all,” instructing the PSC to consider any other factor it determines is relevant on condition that the factor is consistent under § 54-4-4. We conclude that the primary directive of this statute requires us to evaluate whether DEU acted reasonably and prudently, based on what DEU knew or should have known, when DEU entered into the KRGT Contract and the DEQP Contract. This non-specific statutory language provides us with broad subjective discretion to evaluate the individual facts of this case.

We find it impracticable and inefficient to attempt to summarize all the parties’ positions or to discuss every point raised in support of or in opposition to the Peak Hour Contracts. Instead, we endeavor to address the evidence and points we find most salient and on which we rely in making our findings and conclusions. The absence of discussion of any particular portion of testimony or evidence should not be construed as our declining or failing to consider it in reaching our determination.

5. FINDINGS AND CONCLUSIONS ON DESIGN PEAK DAY MODELS AND INPUTS

We conclude as an initial matter that a utility’s prior use of a particular modeling method without objection from parties is relevant to our consideration of whether that method is

reasonable, but is not determinative. A party's decision not to contest an issue in one context does not necessarily impair that party's ability to do so in a different context.

Additionally, we conclude that our determinations in this order related to reasonableness and prudence are to some extent informed by the level of utility costs involved in this docket. We expect that a reasonable utility would perform a higher degree of due diligence in creating defensible modeling practices for a larger expense than it would perform for a smaller expense. This concept inherently requires some subjectivity, but we conclude it must play some role in our evaluation.

a. We find that DEU has acted reasonably by planning for peak day events.

Within its obligation to provide safe and reliable utility service, we find that DEU has acted reasonably by planning for peak day events. Sworn testimony at the hearing described the severe practical consequences that result from the kind of loss of natural gas service that can occur if DEU were not prepared for a peak day event. We will not restate that testimony in this order, but find that a loss of natural gas pressure in DEU's system below certain levels, particularly on a cold winter day, could result in economic and safety impacts on customers. Additionally, a total loss of natural gas service would require an extended investment of time and resources by DEU to safely prepare homes and appliances to receive natural gas service when it becomes available. Unlike in the electric utility context, natural gas service cannot be resumed safely without a physical inspection of each customer location that lost service.

b. We find DEU's use of multivariate regression for peak day forecasting to be reasonable.

We find DEU's planning for reliability during peak weather conditions is reasonable on its face. No party disagrees with multivariate regression techniques as a means to estimate design peak needs for resource planning. The record suggests regression techniques are a common and appropriate methodology to estimate design peak day demand. We conclude that DEU's approach in estimating design peak day firm sales usage is reasonable.

c. We find that in this context, most elements of DEU's design peak day modeling assumptions, estimates, and regressors²¹ are generally reasonable.

We recognize reasonable minds could endlessly disagree with the design peak day model specifications. However, we find that the peak day modeling process employed by DEU is generally reasonable. The DPU argues there is no theoretical justification for the inherent modeling risks of using third- and fourth-order polynomials of the HDD regressor.²² The DPU claims that the prior-day usage regressor introduces significant autocorrelation bias in the model for which DEU does not adjust,²³ and that DEU's prior-day demand calculation method is too inaccurate, overly complex, may underestimate demand, and requires significant modification if it is to be used as a regressor.²⁴ The OCS states DEU's model may be underestimating design peak day demand and advises including regressors representing number of customers served and impacts from energy efficiency and conservation programs.²⁵

²¹ Another name for the independent variables of a regression equation, which term we employ throughout the remainder of this document for expository efficiency.

²² See DPU Second Corrected Direct Testimony of Ditzel at lines 370-387.

²³ See *id.* at lines 408-418.

²⁴ See *id.* at lines 313-316.

²⁵ See OCS Direct Testimony of Mierzwa at lines 72-75.

DEU replies that the use of third- and fourth-order polynomial HDD regressors is reasonable because the relationship between temperature and natural gas usage is not linear.²⁶ In response to the DPU's comments on prior-day demand, DEU counters that demand inertia from the day preceding a design peak day influences demand on the design peak day,²⁷ and that greater unexplained variation in the model would result if DEU failed to include prior-day usage as a model regressor. DEU concedes that the OCS's revised design peak day model results in a reasonable, albeit lower-range estimate. We find that DEU's evidence and testimony in response to the DPU's and OCS's concerns demonstrate that DEU's modeling assumptions, estimates, and regressors represent a generally reasonable approach. The intuitive existence of other potentially reasonable outcomes does not negate this finding. The OCS also claims DEU's high end, worst-case scenario is unreasonable.²⁸ Considering the significant consequences of a loss in pressure or a total loss of natural gas service, we find that DEU was reasonable to account for a conservative safety factor in its modeling.²⁹

We decline to adopt a single modeling methodology as the only reasonable method. We find that regulated utilities must maintain some degree of operational discretion and flexibility, otherwise they could not prevent safety and reliability issues as ably as their ratepayers expect. DEU's concession that other modeling results are also reasonable strengthens that finding. Additionally, different levels of utility costs require different levels of rigor in the modeling, and

²⁶ See June 12, 2018 Hearing Transcript at 28:2-15.

²⁷ See DEU Rebuttal Testimony of Landward at lines 87-92.

²⁸ See June 12, 2018 Hearing Transcript at 226:6-13.

²⁹ See *id.* at 20:10-14.

we find that in this instance DEU's modeling assumptions, estimates, and regressors were reasonable in relation to the level of utility costs being evaluated.

d. We find that DEU's methods of modeling of wind speed were unreasonable.

We find that the record and evidence demonstrate that DEU's modeling of wind speeds was unreasonable. We find that DEU's assumptions related to wind speeds during a cold front are anecdotal and not supported by research.³⁰ Even more significantly, we find that DEU's modeling based on a rare temperature event occurring on the same day as a rare wind event to be similarly problematic.³¹ Our finding does not mean that DEU should not have used wind speed as a modeling input. Our finding similarly does not mean that DEU should not model to prepare for reasonable worst-case scenarios involving both temperature and wind speed.

Nevertheless, we find that in this instance DEU acted unreasonably in the way it selected its wind speed modeling inputs. As we have stated previously, we decline to adopt a single modeling method as the only reasonable approach. In this instance, though, we find DEU's anecdotal conclusions and assumptions of temperature and wind speed events occurring simultaneously to be unreasonable. We conclude that we must modify DEU's cost recovery consistent with our finding that DEU modeled wind speed in an unreasonable way.

e. We find that in this instance DEU reasonably accounted for available line pack.

The OCS argues DEU failed to account for approximately 80,000 Dth/day in line pack available to partially meet the design peak day need, as originally provided by DEU in Docket No. 17-057-09 (and affirmed by OCS witness Mierzwa in Direct and Surrebuttal Testimonies).

³⁰ See *id.* at 44-45; 143-144; 214.

³¹ See *id.* at 29; 49-50; 68; 71; 76; 143-144; 151.

In response, DEU indicated both that it cannot ever utilize all of its line pack, as that would result in a loss of pressure and an inability to serve its customers, and that its modeling accounts for the line pack DEU considers appropriate to utilize.³² We recognize the validity of DEU's concern that use of line pack at an excessive level may cause a loss in system pressure that would jeopardize service. The record in this docket is insufficient to determine that DEU failed in a quantifiable way to maximize the use of line pack in its design peak day planning assumptions. Therefore we find DEU's evaluation of line pack in this instance, to justify the expenditure levels at issue in this docket, are reasonable. We expect that in plans to meet future peak day and peak hour need, particularly if the proposed expenses are higher than those at issue here, DEU must demonstrate that its planning includes use of line pack to mitigate peak day and peak hour requirements.

f. We find DEU's assumption that all transportation firm limits will be reached on a design peak day (including at Lake Side) is reasonable.

We find reasonable DEU's assumption that all transportation customers will be consuming up to their firm daily limits and that DEU will be held to its contractual obligations to meet its transportation customers' demand during the design peak hour. The DPU argues that actual demand at Lake Side contributes to the hourly swings on the distribution system that DEU fails to model, potentially leading to an incorrect estimate of the peak day planning requirement and the need for peak hour service.³³ DEU states that while the actual daily usage may not match the usage limit on Lake Side's contract, DEU is still obligated to meet the contractual requirements. It would not be reasonable for DEU to rely on the possibility that Lake Side will

³² See *id.* at 82.

³³ See DPU Surrebuttal Testimony of Wheelwright at lines 82-84.

burn less than that contract requirement during a peak hour, and DEU must be prepared to serve the Lake Side power plant, up to the amount stated in the contract, even during a peak hour.³⁴

g. We find the Peak Hour Contracts generally to be a reasonable response to peak hour needs in light of alternatives considered.

DEU testifies that the Peak Hour Contracts provide the additional requisite services to meet DEU's peak hour needs with the greatest flexibility at the lowest reasonable cost.

Supporting its decision to procure the Peak Hour Contracts, DEU modeled and compared seven alternatives to the firm peaking services solutions on the basis of cost, safety, reliability, risk, and affiliate concerns among each solution.³⁵ The DPU argues DEU should have pursued, and in some cases did pursue, system enhancements or alternative resources to mitigate any need for design peak hour demand.³⁶ OCS witness Mr. Mierzwa, nevertheless, takes no issue with DEU's conclusion that "[t]he Firm Peaking Services are the most reliable and cost effective solutions based on this evaluation."³⁷ Having reviewed DEU's evaluation of alternative solutions to the peak hour need, we find that in this instance DEU evaluated alternatives, and chose Peak Hour Contracts in connection with that evaluation, in a reasonable way.

h. We find some level of firm peaking services is reasonable and, therefore, some associated level of Peak Hour Contracts expenses prudently incurred.

Our findings that DEU acted reasonably in some, but not all, respects requires us to determine what level of cost recovery is appropriate in light of those findings. We consider OCS witness, Mr. Mierzwa, to have provided alternate modeling that is useful in reaching that

³⁴ See DEU Rebuttal Testimony of Schwarzenbach at lines 60-64.

³⁵ See DEU Exhibit 3.8 and DEU Proprietary Exhibit 3.12.

³⁶ See DPU Direct Testimony of Orton at lines 209-254.

³⁷ OCS Direct Testimony of Mierzwa at lines 368-370.

conclusion. Recognizing that Mr. Mierzwa's alternate modeling changed inputs in addition to the wind speed inputs we have found to be unreasonable, we find that his alternate modeling is the best evidence in the record of what would have been a more reasonable approach. We give significant weight to Mr. Mierzwa's alternate modeling based both on his professional experience and the apparent reasonableness of his wind speed modeling assumptions.³⁸

Because the only area in which we have found DEU to have modeled unreasonably and is in relation to wind speeds, we conclude it would be inappropriate to deny DEU recovery of all of the costs of both contracts as proposed by the DPU, since both contracts were based on a great deal of reasonable planning and modeling. Evaluating Mr. Mierzwa's alternate modeling, using reasonable wind speed assumptions, the estimated design peak day need is reduced by 126,206 Dth/day,³⁹ thus reducing the design peak hour demand by 44,000 Dth/day. This implies DEU was imprudent in acquiring any level of firm peaking services above 306,000 Dth/day.

Based on those modeling results, we conclude that DEU acted reasonably in entering the KRGT Contract. We also conclude that it was reasonable for DEU to decide that an additional contract was needed. Mr. Mierzwa's alternate modeling does not support the OCS's proposed conclusion that the entire DEQP Contract was imprudent. Instead, Mr. Mierzwa's modeling indicates that the DEQP Contract was larger than a prudently incurred contract would have been.

We recognize the imprecise nature of attempting to evaluate what a smaller contract with DEQP would have cost. A request for proposal process and contract negotiation make such a calculation imprecise. Nevertheless, the other options are even more untenable. We cannot allow

³⁸ See June 12, 2018 Hearing Transcript at 22-23; 38; 214-218.

³⁹ We apply the OCS's initial proposed model revisions with an assumed 882,609 Dth/day of prior-day usage. See OCS Direct Testimony of Mierzwa at lines 282-284.

recovery of all costs associated with a contract we have concluded to be for a larger volume than is reasonable. Similarly, it would be inappropriate to disallow all costs associated with the DEQP contract, as the OCS suggests, because even Mr. Mierzwa's alternate modeling indicates a need beyond the KRGT Contract.

Considering all of those factors, we conclude that the outcome based on the best available evidence in the record, and best reflecting the nature of DEU's planning and modeling that were, and were not, reasonable, is to estimate the amount of the DEQP Contract that should be disallowed based on Mr. Mierzwa's modeling assumptions. According to Mr. Mierzwa's alternate modeling, the design peak hour demand estimate was overstated by 44,000 Dth/day.⁴⁰ This is equal to approximately 18 percent of 250,000 Dth/day of total volumetric resources provided by the DEQP Peak Hour Contract. We conclude that an 18 percent adjustment is the most appropriate to effectuate our finding with respect to DEU's modeling of wind speeds. Applying this 18-percent adjustment factor to the total DEQP Contract costs yields approximately \$262,000. This amount shall be returned to DEU ratepayers in a manner to be determined in the next Account 191 filing.

6. PROCESS GUIDANCE

The OCS requests general guidance from the PSC regarding the proper process for new issues arising in pass-through proceedings. We find that the way this docket proceeded appears to demonstrate that the current process adequately addressed the Peak Hour Contracts. When DEU made its Account 191 filing on October 2, 2017, the application called out the existence of

⁴⁰ Assuming a prior-day demand input level of 882,609 Dth in the OCS's version of DEU's design peak day model.

the Peak Hour Contracts.⁴¹ Subsequently, parties identified a need to evaluate the prudence of the Peak Hour Contracts separate from the DPU's typical audit of Account 191 interim rates.

Considering the way this docket developed, we conclude that the Account 191 process worked appropriately in this instance. We do not find that a need exists currently to establish additional procedural guidelines. DEU's Utah Natural Gas Tariff contains a requirement for 60 days prior notice when certain types of costs or changes are included in an Account 191 filing for the first time.⁴² No party in this docket alleged DEU did not comply with that tariff provision, and we see no reason to conclude those existing requirements do not sufficiently address the concerns expressed by the OCS.

ORDER

1. We find DEU to have acted reasonably in most aspects of its planning, modeling, and executing the Peak Hour Contracts.
2. We find DEU to have acted unreasonably in the way it modeled wind speeds in its determination of its peak hour needs.
3. We conclude that all costs associated with the Peak Hour Contracts are prudent with the exception of \$262,000 each year of the DEQP Contract, which we conclude to be imprudent.

⁴¹ See October 2, 2017 DEU Pass-Through Application, Docket No. 17-057-20, at 6, paragraph 7.(d).

⁴² **"191 ACCOUNT ENTRIES:** The Company shall provide 60 days prior notice of 1) an inclusion of a new account or the first time inclusion of other new material items, 2) the first-time inclusion of material costs to be included in approved FERC accounts 759 and 813, and 3) any material change involving the exclusion of costs or revenues previously recorded within Account 191 for balancing account purposes. The notice may be by letter, application to the Commission, or in a pass-through filing made 60 days prior to the requested effective date. All such entries are provisional and subject to Commission approval, prior to their inclusion in any rate change made through the 191 Account process."

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4. We disallow recovery of \$262,000 for each year the DEQP Contract is in effect.
5. DEU shall adjust the Account 191 balance to reflect the disallowance we have ordered.
6. This order does not modify the DPU's requirement to complete its Account 191 audit, except that the costs associated with the Peak Hour Contracts shall not be subject to further adjustment in that audit.

DATED at Salt Lake City, Utah, July 13, 2018.

/s/ Thad LeVar, Chair

/s/ David R. Clark, Commissioner

/s/ Jordan A. White, Commissioner

Attest:

/s/ Gary L. Widerburg

PSC Secretary

DW#303482

Notice of Opportunity for Agency Review or Rehearing

Pursuant to §§ 63G-4-301 and 54-7-15 of the Utah Code, an aggrieved party may request agency review or rehearing of this Order by filing a written request with the PSC within 30 days after the issuance of this Order. Responses to a request for agency review or rehearing must be filed within 15 days of the filing of the request for review or rehearing. If the PSC does not grant a request for review or rehearing within 20 days after the filing of the request, it is deemed denied. Judicial review of the PSC's final agency action may be obtained by filing a petition for review with the Utah Supreme Court within 30 days after final agency action. Any petition for review must comply with the requirements of §§ 63G-4-401 and 63G-4-403 of the Utah Code and Utah Rules of Appellate Procedure.

CERTIFICATE OF SERVICE

I CERTIFY that on July 13, 2018, a true and correct copy of the foregoing was served upon the following as indicated below:

By E-Mail:

Jennifer N. Clark (jennifer.clark@dominionenergy.com)
Dominion Energy Utah
Cameron L. Sabin (cameron.sabin@stoel.com)
Stoel Rives LLP
Counsel for Dominion Energy Utah

Kelly Mendenhall (kelly.mendenhall@dominionenergy.com)
Austin Summers (austin.summers@dominionenergy.com)
Dominion Energy Utah

Gary A. Dodge (gdodge@hjdllaw.com)
Philip J. Russell (prussell@hjdllaw.com)
Hatch, James, Dodge, P.C.
Counsel for the Utah Association of Energy Users

Patricia Schmid (pschmid@agutah.gov)
Justin Jetter (jjetter@agutah.gov)
Robert Moore (rmoore@agutah.gov)
Steven Snarr (stevensnarr@agutah.gov)
Assistant Utah Attorneys General

Erika Tedder (etedder@utah.gov)
Division of Public Utilities

By Hand-Delivery:

Office of Consumer Services
160 East 300 South, 2nd Floor
Salt Lake City, UT 84111

Administrative Assistant