State of Utah
DEPARTMENT OF COMMERCE
Office of Consumer Services

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To: Public Service Commission of Utah

From: Office of Consumer Services
Michele Beck, Director
Cheryl Murray, Utility Analyst

Date: July 18, 2018

Subject: Application of Dominion Energy to Provide the Impacts of the New Federal Legislation Titled: "An Act to Provide For The Reconciliation Pursuant To Titles II and V Of The Concurrent Resolution Of The Budget For Fiscal year 2018" (Tax Reform Act). Docket No. 17-057-26

Background

On June 1, 2018 the Public Service Commission (Commission) issued an order memorializing its bench ruling issued at hearing on May 24, 2018, approving a settlement stipulation (Stipulation) related to changes in the federal income tax rate from 35 percent to 21 percent. The Stipulation was entered into by Dominion Energy Utah (Dominion or Company), the Division of Public Utilities (Division), the Office of Consumer Services (Office) and the Utah Association of Energy Users (UAE). The Stipulation resulted in a $14.5 million annual revenue requirement decrease, effective June 1, 2018 to be returned to customers in the form of a surcredit. The Stipulation also required that, on or before July 1, 2018, the Company would file proposed tariff sheets, to be effective August 1, 2018 providing a second tax related surcredit to customers.

The Office enlisted the consulting services of revenue requirement expert and CPA, Donna Ramas, to assist us in our review of the Company's filing. This memo is informed by the review Ms. Ramas conducted for the Office.

Proposed August 1, 2018 Surcredit (Tax Reform Surcredit 2)

The aforementioned Stipulation required that effective August 1, 2018 and continuing through July 31, 2019, Dominion shall provide an additional tax-related surcredit, to be applied as twelve monthly credits to customer bills, to return to customers the excess income taxes collected by Dominion from January 1, 2018 to May 31, 2018, plus carrying charges.

On July 2, 2018[1], Dominion filed with the Commission supplemental information and motion to modify and replace tariff schedules to return to customers tax related amounts collected between January 1, 2018 and May 31, 2018. The Company identifies this additional surcredit as Tax Reform Surcredit 2.

Calculation of Tax Reform Surcredit 2

The Company calculated the Tax Reform Surcredit 2 by using actual billing determinants from January 2018 through May 2018 and multiplying them by the surcredit approved by the Commission in its June 1, 2018 order. The Company states that "this calculation provides the reduction that would have occurred had the first tax surcredit taken effect on January 1, 2018 rather than June 1, 2018." The Company then applies the interest rate calculation associated with monthly credit balances. The Company "is treating the credit as it does in its other balancing accounts (such as the 191, energy efficiency, or CET accounts). The annual interest rate as shown in Tariff Section 8.05[2] is 4.19%." Based on its calculations the Company will return $9.5 million to customers through the Tax Reform Surcredit 2.

Tariff Sheet 8.07 explains the calculation of the carrying charge. Each year before March 1 the Company is required to calculate an annual carrying charge and file a letter with the Commission reflecting this rate, to be effective on April 1 of each year. As of April 1, 2018 the current effective carrying charge is 4.09% not 4.19%. The Company will need to make this adjustment in its filing. The Company should also confirm that customers will receive the full benefit of the carrying charge during the entire period when the Tax Reform Surcredit 2 is being returned to customers (August 1, 2018 through July 31, 2019).

Calculation of Tax Reform Surcredit 2 by Customer Class

To calculate the Tax Reform Surcredit 2 by customer class, the Company used the class cost of service approved in Docket No. 13-057-19 and the previous tax surcredit approved in this docket on June 1, 2018. The Company projected volumes by class for the period August 1, 2018 to July 31, 2019, the period over which the Tax Reform Surcredit 2 will be applied to customers' bills, to determine the actual Tax Reform Surcredit 2 rates.

The Office asked the Company to "Please explain, in detail, how the forecasted value sales in Dth shown on DEU Exhibit 1.9, Column G, were determined". [OCS Data Request No. 1.07]

The Company provided the following answer to OCS Data Request No. 1.07:

> "These volumes are based on the Company's annual Integrated Resource Plan (IRP). Usage for the GS class is forecasted using statistical time series methods and is based upon projected customer growth, the projected change in rates for

[1] July 1, 2018 was a Sunday.
[2] The Office notes that the reference to Tariff Section 8.05 is incorrect and should be Tariff Section 8.07.

> service, and the year-over-year changes in usage attributable to trending in consumption behavior. Usage in other rate classes is based upon recent consumption history and class composition and incorporates anticipated changes such as customers shifting from sales service to transportation service."

Thus, the reasonableness of the Company's proposed Tax Reform Surcredit 2 rates is dependent upon the accuracy/reasonableness of the IRP projections and assumptions. Weather could also have an impact on actual sales volumes.

The Stipulation does not address the issue of a true-up of the amounts returned to customers through Tax Reform Surcredit 2. As noted above the Company states it is treating the credit as it does in its other balancing accounts; however, the Office is uncertain if that pertains only to the interest rate to be applied or if a true-up is anticipated, and if so, would the true-up be by customer class or the total amount of the Tax Reform Surcredit 2. If the Company has over-projected the volumes, the Company would retain some of the funds and if under-projected, ratepayers would get more back if there is not a true-up.

Recommendations

The Office recommends that the Commission require the Company to apply the correct carrying charge of 4.09% to its filing.

The Office further recommends that the Commission require the Company to provide a true up of the Tax Reform Surcredit 2 following the July 2019 monthly surcredit payment or at an appropriate time. The Office suggests that the Company should present its plan for a true up in reply comments or a subsequent filing.

CC: Kelly Mendenhall, Dominion Energy Utah
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