

# Revenue Requirement Technical Conference

**Docket No. 19-057-02**



# PSC #1 – Lead-Lag Taxes

- Exhibit 3.27, Page 6.0.1, under Income Taxes states, “Because of bonus depreciation in 2014, there was no 2014 federal income tax liability and no 2014 state income tax payments. Therefore, no lead-lag calculation is included.” Does this statement correctly apply to the 2017 Lead-Lag Study?
- Please discuss whether bonus depreciation was included in the 2017 Lead-Lag Study period.

The income tax description was not updated for the 2017 study. The correct sentence should be “The lag days for income taxes is based on jurisdictional due dates of the taxes.” The Company made payments throughout 2017, including the impact of bonus depreciation.

## **PSC #2 – Expense Accounts 921 & 923**

Please explain the forecast changes in Accounts 921 and 923.

Allocated charges from DES are coded to the 923 account. Prior to the merger, Questar Gas Company booked allocated charges to the 921 account. The entry changed following the merger to be consistent with Dominion Energy accounting.

# **PSC #3 - Pipeline Integrity Management Costs**

Please explain the difference between the Test Year estimate and the 2020 IM Cost Forecast contained in DEU's 2019 IRP filed in Docket 19-057-01.

The \$10.99M included in the IRP is based on planned expense work in 2019. Although work load varies from year to year based on identified threats and mitigation, the Company estimated the appropriate expense amount to include from 2020 forward by taking 2018 expenditures and inflating them using IHS PowerPlanner inflation rates.

# DPU #1 – Overview

- Total revenue requirement of \$397.6 million
- Rate-effective date of March 1, 2020
- Revenue deficiency of \$19.2 million
- Rate Base increase of \$800 million since 2014
- O&M expenses are \$8.8 million lower than 2014
- Increase in infrastructure Tracker from \$70.9 million to \$80 million
- 2018 Base Period, 2020 Test Period
- Company expects to invest \$232 million in 2019 and \$278 million in 2020
- Proposed ROE 10.5%, 55% Equity capital structure
- Full cost rates
- The Company has complied with all merger requirements

# DPU #2 – Inflation Factor

$$GDP\ Deflator = \frac{Nominal\ GDP}{Real\ GDP}$$

$$Inflation = \frac{Year2}{Year1} - 1$$

	Real GDP	Nominal GDP	Deflator	Inflation Rate
2019	19,011.5	21,412.8	1.126308	
2020	19,413.8	22,365.4	1.152036	2.3%

# DPU #2 – Inflation Factor

## Historical Inflation Rates

	GDP Inflation Rate	Steel Index	Amount
2010			55,000,000
2011		12.0	61,600,000
2012		9.6	67,513,600
2013		-1.8	66,298,355
2014	1.9		65,000,000
2015	1.1		65,695,135
2016	1.1		66,413,512
2017	1.9		67,675,887
2018	2.3		69,205,872
2019	2.0		70,611,552

## DPU #3 – tracker Replacement vs. total HP and IHP pipe

A Tracker Spend	B Total HP and IHP Pipe Capital Spend	C Percent of Total (A / B)
36,739,342	53,674,641	68%
58,767,529	61,980,715	95%
58,773,693	89,495,366	66%
54,890,577	100,102,804	55%
68,233,344	107,378,698	64%
66,425,036	139,760,252	48%
70,556,816	128,021,141	55%
68,991,700	122,388,453	56%
63,132,081	109,688,134	58%



## **DPU #4 – Over/under budgets**

- Address DPU concerns about Company going over budget in certain years
- Address engineering concerns about project flexibility

# DPU #4 – Over budget example

		Proposed Revenue	Current Revenue
		Requirement	Requirement
1	Total Net Investment	\$122,000,000	\$122,000,000
2	Less: Amount currently in rates	(\$40,000,000)	(\$40,000,000)
3	Budget Overspend for 2020	(\$2,000,000)	\$0
4	Budget Underspend for 2021	\$0	\$0
5	Replacement Infrastructure in Tracker	\$80,000,000	\$82,000,000
6	Less: Accumulated Depreciation	\$127,382	\$127,382
7	Accumulated Deferred Income Tax	(1,776,674)	(1,776,674)
8	Net Rate Base	\$78,350,708	\$80,350,708
9	Current Commission-Allowed Pre-Tax Rate of Return	10.69%	10.69%
10	Allowed Pre-Tax Return (Line 8 x Line 9)	\$8,372,047	\$8,585,754
11	Plus: Net Depreciation Expense	\$1,680,000	\$1,722,000
12	Net Taxes Other Than Income (1.2% x Line 6)	\$940,208	\$964,208
13	<b>Total Revenue Requirement</b>	<b>\$10,992,256</b>	<b>\$11,271,963</b>

# DPU #4 – Under budget example

		Proposed Revenue	Current Revenue
		Requirement	Requirement
1	Total Net Investment	\$198,000,000	\$198,000,000
2	Less: Amount currently in rates	(\$40,000,000)	(\$40,000,000)
3	Budget Overspend for 2020	(\$2,000,000)	\$0
4	Budget Underspend for 2021	\$2,000,000	\$0
5	Replacement Infrastructure in Tracker	\$158,000,000	\$158,000,000
6	Less: Accumulated Depreciation	\$127,382	\$127,382
7	Accumulated Deferred Income Tax	(1,776,674)	(1,776,674)
8	Net Rate Base	\$156,350,708	\$156,350,708
9	Current Commission-Allowed Pre-Tax Rate of Return	10.69%	10.69%
10	Allowed Pre-Tax Return (Line 8 x Line 9)	\$16,706,621	\$16,706,621
11	Plus: Net Depreciation Expense	\$3,318,000	\$3,318,000
12	Net Taxes Other Than Income (1.2% x Line 6)	\$1,876,208	\$1,876,208
13	<b>Total Revenue Requirement</b>	<b>\$21,900,829</b>	<b>\$21,900,829</b>

# DPU #5 – Schedule Impact

- Assumption
  - \$8,000,000 increase in infrastructure replacement spend
  - 2.5% increase inflation growth
  - Current Schedule completion of 2036
- Results
  - Schedule completion of 2034 (2 years early)

# DPU #6 – Depreciation Study Impact

Stephenson Exhibit 3.16

	2020 Forecasted Depreciation Current Rates	2020 Forecasted Depreciation Proposed Rates	Total Change Due To Depreciation Study
Gas Plant in Service			
Production	506,626	506,626	-
Distribution - Wyoming	2,589,668	2,603,996	14,328
Distribution - Utah	70,209,020	70,089,034	(119,987)
General	14,609,721	15,372,025	762,305
<b>Total</b>	<b>\$ 87,915,035</b>	<b>\$ 88,571,680</b>	<b>\$ 656,645</b>

Items	Impact
376 Mains	(\$4,127,092) Decrease
380 Services	(\$1,599,241) Decrease
391 Office Furniture & Equip.	(\$1,919,244) Decrease
397 Communication Equip.	\$1,514,817 Increase
Distribution Reserve Variance	\$6,056,221 Increase
General Reserve Variance	\$2,589,352 Increase
Other	(\$1,858,168) Decrease
<b>Total Change</b>	<b>\$656,645</b>

The \$656,645 in expense represents approximately a .04% change in Return on Rate Base.

# DPU #7 – HDD impact on Revenue Requirement

## 20 year HDD

@ Full Cost of Service				
	Dth	Dth	Prop. Rate	Revenues
First	30	59,060,562	2.89676	171,084,168
Over	30	19,128,216	0.99535	
First	30	24,083,370	2.49231	
Over	30	5,656,692	0.59090	
		107,928,840		253,489,238
%	Months	Meter Count	Prop. Rate	Revenues
0.9634588	12	1,025,786	6.75	83,088,685
0.0351646	12	37,439	18.25	8,199,238
0.0012672	12	1,349	63.50	1,028,073
0.0001093	12	116	420.25	586,858
		1,064,691		92,902,854
				92,902,854
				\$346,392,092
				1,934,755
				348,326,847

## 30 year HDD

@ Full Cost of Service				
	Dth	Dth	Prop. Rate	Revenues
First	30	60,322,072	2.84432	171,575,543
Over	30	19,701,918	0.94291	18,577,223
First	30	24,673,252	2.43988	60,199,741
Over	30	5,825,282	0.53847	3,136,732
		110,522,524		253,489,238
%	Months	Meter Count	Prop. Rate	Revenues
0.9634588	12	1,025,786	6.75	83,088,685
0.0351646	12	37,439	18.25	8,199,238
0.0012672	12	1,349	63.50	1,028,073
0.0001093	12	116	420.25	586,858
		1,064,691		92,902,854
				92,902,854
				\$346,392,092
				1,934,755
				348,326,847

Uses different volumes to calculate rates

Collects Same Revenue Requirement

# DPU #8 – Incentive Compensation

Total Payout		Officers	Management	Non-mgmt	Total
	DES	\$15,385,529	\$15,914,692	\$37,564,549	\$68,864,770
	DEU	\$0	\$1,852,701	\$5,678,156	\$7,530,857
Allocated					
	DES	\$964,979	\$1,136,618	\$2,682,664	\$4,784,261
	DEU	\$0	\$777,372	\$2,382,675	\$3,160,047
Income Goal % of AIP					
	DES	50%	0%	0%	
	DEU	50%	35%	25%	
Income Goals to exclude					
	DES	482,490	-	-	482,490
	DEU		272,080	595,669	867,749
	Total	482,490	272,080	595,669	1,350,238

The adjusted total flows through the following tabs:

- Adjustments
- ROR Model
- Report

# DPU #9 – Non-plant related EDIT

Timing Difference Description	M-1 Type	Fed ADIT at 35%	Fed ADIT at 21%	Difference - EDIT	Grossed Up Reg Liability	EDIT Amortization - 30 Years	Reg Liability Amortization - 30 Years
BNX010 ACCRUED VACATION EXPENSE	UNPROTECTED	378,379	227,028	151,352	201,132	5,045	6,704
INV010 CAPITALIZED INVENTORY 263(a)	UNPROTECTED	364,828	218,897	145,931	193,929	4,864	6,464
OTX031 PREPAID EXPENSES	UNPROTECTED	(1,303,589)	(782,154)	(521,436)	(692,938)	(17,381)	(23,098)
RVX010 BAD DEBTS	UNPROTECTED	571,108	342,665	228,443	303,579	7,615	10,119
BNX130 STIP	UNPROTECTED	450,280	270,168	180,112	239,352	6,004	7,978
BNC030 DEF COMP PLAN - EMPLOYEES	UNPROTECTED	1,966,595	1,179,957	786,638	1,045,367	26,221	34,846
BNX050 LONG TERM DISABILITY	UNPROTECTED	146,558	87,935	58,623	77,905	1,954	2,597
BNX070 POST RETIREMENT EXPENSES	UNPROTECTED	4,979,701	2,987,821	1,991,880	2,647,019	66,396	88,234
BNX090 RETIREMENT PLAN - PENSIONS	UNPROTECTED	(35,689,904)	(21,413,942)	(14,275,962)	(18,971,390)	(475,865)	(632,380)
RVX060 ENVIRONMENTAL CLEANUP RESERVE	UNPROTECTED	796,345	477,807	318,538	423,307	10,618	14,110
SCS010 PREM.,DEBT,DISC, & EXP - RECORDING TA	UNPROTECTED	(895,055)	(537,033)	(358,022)	(475,777)	(11,934)	(15,859)
<b>Totals</b>		<b>(28,234,754)</b>	<b>(16,940,852)</b>	<b>(11,293,901)</b>	<b>(15,008,517)</b>	<b>(376,463)</b>	<b>(500,284)</b>



# DPU #10 – Pension Treatment

## Pension Formula

- + Interest Costs (increase expense)
- + Service Costs (increase expense)
- - Expected Return on Plan Assets (lowers expense)
- + Amortization of Prior Service Costs (increases expense)
- +/- Amortization of Actuarial Gains or Losses (increases or decreases expense)
- = Total Pension Expense

**Increased pension assets = Increased return on plant assets = Reduced Expense**

# DPU #10 – Pension Treatment

- 13-057-05 2014 Test Period Pension Expense Total: \$8.2M
- **Dominion Energy Inc. Shareholder Contribution 2017: \$75M**
- Pension Expense (Credit) in 2020: (\$5.4M)

## Dilemma:

Pension credit is a non-cash item – meaning Dominion Energy Utah does not receive \$5.4m cash if there is a pension credit allocated from corporate. Including this item in the 2020 test period would reduce the amount of cash Dominion Energy would collect to cover other expenses in the test period. By removing the pension completely, the cash assumed would match actual contributions anticipated going forward:

Stephenson Testimony – Page 19

In millions	2016	2017*	2018	2019	2020
QGC/DEU Contributions	\$9.09	\$0	\$0	\$0	\$0

*75m contributed by Dominion Energy, Inc. shareholders*

# DPU #10 – Pension Treatment

- Summarize Proposal: Exhibit 3.30 from Stephenson Testimony

	Removal of Pension Related Items	Pension 2018	Pension 2019	Pension 2020
	A	B	C	D
1	282 ADIT		27,843,507	27,843,507
2	186007 Deferred Pension Asset	(109,783,660)	(112,498,673)	(112,498,673)
3	Total Rate Base	(109,783,660)	(84,655,166)	(84,655,166)
4	Pension Expense Labor (Utah)		4,456,378	5,261,562
5	Pension Expense Labor (Wyoming)		158,014	186,565
6	Total Expense		4,614,392	5,448,127

# DPU #11 – MDR D.22 Attachment 1

Please provide an overview and further clarification of MDR 22 D.23 Attachment 1, including the rationale for not including reductions related to the 2019 VRP. How would the addition of the 2019 recipients change the calculations? Would it change by the 87 participants listed in MDR 22 D.22 Attach 3?

The MDR was prepared based on 1<sup>st</sup> quarter 2019, which was prior to the 2019 VRP participation deadline.

# Revised MDR D.23 – Included VRP Participants

Original MDR D.23

		Twelve months ending December 31, 2019*													
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Average	
9	Employee Count - Actual	935	931	935										934	
10	Employee FTE - Actual	980	964	970										971	
11	Employee Count - Budget	927	927	927	942	942	942	942	942	942	942	942	942	938	
12	Employee FTE - Budget	959	965	966	964	963	974	967	964	971	963	968	968	966	
		Forecast - Twelve months ending December 31, 2020*													
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		
13	Employee Count - Rate-case Forecast	942	942	942	942	942	942	942	942	942	942	942	942	942	
14	Employee FTE - Rate-case Forecast	959	965	966	964	963	974	967	964	971	963	968	968	966	
		*These numbers do not include reductions related to the 2019 VRP.													

Revised MDR D.23

		Twelve months ending December 31, 2019													
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Average	
9	Employee Count - Actual	935	931	935	942	942	939							937	
10	Employee FTE - Actual	980	964	970	987									975	
11	Employee Count - Budget	927	927	927	942	942	899	890	889	887	886	878	878	906	
12	Employee FTE - Budget	959	965	966	964	963	931	915	911	916	907	904	904	934	
		Forecast - Twelve months ending December 31, 2020													
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		
13	Employee Count - Rate-case Forecast	878	878	878	878	878	878	878	878	878	878	878	878	878	
14	Employee FTE - Rate-case Forecast	895	901	902	900	899	910	903	900	907	899	904	904	902	

# DPU #12 – MDR D.22 – Attachment 1

**Please provide clarification and the calculations used to forecast row 5  
“Incentive”**

- The Forecast amounts are taken from the 2019 workforce budget.
- It assumes each employee will receive their target bonus for the year.
- Target rates vary by job level.
- The 2020 forecast took the 2019 forecast and added 3%--which is the budgeted increase in salaries for 2020.

# OCS #1 – Labor and Labor Overhead Budget

## Exhibit 3.11 and MDR B.04 Data

2019 Data – uses budget detail Overhead budget developed by HR Benefits group. Example: OCS 1.30.

	2014	2015	2016	2017	2018	2019	2020
1 Expense	29,082,799	28,665,979	29,202,020	27,214,257	36,869,424	43,532,179	44,838,144
2 Voluntary Retirement Program 1/	0	0	0	0	0	(2,611,704)	(7,154,145)
3 Incentive Accrual Expense	5,905,888	4,238,211	3,823,321	4,108,572	3,899,464	3,769,551	4,166,795
4 Allocated Charges	286,679	0	0	242,701	0	0	0
5 Other Expense	1,606,264	1,443,456	1,323,278	891,164	362,117	385,119	461,197
6 Total Labor Expensed	36,881,630	34,347,646	34,348,618	32,458,711	41,131,005	45,075,145	42,311,991
7 Pension Expense	4,685,412	5,471,473	3,315,141	(3,496,857)	(2,929,280)	(4,614,392)	(5,448,127)
8 Other Labor Overhead Expense	15,047,469	16,278,597	15,522,798	12,192,827	7,623,330	8,892,477	9,034,246
9 Affiliated Labor (560)	9,324,483	10,258,925	11,172,449	12,228,030	19,973,736	21,117,266	21,750,784
10 Affiliated Labor Overhead (561)	6,665,195	8,400,814	8,085,639	5,122,838	10,946,228	6,134,515	6,318,550
Total Labor/Labor Overhead							
11 Expensed	72,604,189	74,757,455	72,444,645	58,505,551	76,745,019	76,605,011	73,967,444
12 Year-to-Year % change 2/		3.0%	-3.1%	-19.2%	31.2%	-0.2%	-3.4%

# OCS 1.30 Attachment - Excerpt

Each overhead cost item is estimated by benefits DEU portion is assigned based on headcount and salary

*the amounts on this tab (lines 6-36) are values copied from the Stand Alone Benefits Expense file received from HR Benefits*

2019 Stand Alone Benefits Expense Without Purchase Accounting 2018 9+3 BGT Plan	Business Unit	Headcount Allocation		Headcount Allocation		Headcount Allocation		Headcount Allocation		WTV Allocation		WTV Allocation		WTV Allocation		
		Medical Salaried	Medical Hourly	Dental/Vision Salaried	Dental/Vision Hourly	Life Ins Salaried	Life Ins Hourly	LTD Salaried	LTD Hourly	OPEB Salary Service Cost	OPEB Salary Benefit Cost	OPEB Salary Total	OPEB Hourly Service Cost	OPEB Hourly Benefit Cost	OPEB Hourly Total	
Gas Infrastructure	QGC - Questar-Gas	10,388,428	-	752,208	-	243,161	-	455,173	-	136,256	(276,759)	(140,502)	-	-	-	
<b>TOTAL</b>		<b>10,388,428</b>	<b>-</b>	<b>752,208</b>	<b>-</b>	<b>243,161</b>	<b>-</b>	<b>455,173</b>	<b>-</b>	<b>136,256</b>	<b>(276,759)</b>	<b>(140,502)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Health &amp; Welfare</b>			10,388,428		752,208		243,161		455,173							(140,502)
<b>BU Summary</b>																
Power Delivery		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gas Infrastructure		10,388,428	-	752,208	-	243,161	-	455,173	-	136,256	(276,759)	(140,502)	-	-	-	
Power Generation		-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Total</b>		<b>10,388,428</b>	<b>-</b>	<b>752,208</b>	<b>-</b>	<b>243,161</b>	<b>-</b>	<b>455,173</b>	<b>-</b>	<b>136,256</b>	<b>(276,759)</b>	<b>(140,502)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
2019 Stand Alone Benefits Expense Without Purchase Accounting 2018 9+3 BGT Plan Benefits Budget (\$)																
				5301010	5301020	5301030	5301040			5301130	5301990	5301130	5301990	5301090	5302920	
Operating Unit	Virtual Company	Salary Type	Company Code	Bus Area	Medical Insurance	Dental Insurance	Life Insurance	Long Term Disability	OPEB	Employee Pensions	Savings Plan Match	Misc. Benefits	Benefit Admin	Tuition Reimbursement	Net Total	
Gas Infrastructure - QGC - Questar-Gas	Gas Infrastructure	NonUnion		9999	10,388,428	752,208	243,161	455,173	(140,502)	(8,386,584)	3,375,864	165,476	657,027	166,218	7,676,469	
<b>Totals</b>					<b>10,388,428</b>	<b>752,208</b>	<b>243,161</b>	<b>455,173</b>	<b>(140,502)</b>	<b>(8,386,584)</b>	<b>3,375,864</b>	<b>165,476</b>	<b>657,027</b>	<b>166,218</b>	<b>7,676,469</b>	



# OCS #1 – Labor and Labor Overhead Budget

## Exhibit 3.11 and MDR B.04 Data

2019 Data – uses budget detail Overhead budget derived from Benefits department. Example: OCS 1.24.

	2014	2015	2016	2017	2018	2019	2020
1 Expense	29,082,799	28,665,979	29,202,020	27,214,257	36,869,424	43,532,179	44,838,144
2 Voluntary Retirement Program 1/	0	0	0	0	0	(2,611,704)	(7,154,145)
3 Incentive Accrual Expense	5,905,888	4,238,211	3,823,321	4,108,572	3,899,464	3,769,551	4,166,795
4 Allocated Charges	286,679	0	0	242,701	0	0	0
5 Other Expense	1,606,264	1,443,456	1,323,278	891,164	362,117	385,119	461,197
6 Total Labor Expensed	36,881,630	34,347,646	34,348,618	32,458,711	41,131,005	45,075,145	42,311,991
7 Pension Expense	4,685,412	5,471,473	3,315,141	(3,496,857)	(2,929,280)	(4,614,392)	(5,448,127)
8 Other Labor Overhead Expense	15,047,469	16,278,597	15,522,798	12,192,827	7,623,330	8,892,477	9,034,246
9 Affiliated Labor (560)	9,324,483	10,258,925	11,172,449	12,228,030	19,973,736	21,117,266	21,750,784
10 Affiliated Labor Overhead (561)	6,665,195	8,400,814	8,085,639	5,122,838	10,946,228	6,134,515	6,318,550
Total Labor/Labor Overhead							
11 Expensed	72,604,189	74,757,455	72,444,645	58,505,551	76,745,019	76,605,011	73,967,444
12 Year-to-Year % change 2/		3.0%	-3.1%	-19.2%	31.2%	-0.2%	-3.4%

2020 amounts are inflated based on planned merit increase percentage: 3%.

## OCS #2

With reference to DEU Exhibit 3.11, can you elaborate on how the 2020 forecasted amount for “Voluntary Retirement Program” of (\$7,154,145) was determined? Additionally, please explain if this adjustment includes the impacts of the program on both salaries and wages and employee benefits costs.

Voluntary Retirement Plan savings were estimated position by position.

In cases where backfilling is anticipated (23 of the 87 positions), partial savings related to salary reductions were included.

Savings include base labor, benefits, incentives, payroll tax, and merit increase components.

Retirement incentive payments were excluded from the calculation.

# OCS #3 - Adjustments

Walk through creating an adjustment.