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# UTAH DEPARTMENT OF COMMERCE

## Division of Public Utilities

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## Memorandum

**To:** Public Service Commission of Utah

**From:** Utah Division of Public Utilities

Chris Parker, Director  
Artie Powell, Manager  
Doug Wheelwright, Utility Technical Consultant Supervisor  
Brenda Salter, Utility Technical Consultant Supervisor  
Jeff Einfeldt, Utility Technical Consultant  
Trevor Jones, Utility Analyst

**Date:** May 25, 2022

**Re:** **Docket No(s). 09-057-16, 13-057-05, & 19-057-02**, Audit of Dominion Energy Utah Infrastructure Tracker Program.

## Recommendation (Approve)

The Division of Public Utilities (“Division”) performed an audit<sup>1</sup> of Dominion Energy Utah’s (“DEU”) actual Replacement Infrastructure Tracker (“Tracker”) expenditures for the period January 2019 through December 2021 covering Infrastructure Tracker Docket Nos 19-057-20, 19-057-28, 20-057-21, 21-057-19, and 21-057-26. The Division recommends the costs reported in the Tracker be included in base rates.

## Scope and Objective

The Division conducted certain audit procedures of DEU’s Replacement Infrastructure Account. The Division reviewed costs incurred in the program from January 2019 through

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<sup>1</sup> The term Audit used by the Division in this memorandum is not synonymous with the definition of Audit as it is understood by the Accounting Profession, generally. The Accounting Profession defines the term to be a more complete and comprehensive review and testing of an entity’s financial and supporting records to determine whether the financial statements are fairly presented and conform to Generally Accepted Accounting Principles. The work performed by the auditor must also comply with Generally Accepted Auditing Standards as defined by the Accounting Profession.

The work performed by the Division in this proceeding is synonymous to an “Agreed Upon Procedures” engagement as defined by the Profession and is limited in scope as compared to an audit of the financial statements.

December 2021. The objective of our work is to determine if the costs DEU included for recovery in the Tracker are accurate, appropriate, and in compliance with the orders in Docket No. 09-057-16, Docket No. 13-057-05, and Docket No. 19-057-02 issued by the Public Service Commission of Utah (“Commission”).

## **Background**

As part of the settlement stipulation in Docket 09-057-16, parties to the settlement agreed to implement an Infrastructure Tracker Pilot Program (“Tracker”). The Tracker was designed to allow DEU to track and recover costs directly associated with replacement of aging infrastructure through an incremental surcharge to the GS, FS, IS, TS, MT, FT-1, and NGV rate schedules. The pilot program agreed to in Docket No. 09-057-16 applied to replacement of High Pressure (HP) feeder lines only. As part of the settlement stipulation in Docket No. 13-057-05, parties agreed to modify the Tracker to include the replacement of certain Intermediate High Pressure (IHP) beltlines.<sup>2</sup> The surcharge is designed to track and collect costs of replacement infrastructure between general rate cases and may be adjusted semi-annually. The Tracker budget was originally established not to exceed \$65 million (adjusted for inflation) per year and all items included in the Tracker are subject to regulatory audit consistent with the audit procedures in the “Gas Balancing Account,” Tariff Section 2.06. When DEU files a general rate case, all prudently incurred investment and costs associated with the Tracker will be included in general rates. As part of the stipulation agreement, DEU is required to file a general rate case at least every three years while the Tracker is in effect. The Company withdrew its general rate case in 2016, pursuant to the settlement stipulation reached in the merger with Dominion Energy and agreed DEU would not file a general rate case prior to July 1, 2019.<sup>3</sup> Pursuant to the Order in the most recent General Rate Case (Docket No. 19-057-02), the Tracker program was continued, and the annual budget was increased to \$72.2 million, adjusted based on the GDP Deflator Index.<sup>4</sup>

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<sup>2</sup> Docket No. 13-057-05, Settlement Stipulation, page 10.

<sup>3</sup> Docket No. 16-057-01, Settlement Stipulation, par. 33 (pg. 10)

<sup>4</sup> Docket No. 19-057-02, Report and Order dated February 25, 2020, Synopsis.

## **Discussion**

As part of the audit, DEU provided a detailed listing of infrastructure transactions to be included in the pending general rate case. DEU's report is titled "Cost Reports for 2022 Tracker Audit – DPU", which includes all entries from January 2019 through December 2021. In this file, DEU included spreadsheets detailing all financial entries for each feederline and beltline project. The Division reviewed this information and selected a judgmental sampling of transactions for which invoices and/or supporting documentation were requested for review. Approximately 90% of the expenditures captured and accounted for in the Tracker are for Canyon Pipeline Construction Company (feederline contractor), various other contractors for the infrastructure projects, and the cost of the pipe and related materials. DEU supplied copies of applicable documentation, invoices and/or schedules to support transactions selected. The documentation was verified and reconciled to the amounts presented on the Cost Tracking Report.

The Division examined the actual costs compared to the budgeted amounts and a review of any reasons or explanations for deviation from the budget. The Division also reviewed the recorded transactions for mathematical accuracy. DEU reports the budget variances in the quarterly reports that are filed with the Commission, and at the annual review meeting held each year.

In addition to the specific audit procedures conducted with this proceeding, the Division meets with DEU personnel annually to review the accounting procedures. The Division concludes that the procedures are reasonable and DEU staff is complying with those procedures. The Division's efforts to date did not find any exceptions to the amounts reported by DEU.

Since the Tracker program became effective in June 2010, the Company provided an estimate of the Tracker's impact on DEU's rate of return. The replacement revenue amounts listed for 2019, 2020, and 2021 are the amounts that were collected through the tracker surcharge. These results were verified as part of the audit and are included below.

<b>Tracker Impact on QGC's rate of return</b>			
	12 months ended December 2019	12 months ended December 2020	12 months ended December 2021
Infrastructure Replacement Tracker Revenue	34,449,895.80	13,295,019.95	6,679,927.98
Return on Equity with Tracker	8.17%	9.52%	8.89%
Return on Equity without Tracker	5.13%	8.49%	8.47%
Difference in Equity	3.04%	1.03%	0.42%

Based on the information provided by DEU, the Tracker has met its intended objective by allowing DEU to recover certain capital expenditures without filing a general rate case. If the Tracker was not in place, DEU would have had to file rate cases to recover those costs. DEU's return on equity ("ROE") has been higher with the Tracker for the 12 months ended December 2019, 2020, and 2021, but has still been below the approved ROE of 9.50%.<sup>5</sup> The ROE with the Tracker for the 12-month period ended December 2020 of 9.52% was slightly higher than the approved ROE of 9.5% set in the most recent general rate case. However, the ROE for 2020 had two authorized rates that when applied to a weighted average, show the 9.52% ROE was below the 9.61% blended rate.

	<b>Percent of Total Revenue</b>	<b>Authorized Return on Equity</b>	<b>Weighted Average Authorized Return on Equity</b>
Jan-Feb Revenue	31.66%	9.85%	3.12%
Mar-Dec Revenue	68.34%	9.50%	6.49%
<b>Total</b>	<b>100.00%</b>		<b>9.61%</b>

The Division will continue to monitor the ROE in future periods and will notify the Commission of significant changes.

## Conclusion

The Division completed its audit procedures of the Tracker and concludes, based on those procedures, the costs associated with the Tracker be included in general rates for the currently pending general rate case. No significant accounting issues came to the Division's

<sup>5</sup> Docket No. 19-057-02, Report and Order dated February 25, 2020, Synopsis

attention during its audit; however, the Division notes the Tracker program is subject to a general overall review as it relates to other matters in the pending general rate case.

cc: Kelly Mendenhall, Dominion Energy Utah  
Michele Beck, Office of Consumer Services