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Department of Commerce

Division of Public Utilities

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Action Request Response

To: Utah Public Service Commission

From: Utah Division of Public Utilities

Chris Parker, Director

Artie Powell, Manager

Doug Wheelwright, Utility Technical Consultant

Eric Orton, Utility Technical Consultant

Date: December 20, 2019

Re: **Docket No. 19-057-17**, Dominion Energy Utah, 2019 Quarterly Integration Progress Reports.

Recommendation (No Action)

The Utah Division of Public Utilities (Division) recommends that the Public Service Commission of Utah (Commission) take no action at this time regarding the Integration Progress Report (IPR) for the second and third quarters of 2019 submitted by Dominion Energy Utah (Gas Utility).

Issue

On November 25, 2019, the Gas Utility submitted its 2nd and 3rd Quarter 2019 Integration Progress Reports. On that same date, the Commission issued an Action Request to the Division with a due date of December 26, 2019. Additionally, on November 27, 2019, the Commission issued a Notice of Filing and Comment Period stating that comments on the IPR are due to the Commission by December 26, 2019, with reply comments due by January 10, 2020.

These are the Division's comments and its Action Request Response.

Background

On January 31, 2016, Dominion Resources (Dominion) and Questar Corporation (Questar) signed a merger agreement. On September 14, 2016, the Commission issued its order approving a joint stipulation and the acquisition of Questar by Dominion. As part of that order, Paragraph 36 of the joint stipulation, which addresses reporting to the Commission on “planned and accomplished” tasks related to the merger, was adopted. The joint stipulation identified 57 individual commitments that were agreed to by Dominion and Questar (the Applicants). One commitment called for the Gas Utility to work with the Division and the Office of Consumer Services (Office) to develop an Integration Progress Report. This report would be filed quarterly and would include transition and transaction costs.

The intent of the quarterly filing is to monitor and report the integration activity and the costs associated with the Applicants’ acquisition, not to justify such costs or seek cost recovery.

Discussion

Second Quarter 2019 Report

Each progress report has provided information that the Gas Utility purports to show that it is meeting its merger commitments and provide the Commission with information regarding the merger. With each IPR the Gas Utility has numbered its exhibits consecutively. With the last report (1st quarter 2019), the Gas utility included one exhibit. With this report, the Gas Utility included two exhibits, Exhibits 48 and 49.

Exhibit 48. Moody’s Investor Service Credit Opinion 19 August 2019. This exhibit is provided to demonstrate that the Gas Utility is meeting commitment #24 “to maintain credit metrics that are supportive of strong investment-grade credit ratings (targeting the Single-A range) for Dominion Questar Gas.” This Moody’s report gives the Gas Utility an A3 rating, slightly lower than the A2 negative credit profile last year. Its Moody’s Rating outlook states: “The Questar Gas credit profile is constrained by weak financial metrics versus peers and a highly levered parent company (i.e., Dominion Energy Inc. (Dominion, Baa2 Stable)) with over \$350 million of parent-level interest expense and \$2.5 billion in corporate dividends, annually.”

Exhibit 49. Dominion Energy Utah/Wyoming’s Customer Satisfaction Standards Report (CSSR) for the 2nd quarter of 2019. In this metric the parties agreed that “If the Dominion Questar Gas service levels become deficient, meaning they fall short of the Customer Satisfaction Standards as shown in the report, Dominion Questar Gas will file a remediation plan with the Commission explaining how it will improve and restore service to meet the Customer Satisfaction Standards.”

The Gas Utility acknowledged deficiencies in two of its customer satisfaction standards and stated that “Both of these are related to the transponder issues which have been studied in more detail in Docket 19-057-25.” These continue to be:

Billing Metric

#1 read each meter monthly.

#5 response time to investigate meter problems and notify customer within 15 business days.

The Division is hopeful that both of these metric will improve significantly as the transponder replacement program is scheduled to be completed before the 4th quarter of 2020.

Other than these two deficiencies, the Gas Utility is meeting its CSSR goals.

Transition and Transaction Costs. The Gas Utility did not provide an exhibit in this filing to show the transaction and transition costs as required by the Commission’s order. However, after corresponding with the Gas Utility, the Division was told that there have been no additional transition or transaction costs for the quarter so the figures provided previously are the most up to date information.

Third Quarter 2019 Report

Each progress report has provided information that the Gas Utility purports to show that it is meeting its merger commitments and provide the Commission with information regarding the merger. With each IPR the Gas Utility has numbered its exhibits consecutively. As with the previous report (2nd quarter 2019), the Gas utility included two exhibits, 50 and 51 (erroneously labeled as exhibit 49).

Exhibit 50. Fitch Ratings 08 October. This exhibit is provided to demonstrate that the Gas Utility is meeting commitment #24 “to maintain credit metrics that are supportive of strong investment-grade credit ratings (targeting the Single-A range) for Dominion Questar Gas.” This Fitch report gives the Gas Utility an A- rating, stating that “Questar’s credit measures are adequately in line with the current rating level.”

Exhibit 51. Dominion Energy Utah/Wyoming’s Customer Satisfaction Standards Report (CSSR) for the 3rd quarter of 2019. In this metric the parties agreed that “If the Dominion Questar Gas service levels become deficient, meaning they fall short of the Customer Satisfaction Standards as shown in the report, Dominion Questar Gas will file a remediation plan with the Commission explaining how it will improve and restore service to meet the Customer Satisfaction Standards.”

The Gas Utility acknowledged deficiencies in two of its customer satisfaction standards and stated that “Both of these are related to the transponder issues which have been studied in more detail in Docket 19-057-25.” These continue to be:

Billing Metric

#1 read each meter monthly.

#5 response time to investigate meter problems and notify customer within 15 business days.

The Division is hopeful that both of these metric will improve significantly as the transponder replacement program is completed. This replacement program is scheduled to be completed before the 4th quarter of 2020.

Other than these two deficiencies, the Gas Utility is meeting its CSSR goals.

Transition and Transaction Costs. The Gas Utility did not provide an exhibit in this filing to show the transaction and transition costs as required by the Commission's order. However, after corresponding with the Gas Utility, the Division was told that there have been no additional transition or transaction costs for the quarter so the figures provided previously are the most up to date information.

Conclusion

The Division finds that the Gas Utility is compliant and has materially met its requirement to report to the Commission its merger progress as required in paragraph 36 of the Stipulation. No action is requested or required of the Commission. These quarterly filings do not require Commission acknowledgement or approval but is intended to flag any changes that may occur that could affect rates, customer service, or system reliability.

The Division also notes that this recommendation should not be construed in any way as an endorsement or preapproval that these costs or actions are prudent, necessary, or in the public interest. These quarterly reports will still need to be filed by the Gas Utility until the conclusion of the current general rate case. The Gas Utility's letter and attachment meet the requirements for this report.

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