State of Utah

Department of Commerce
Division of Public Utilities

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ACTION REQUEST RESPONSE

To: Public Service Commission of Utah

From: Utah Division of Public Utilities

Chris Parker, Director
Artie Powell, Manager
Doug Wheelwright, Utility Technical Consultant Supervisor
JJ Alder, Utility Analyst
Vana Venjimuri, Utility Analyst

Date: May 19, 2020

Re: Dominion Energy, Docket Nos.
20-057-07 – Pass-Through Application for an Adjustment in Rates and Charges for Natural Gas Service in Utah
20-057-08 – Application for an Adjustment to the Daily Transportation Imbalance Charge

Recommendation

After a preliminary review of the applications, the Division of Public Utilities (Division) finds the proposed rates to be reasonable and recommends the Public Service Commission of Utah (Commission) approve the rates as proposed by Dominion Energy Utah (Dominion or Company).

This approval applies to the requested rate changes in Docket Nos. 20-057-07 (191 Pass-Thru) and 20-057-08 (Daily Transportation Imbalance Charge) with an effective date of June 1, 2020. The Company also filed Docket No. 20-057-06, Excess Deferred Income Taxes, simultaneously. The Division's response to that Docket is being filed under a separate memo. If all three Dockets

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are approved, the combined changes will decrease a typical GS customer's annual bill by $7.44 or 1.15%.

ISSUE:

On May 1, 2020, Dominion Energy Utah (Dominion or Company) filed the applications identified above and the Commission subsequently issued an Action Request to the Division. May 7, 2020, the Commission held a scheduling conference in the above matter. The Commission's Scheduling Order dated May 11, 2020, established May 19, 2020 as the date the Division would file comments on the three Dockets.

Docket No. 20-057-07 – The 191 Account Pass-Through filing asks for Commission approval to decrease the commodity rate components of the Company's Utah natural gas rates by $9.171 million and decrease the supplier non-gas cost rate components by $1.320 million for a net decrease of $10.891 million. Based on current rates, if the Commission approves the proposed change, a typical GS residential customer using 80 Dth per year (typical GS residential customer) will see a decrease of $8.27[1] in their annual bill, which represents a decrease of 1.28%, independent of any other change.

Docket No. 20-057-08 – The Daily Transportation Imbalance Charge filing is a request to adjust the imbalance charge calculation approved in Docket No. 14-057-31. Consistent with that docket, the transportation imbalance charge began in February 2016 with a recalculation twice each year as part of the 191 pass-through filings. The revised calculation is based on updated volumes through March 31, 2020. If approved, the proposed rate would decrease from $0.08489 to the proposed rate of $0.07834. This rate applies to transportation customers with daily imbalance volumes outside the ±5% tolerance level.

[1] Exhibit 1.6, Column F, Line 13.

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DOCKET NO. 20-057-07 COMMODITY GAS COST AND SUPPLIER NON-GAS COSTS (191 Account Semi-Annual Pass-Through)

This filing is based on projected Utah gas costs of $428,381,603[2] for the forecast test year ending May 31, 2021. The commodity portion of the gas cost represents a decrease of $9.171 million and the supplier non-gas cost portion (SNG) represents a decrease of $1.320 million for a combined net decrease of $10.891 million.[3] The projected decrease in the commodity cost is due primarily to a decrease in commodity costs from Wexpro production and market purchases, as well as savings due to Wexpro purchasing gathering facilities from MPLX (formerly Andeavor).

The test-year cost of gas consists of cost-of-service gas from Wexpro, contract and market purchases, and storage and transportation costs. The forecast price for cost-of-service production is $3.964 per Dth[4] compared to $3.828 per Dth[5] in the previous filing. Market and contract purchases for natural gas are projected to be lower at $2.07[6] per Dth compared to $2.106[7] per Dth in the previous filing. Due to the large volume of cost of service gas from Wexpro, market purchases are planned only during the winter months.

In the previous filings, the 191 balancing account was under-collected by $49.754 million and the Company established a debit amortization of $0.43865 per Dth. As of January 31, 2020, the commodity portion of the 191 account was $19.711 million under-collected and the Company is proposing to leave the current debt amortization of $0.43865 per Dth in place. Using the current debit amortization will help collect this balance over the summer months for which the 191 account typically moves toward under-collection. The under-collection is caused by the current price differential between Company-owned supplies (used during the summer months) and the annual weighted average cost of gas (WACOG) that is charged to customers during these months.

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[2] Exhibit 1.1, Page 2, Line 17, Column E.
[3] Pass-Through Model, Utah Summary by Class.
[4] Exhibit 1.2, Page 3, Column D, Line 20.
[5] Docket No. 19-057-18, Exhibit 1.2, Page 3, Column D, Line 20.
[6] Exhibit 1.2, Page 4, Column D, Line 6.
[7] Docket No. 19-057-18, Exhibit 1.2, Page 4, Column D, Line 6.

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The Company has been recording the difference in timing between when it pays for commodity supplies verses when the Company receives cost recovery due to the Tax Cuts and Jobs Act of 2017 (TCJA). Beginning June 1, 2020 the Company proposes to amortize the balance of $1.0833 million over one year.[8] Tax Reform Surcredit 4 will result in a credit amortization of $0.00972 per Dth.[9] The Company proposes to refund the full amount to ratepayers over the next twelve months beginning June 1, 2020. This represents a reduction to a typical residential customer's annual bill of $0.78 based on 80 Dth annual usage.

The combination of the change in gas cost, the change in the amortization rate, and Tax Reform Surcredit 4 results in a decrease in the commodity cost. The net impact is a change from $3.588 to the proposed rate of $3.505 per Dth or a decrease of $0.082[10] per Dth. The Division will continue to monitor the balance in the 191 account monthly.

Supplier Non-Gas Costs (SNG)

In contrast to the price volatility that can occur with the market price of natural gas, the SNG costs have historically been relatively stable and predictable since these costs are set by contractual transportation and storage agreements and tariffs. These costs are associated with transporting market and Wexpro gas from market hubs to city gates and storing the gas in available facilities for later withdrawal during the winter months. While the contract amounts are relatively stable, the estimation and collection of these costs occur through volumetric rates, which are set assuming normal weather conditions. Variations in the actual volumetric sales due to changing weather conditions will impact the collection of these costs and will result in the over or under collection of SNG costs.

This filing is consistent with previous filings. In previous filings, the forecast rates were structured so that the SNG balance was intended to have an over-collected balance of $20.0 million in the spring and a $20.0 million under-collected balance in the fall. The process of under and over-collection during the year is intended to minimize the amount of interest paid or

[8] Exhibit 1.5, Page 1, Footnote 3.
[9] Exhibit 1.5, Page 1, Column D, Line 9.
[10] Exhibit 1.5, Page 1, Column F, Line 10.

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collected by the Company on the SNG costs included in the 191 balance. The amortization of the over or under collection is established annually in the spring pass-through filing and was set to collect the under-collected balance of $2.440 million. The amortization of the previous under-collection will remain in place until the fall filing.

In the previous filing, the Company implemented the changes to the SNG and Commodity cost allocation approved by the Commission in Docket No. 19-057-T01. With these changes, the Company now estimates that the SNG balance will swing between $14.0 million under-collected to $14.0 million over-collected. The Company is projecting total SNG costs for the test period of $85.540 million[11] for the forecast test-year plus a $962.115 thousand amortization of the under collected amount from the previous period for a total of $86.502 million.[12] If the current rates are not adjusted, the SNG revenue is projected to collect $87.823[13] million resulting in an estimated over-collected balance of $1.320 million.[14] In this filing, the Company is requesting a 1.5%[15] decrease in the total SNG rates in order to collect the forecasted SNG cost and the adjusted amortization amount.

Gas Supply

For the test year, June 2020 through May 2021, the Company is projecting a total system requirement of 118.970 million Dth.[16] From the total requirement amount, 115.377 million Dths[17] will be used to meet the projected sales requirement with 3.593 million Dths used for gas volume reimbursement due to gathering, transportation, distribution fuel, and shrinkage. Of the total gas requirement, 52.3%[18] will be satisfied from the Wexpro cost-of-service production, 16.3%[19] will be satisfied under current purchase contracts and 31.4%[20] will be purchased with

[11] Exhibit 1.5, page 2, Column D, Line 1.
[12] Exhibit 1.5, page 2, Column D, Line 3.
[13] Exhibit 1.5, page 2, Column D, Line 6.
[14] Exhibit 1.5, page 2, Column D, Line 7.
[15] Exhibit 1.5, page 2, Column D, Line 10.
[16] Exhibit 1.2, Page 3, Column C, Line 20 + Page 4, Column C, Line 6.
[17] Exhibit 1.5, Page 1, Column E, Line 6.
[18] Exhibit 1.2, Page 3, Column C / Exhibit 1.2, Page 3, Column C, Line 20 + Page 4, Column C, Line 6.
[19] Exhibit 1.2, Page 4, Column C, Line 3 / Exhibit 1.2, Page 3, Column C, Line 20 + Page 4, Column C, Line 6.
[20] Exhibit 1.2, Page 4, Column C, Line 4 & 5 / Exhibit 1.2, Page 3, Column C, Line 20 + Page 4, Column C, Line 6.

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future contracts and spot market transactions. The total expected fuel cost for the test period is $443.162 million.[21]

The cost-of-service gas from all Wexpro production is projected to cost $225.192 million at an average cost of $3.964 per Dth,[22] which is $0.13 higher than the previous filing. Cost-of-service production is reported separately as Wexpro I and Wexpro II. The separation of the cost allows the Company and the Division to monitor and compare the total cost and production volume under the separate agreements. Wexpro I production has a projected cost of $188.535 million at an average cost of $4.12 per Dth[23] including gathering costs. The volume from Wexpro I wells represents approximately 80.5% of the total cost-of-service production. Wexpro II production has a projected cost of $36.657 million at an average cost of $3.33 per Dth[24] including gathering and represents approximately 19.5% of total production.

While the average price of Cost-of-Service gas from Wexpro has come down, the price of gas produced by Wexpro remains significantly higher than the projected market price.

The cost-of-service gas production includes the operator service fee (OSF) payable to Wexpro of $210.993 million.[25] As part of its audit and review of the 191 account, the Division is reviewing the calculations and costs associated with the OSF in this filing as well as previous pass-through filings.

Forecast Natural Gas Prices

The market price forecast anticipates an average natural gas price of [redacted] per Dth during the summer months and [redacted] per Dth in the winter months and is based on an average of future price projection from two different forecasting entities, CERA and PIRA. The two price forecasts along with the average of the two forecasts is displayed in Chart 1 below.

[21] Exhibit 1.1, Page 2, Column C, Line 17.
[22] Exhibit 1.2, Page 3, Column D, Line 20.
[23] Exhibit 1.2, Page 3, Column D, Line 8.
[24] Exhibit 1.2, Page 3, Column D, Line 13.
[25] Exhibit 1.2, Page 1, Line 4 + Line 9.

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Chart 1 – CONFIDENTIAL

[redacted]

The forecast price for natural gas in the test period is lower than the previous forecast for both the winter and summer months. Since market purchases are anticipated only during the winter months, the Company model uses the price for spot purchases during only the winter months. In the current filing, the Company uses an average forecast price of $2.07 per Dth[26] for spot and contract purchases. Chart 2 below provides a comparison of the forecast market prices used in the current and the two previous pass-through applications (Docket Nos. 19-057-04 and 19-057-18) and has been included to show how the forecast price has changed over the past 12 months. The solid line included in the graph is the historical first of month spot price for natural gas at Opal, Wyoming (Opal FOM). The historical price has been included to show the fluctuation in the market price and to provide a comparison of the forecast price used to establish rates in previous filings compared to the actual FOM market price. The chart also shows how actual market prices can deviate from the anticipated price. It should be noted that the actual market price during the previous heating season was higher than the forecast market price.

[26] Exhibit 1.2, Page 4, Column D, Line 6.

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Chart 2 CONFIDENTIAL

[redacted]

A comparison of the forecast price used to set rates compared to the actual first of the month price is also helpful to understand the reasons for the over and under-collection of gas costs in the 191 balancing account. As shown in the graph, the actual first of the month price for natural gas was higher than the forecast price during the last heating season and is the primary reason for the under-collected balance.

Pricing Hedges

The Wexpro production and the Company's gas storage facilities play an important role in the Company's plan to "hedge" against natural gas price volatility while meeting its total supply requirement. The current practices generally allow the Wexpro production to flow during the summer months to satisfy the summer demand in addition to allowing the Company to inject gas into storage for later use. Gas that has been injected into storage is withdrawn during the high demand winter heating season. The use of storage gas reduces but does not eliminate the need to purchase gas during the high demand winter months.

Comparison to Previous Filing

The Company's application provides a forecast of anticipated costs and revenue for the test period as Exhibit 1.2. To compare the projected costs in the current filing with previous pass-through filings, the Division has prepared Chart 3 below. This chart provides a comparison of the projected price per Dth for cost-of-service and purchased gas compared to the previous five pass-through filings. The dotted line indicates the forecast cost-of-service price per Dth for gas

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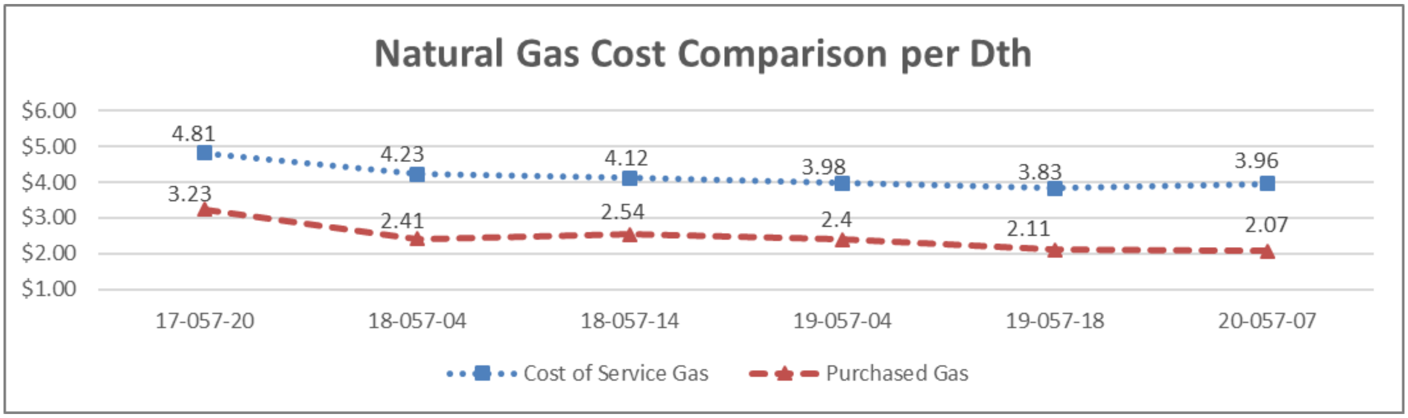
production and includes both Wexpro I and Wexpro II production. The dashed line indicates the forecast price for purchased gas included in each filing.

Chart 3



In the current filing, the cost-of-service gas has increased to $3.96 compared to $3.83 per Dth in the previous filing and purchased gas has decreased to $2.07 compared to $2.11 per Dth. While the price of cost-of-service production has gradually decreased over the last several years, the market price continues to be significantly lower than the Wexpro cost-of-service production. The Company has not indicated when it anticipates the cost-of-service price to be comparable with market purchases.

Effect on a Typical GS Customer

If the proposed rates are approved independently, a typical GS residential customer would see an estimated decrease of $8.27 in their annual bill or a decrease of 1.82%.[27] The Division recommends the Commission approve the Application with an effective date of June 1, 2020.

[27] Exhibit 1.6, Line 14, Column F.

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DOCKET NO. 20-057-08 - TRANSPORTATION IMBALANCE CHARGE

In Docket No. 14-057-31, the Commission approved a supplier non-gas charge to transportation customers for daily nomination imbalance volumes that were outside of a ±5% daily tolerance threshold. This rate applies to transportation customers that were taking service under MT, TS and FT-1 rate schedules and any amount collected under the rate is credited to GS customers through the 191 account. The rate is intended to charge transportation customers for SNG services when used and was implemented in part to improve the daily accuracy of the gas nomination process. The Commission order specified this rate must be reviewed with each pass-through docket and in the next general rate case.

The Company began to impose the imbalance charge as of February 1, 2016. This rate applies to transportation customers only if their individual daily gas nomination amount is outside the ±5% daily tolerance limit. Only customer nominations outside the tolerance limit are assessed this charge and the specific dollar amount paid by all transportation customers is identified as a separate line item in the monthly 191 financial information. For calendar year 2019, transportation customers paid an average of $64,433 per month in imbalance charges, which were credited to the 191 account.

The proposed new rate of $0.07834 per Dth is a decrease from the current rate of $0.08489 per Dth, and is calculated based on the historical imbalance volumes for the previous 12 months ended March 31, 2020. The Division continues to review Exhibit 1.1, which includes the daily nomination and imbalance information for 1,026 transportation customers and includes 390,238 lines of information. The accuracy of the nomination process and the impact of transportation customers on the Company's distribution system continues to be a concern.

While it does appear the nominations have become more accurate since this rate was imposed, a number of individual customers with gas nominations still fall outside the acceptable range. There is also a large variation in the size of customers using the transportation rate. In response to a data request, the Company provided additional information to include the marketing agents

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for each contract number. In reviewing the information from Exhibit 1.1, the Division noted the following;

1. The 17 largest customers use 54% of the total transportation volume and 80% of the volume is attributed to 94 of the largest customers. While these large customers account for 80% of the total volume, they represent 59.7% of the total Dth outside the tolerance limit. The majority of the large use customers continue to be more accurate with the daily nomination process and could potentially have the most impact on the distribution system if their nominations were not accurate.
2. The remaining 932 customers represent only 20% of the total volume and individually will have a lesser impact on the distribution system. While these smaller customers represent only 20% of the total volume, they have paid a larger portion of the penalty and represent 40.3% of the total Dth outside the tolerance limit. Smaller transportation customers appear to be using natural gas primarily for seasonal heating.
3. Most of the daily nominations for transportation customers are made through marketing companies and not all companies have the same level of accuracy with the daily nomination process. One marketing company represents the majority of the small volume customers. This company represents 623 customers but only accounts for 15% of the total nomination volume. Even though this particular marketing company manages 15% of the total volume, its nominations are responsible for 32% of the Dth outside the tolerance limits.

The Division has reviewed the calculation and the information provided by the Company but has not completed an audit of the individual entries and the credits to the 191 account. The Division will continue to analyze the historical nominations and will make recommendations if necessary. Since credits from TS customers flow through the 191 account, the Division recommends approving the change to this rate on an interim basis until an audit of the 191 account has been completed.

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Effect on TS Customers

The proposed change has the potential to affect transportation customers but the affect will not be the same for each customer. As mentioned above, this rate applies to a transportation customer only when its individual daily gas nominations are outside the ±5% tolerance limits. The imbalance charge may apply to some customers on a regular basis while others may occasionally be affected, depending on the accuracy of the customer's daily nomination process. This rate also has a related effect on GS customers as the imbalance charge collected from TS customers is credited to the 191 account. All amounts collected under this rate are credited to the SNG collection amount and would likely have a minor impact on the balance of the over or under collection in the 191 account for GS customers.

The Division recommends the Commission approve the Application on an interim basis, with an effective date of June 1, 2020.

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SUMMARY AND CONCLUSION

The Company filed three independent dockets with an effective date of June 1, 2020. This memorandum discussed two of the three dockets.[28] Each docket has been independently evaluated and the customer impact for each docket has been calculated. Since all of the dockets have the same effective date, the combined change in customer rates has been calculated. Below is a summary of the individual change for each docket and the net customer impact if all three dockets are approved.

Docket	Title	$ Change	% Change
20-057-06	Tax	$0.82	0.13%
20-057-07	191 Pass-Through	($8.27)	(1.28%)
20-057-08	Transportation Imbalance	N/A	N/A
	COMBINED IMPACT	($7.44)	(1.15%)

The net impact if all three of the dockets are approved is a decrease of $7.44 or 1.15% to a typical GS customer's annual bill. The Division also recommends the Commission approve the rates on an interim basis as proposed by Dominion. The interim rates would apply to the requested rate changes in Docket Nos. 20-057-07 (191 Account) and 20-057-08 (Daily Transportation Imbalance Charge). The proposed rate change for Docket No. 20-057-06 (Excess Deferred Income Tax Amortization) is not subject to the Division audit and can be approved on a permanent basis. All three Dockets have an effective date of June 1, 2020. The proposed changes are in the public interest and represent just and reasonable rates for Utah customers.

Cc: Kelly Mendenhall, Dominion Energy Utah
Austin Summers, Dominion Energy Utah
Jessica Ipson, Dominion Energy Utah
Michele Beck, Office of Consumer Services
Maria Wright, Division of Public Utilities

[28] Docket No. 20-057-06 is discussed in a separate memo.