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
Brenda Salter, Utility Technical Consultant Supervisor
Michael Doxey, Utility Analyst

Date: April 28, 2021

Re: **Docket No. 21-057-07,** Dominion Energy Utah Results of Operations Report for the twelve months ended December 31, 2020.

RECOMMENDATION (No Action)

After a review of the above mentioned report, the Division of Public Utilities (Division) recommends the Public Service Commission of Utah (Commission) take no action.

ISSUE

On April 1, 2021, Dominion Energy Utah (DEU) filed its Results of Operations (Report or ROO) for the year ended December 31, 2020, as called for in the Commission's Order in Docket No. 93-057-01. The Commission issued an Action Request on April 1, 2021, directing the Division to review the Report and make recommendations with a due date of April 30, 2021. This memorandum is the Division's response to the Action Request.

ANALYSIS

The Results of Operations report submitted by DEU is in the same format and uses the same model as previous Results of Operations submitted annually to the Commission and in prior rate cases. The current filing includes both unadjusted and adjusted results on a system average and Utah average jurisdictional basis. The fully adjusted results include the normalization and annualized adjustments consistent with previous Results of Operations and general rate cases. A description of each adjustment is included in the filing. The descriptions reference the docket numbers where the Commission order resulted in an adjustment to earnings.

The Division used review procedures to compare the current year Results of Operations to the prior year report. In previous years, Division staff also requested DEU prepare a comparison of the actual results to the forecast using the Commission's authorized capital structure and costs approved in Docket No. 19-057-02. On page 67 of 68 of the 2020 Report, the Company included a comparison of the 2020 actual results to the 2020 forecast. It should also be noted that the Division relies on the external auditors' work and opinion regarding the financial activity as well as DEU's Annual Results of Operations.

Page 5 of 68 of the Annual filing is titled "Utah – Dec 2020 Adjusted Average Results." It begins with historical results for Total DEU, then shows the adjustments and imputed tax adjustment for Total DEU to arrive at Adjusted System Total and the Utah Jurisdiction DNG Related results. The following table provides summary information for comparative purposes. The table also includes the forecast summary information using the Commission's authorized capital structure and costs approved in the company's most recent applicable rate case, Docket No. 19-057-02.[1] All numbers reflect Utah Jurisdiction DNG Related amounts (in millions).

[1] The most recent DEU rate case was Docket No. 19-057-02, which took place in 2019 but was not effective until March 2020. The rate case applicable to the first two months of the 2020 ROO is Docket No. 13-057-05.

	Dec-19	Dec-20	Forecast Dec-20
Revenues	$ 360	$ 379	$ 382
Total O&M	128	116	120
Depreciation and Amortization	73	77	81
Taxes other than Income	25	27	26
Income Taxes	23	30	30
Net Operating Income	$ 111	$ 129	$ 126
Net Utility Plant	$ 1,869	$ 2,006	$ 2,016
Other Rate Base Accounts	(234)	(239)	(252)
Total Net Rate Base	$ 1,635	$ 1,766	$ 1,763
Earned Return on Rate Base	6.77%	7.32%	7.12%
Earned Return on Equity	8.18%	9.52%	9.37%

In DEU's 2019 general rate case, the Commission authorized an earned return on rate base of 7.178% and an earned return on equity of 9.50%.[2] The Division notes, per the 2020 annual Results of Operations, DEU reports a return on rate base of 7.32% and a return on equity of 9.52%, which are respectively approximately 2% and 0.2% more than the authorized rates.

It should be noted, however, that the authorized rates went into effect in March 2020. If a weighted average calculation method is applied to the previous and current authorized rates, both the return on rate base and the return on equity fall within the weighted average authorized returns.

[2] In the Matter of the Application of Dominion Energy Utah to Increase Distribution Rates and Charges and Make Tariff Modifications, Docket No. 19-057-02, Commission Report and Order, pg. 5-6.

The weighted average authorized return calculation is as follows:

	Percent of Total Revenue	Authorized Return on Equity	Weighted Average Authorized Return on Equity	Authorized Return on Rate Base	Weighted Average Authorized Return on Rate Base
Jan-Feb Revenue	31.66%	9.85%	3.12%	7.64%	2.42%
Mar-Dec Revenue	68.34%	9.50%	6.49%	7.178%	4.91%
Total	**100.00%**		**9.61%**		**7.32%**

In the 2019 general rate case, the Commission authorized overall cost of capital is as follows:

	Percent of Total	Cost	Weighted Average
Long-term Debt	45.00%	4.34%	1.95%
Common Stock Equity	55.00%	9.50%	5.23%
Total	**100.00%**		**7.18%**

DEU reports the actual average capital structure for the 13 Months ending December 31, 2020 as:

	Percent of Total	Cost	Weighted Average
Long-term Debt	45.00%	4.40%	1.98%
Common Stock Equity	55.00%	9.61%	5.29%
Total	**100.00%**		**7.26%**

In addition, the Division compared the adjustments made to the year end 2020 Results of Operations to the adjustments made in the prior year. The adjustments made in 2020 and 2019 are summarized and explained in detail by various categories and are included in the Summary of Adjustments section in each year's filing. A description of the adjustments for 2020 begins on page 30 of the filing. The adjustments are summarized as follows:

Adjustment	2020 Page #	2019 Amount	2020 Amount	Difference
Rate Base	34	$ (72,027,484)	$ (156,548,117)	$ (84,520,633)
Energy Efficiency Adjustment	36	(28,247,505)	(26,935,572)	1,311,933
Underground Storage	38	(45,965,723)	(45,826,911)	138,812
Wexpro Plant Adjustment	40	(220,015)	(370,622)	(150,607)
Bad Debt Adjustments	42	(544,427)	(3,374,827)	(2,830,400)
Incentive Plans	45	(2,558,543)	(2,739,680)	(181,137)
Event Tickets	48	-	-	-
Advertising Adjustment	52	(5,318)	-	5,318
Donations & Memberships	56	(120,424)	(214,778)	(94,354)
Reserve Accrual	60	86,018	(145,423)	(231,441)
Labor Adjustment	62	296,986	3,857,310	3,560,324
Pension Adjustment	64	874,030	7,085,808	6,211,778

One purpose of the comparison was to note material differences between the years and to determine if the differences were proper. Another purpose was to evaluate the 2020 adjustments to determine if the presentation, explanations, and balances were consistent and accurate and that the assumptions and the computation of the adjustments appeared proper and accurate.

The Division notes the following based on its analysis of the remaining adjustments.

- Adjustments to the Rate Base are made using the methodology of bringing the year-end rate base balances to meet a 13-month average. The adjustment for 2020 was $(156,548,117) while the adjustment for 2019 was $(72,027,484), a difference of $(84,520,633). The major components of this difference between 2020 and 2019 were: a $(64,525,220) difference in adjustments for work orders for gas plant which have been completed and placed in service but which work orders have not been classified for transfer to the detailed gas plant accounts; and a $(32,303,346) difference in adjustments for accumulated deferred federal and state income taxes.

- Bad Debt Expense adjustment for 2020 was $(3,374,827), while the adjustment for 2019 was $(544,427), representing an increase from the prior year. Bad Debt expense continues to be calculated using a three-year average.

- The Incentive Plan adjustment removes incentive compensation expenses related to financial goals that were either paid directly by DEU or allocated from Dominion Energy. Because the incentive plan payouts vary, a three-year average of payouts related to operation goals has been used in the calculation of normalized incentive plan expenses. The adjustment for 2020 was $(2,739,680), while the adjustment for 2019 was $(2,558,543). Overall, incentive payments increased in 2020.

- The Reserve Accrual includes legal liabilities associated with the Company's self-insurance program and represents DEU's best estimate of legal costs annually. The annual accrual is then adjusted to the average of the actual legal payments for the last 5 years. The adjustment for 2020 was $(145,423) based on an annual accrual of $593,838, while the adjustment for 2019 was $86,018 based on an annual accrual of $253,343.

- The Labor Adjustment calculation includes a capitalization ratio, which is a measure of the portion of labor and overhead costs that are capitalized and not currently expensed. The Company uses a five-year average for ratemaking and for calculating results of operations. This adjustment increased from $296,986 in 2019 to $3,857,310 in 2020. This increase was due to the movement of the actual capitalization ratio for the year to 48.24% and the 5-year average capitalization ratio to 53.28%.

- The Pension Adjustment removes the pension credit, asset, and liability from the revenue requirement. This adjustment has two components; one is an $(80,506,199) reduction to rate base and the other is a $7,085,808 increase to expense.

CONCLUSION

Based on the Division's review and comparison of DEU's Results of Operations for the year ended December 31, 2020, nothing came to the Division's attention of a material nature to indicate any need for modification of the filing or for action to change the Results of Operations as filed. Therefore, the Division recommends the Commission take no further action in this matter.

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