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
Brenda Salter, Assistant Director
Doug Wheelwright, Utility Technical Consultant Supervisor
Eric Orton, Utility Technical Consultant

Date: May 10, 2023

Re: **Docket No. 21-057-12,** In the Matter of the Application of Dominion Energy Utah to Extend Service to Green River, Utah - Request for Review and Consideration of a Notice to Proceed.

Recommendation (Approve)

The Division of Public Utilities (Division) recommends that the Public Service Commission of Utah (Commission) approve Dominion Energy Utah's (Dominion) Request for Review and Consideration of a Notice to Proceed (Request). Approval will allow Dominion to continue with the already approved Green River Expansion and authorize it to spend the additional funds and allow cost recovery as requested.

Issue

In this filing, Dominion is requesting the Commission review and approve its projected cost increase and issue a Notice to Proceed. This filing included the testimony of two Dominion witnesses and seven exhibits in support of this request.

Background

On June 11, 2021, Dominion filed a notice of its intent to file a request for approval to expand its natural gas distribution system “to the rural community of Green River, Utah.”

On August 5, 2021, Dominion filed its application and estimated cost expenditure, along with supporting testimony and exhibits. The application requested the recovery of these costs through “the rural expansion rate adjustment tracker” as outlined in Section 9.02 of its Tariff.

On December 10, 2021, parties (Dominion, Division, and the Office of Consumer Services (Office)) submitted a Settlement Stipulation (Stipulation) which resolved the issues raised by each party in the docket and recommended that, among other things, the Commission (1) approve Dominion’s decision to acquire the PEMC pipeline and construct other facilities; (2) grant a CPCN; and (3) allow Dominion to recover the costs through the Rural Expansion Tracker (RET).

On January 19, 2022, the Commission adopted the stipulation and issued an Order granting Dominion’s request to expand its system to Green River and collect these costs through its RET.

On April 14, 2023, Dominion filed a “Request for Review and Consideration of a Notice to Proceed.” On that same day, the Commission issued an Action Request to the Division directing it to review the request and make a recommendation by May 15, 2023. On April 19, 2023, the Commission issued Notice of Filing and Comment Period directing any interested person to submit their comments on or before Wednesday, May 10, 2023, with reply comments “submitted on or before Wednesday, May 17, 2023” which altered the Division’s deadline for this Action Request Response. This memorandum is the Division’s response to the Action Request as well as its initial comments.

Discussion

The Division has reviewed the testimony and exhibits offered by Dominion and submitted 36 questions to Dominion requesting clarification on statements it made in its Direct Testimony as well as components of its Exhibits. The Division has also had extensive conversations with each of the witnesses and has reviewed the stipulation and the Commission's Order. The Division's comments below do not address each topic discussed in the documents mentioned above; rather the Division has additional comments that are intended to provide a more accurate picture for the Commission when considering this Request and possible future RET requests.

BASELINE REQUIREMENTS

The Stipulation

Paragraph 13 of the Stipulation approved by the Commission says: "The Parties agree for purposes of settlement that, should the costs of the Resource Decision exceed the cost estimates provided in the pre-filed direct testimony of R. Scott Messersmith, the Company will seek Commission approval of any excess costs prior to including those costs in the Rural Expansion Rate Adjustment Tracker. However, any approval of excess costs will be subject to the limits on cost recovery set out in Utah Code § 54-17-403(1)(c)(i) and (ii)."

The Utah Code

Utah Code 54-17-403(1)(c) says: "If the commission approves a request for approval of rural gas infrastructure development under Section 54-17-402, the commission may approve the inclusion of rural gas infrastructure development costs within the gas corporation's base rates if:

(i) the inclusion of those costs will not increase the base distribution non-gas revenue requirement by more than 2% in any three-year period;
(ii) the distribution non-gas revenue requirement increase related to the infrastructure development costs under Subsection (1)(c)(i) does not exceed 5% in the aggregate; and
(iii) the applicable distribution non-gas revenue requirement is the annual revenue requirement determined in the gas corporation's most recent rate case."

The Division relied upon the above-mentioned criteria and compared that to the contents Dominion filed on April 14, 2023. References in Dominion's Exhibits No. 5.02 and 5.03 point to the locations in its filing that fulfill the requirements listed above. The Division finds them sufficient.

ADDITIONAL COMMENTS ON THE STIPULATION

Page 5 of the Commission Order notes: "The signatories also agree, among other things, that (1) DEU will file copies of any necessary permits obtained for construction of the facilities." Beginning on line 539 of Mr. Messersmith's testimony he listed some of the expected permits by stating: "The project will also need a permit, likely from the BLM and Corp of Engineers for the Green River crossing of the pipe using horizontal directional drilling technology. The IHP lines within the City will need excavation permits from the City and any regulator station will need a building permit."

The Division has yet to see copies of these permits, or some clarifying statement filed with the Commission. The Division requests that these to be filed or an explanation provided as to why the stated documentation has not been or cannot be provided.

COMMENTS ON THE PROCESS AND CAUSES OF THE COST INCREASE

Dominion listed several reasons for the cost increase of the project. They include:

- the general inflation of material costs;
- the increase of Contractor costs;
- costs to meet new stakeholder requirements for the new BLM grant;
- the inability to "double-main";
- the distances of connection locations on new meter-sets;
- enhanced cathodic protection;
- NWP interconnect modification, and
- the impacts of flooding.

However, the three most costly increases are the two categories of Material and Miscellaneous Construction Contractors, both of which more than doubled, and the

Contingency fund afforded to Dominion to cover unexpected or underestimated costs. The other causes listed above are more properly listed as “inaccurate original estimates.” A few of these will be discussed below.

Service Lines

Beginning on line 124 of Mr. Gill’s testimony he stated: “The Company prepared the initial cost estimate for the Green River Expansion Project with its typical installation practices and costs in mind. Since that time, we have learned that rural expansion projects cannot be installed this same way.” Mr. Gill’s testimony on line 151 tells us that the company learned that “service lines may be longer than anticipated as it began to install service lines in its first rural expansion area, Eureka, Utah, in late 2021, and early 2022.” However, according to Mr. Gill’s testimony on line 168 Dominion used “an average service line length of approximately 47 feet in its original estimate. After this analysis, the Company increased the average service line length in Green River to approximately 113 feet. The Company originally estimated a total service line quantity of 16,450 feet. This analysis resulted in changing the anticipated service line footage to 39,550 feet.” This statement in the current application does not appear to coincide with the statements and estimates made in the initial application.

This discrepancy, one of the primary reasons for the additional cost, poses some interesting comparisons for the Division as we look at the August 5, 2021, initial testimony of Mr. Messersmith. In the original filing he states, “Additionally, the Company plans to construct approximately 240 lf of 2”, 320 lf of 1¼” and 23,600 lf of ¾” IHP plastic service lines.”[1] Compare that to Mr. Gill’s statement where he said that Dominion used an average service line length of approximately 47 feet, which changed to 113 feet in the current estimation.

If the service line footage from Mr. Messersmith is summed, we get 24,160 feet of service lines (240+320+23,600=24,160). However, if the other number used above 47 feet per potential customer is used we get 22,701 feet (47x483=22,701). Mr. Messersmith’s testimony beginning at line 61 states: “Therefore, the Company believes 483 customers

[1] 21-057-12 Application of Dominion Energy Utah to Extend Service to Green River Utah. Direct Testimony of Jeff Messersmith , Line 501.

seems to be a reasonable and conservative estimate. The Company's estimates assume all 483 customers will sign up for gas service." There seems to be three different estimates for service line footage in the original application. The Division is hesitant to rely on Dominion's updated estimate of 39,550 feet based on issues with the service line totals provided by Dominion in its initial filing of 24,160, or 22,701, or 16,450. The Division requests clarification on the correct service line footage,

Cathodic Protection

Mr. Messersmith's August 5, 2021, testimony beginning on line 430 states: "Additionally, DEU has identified about $2.2 Million in capital costs associated with projects along the PEMC Pipeline to ensure it meets the Company's safety and security requirements. This includes costs of… studying the impact of the electrical transmission system that parallels the line for a number of miles, and repairing or replacing the existing induced-AC mitigation systems that are on the line." Whereas Mr. Gills April 17, 2023, testimony beginning on line 188 says:

> "These increased costs are the result of inadequate cathodic protections on the PEMC line. Prior to closing on the purchase of the line, the Company did not have complete access to analyze the condition of the cathodic protection on the PEMC line. The Company had access to historical records but was not able to perform detailed studies on the impact co-located AC transmission lines may have on the pipeline. Specifically, the Company reviewed numerous studies and previous consulting work regarding the cathodic protection on the line, which concluded the line was protected from corrosion after the recommended actions were completed. These actions appear to have been completed per the recommendations. However, after closing on the sale, and in order to be prudent operators, the Company conducted additional induced AC corrosion studies and conducted field measurements on the cathodic protection system. As a result of this work, the Company determined that the proposed cathodic deep well would need to be larger, and that the proposed AC mitigation costs included in the estimate were not

> high enough to account for the necessary mitigation work. The costs shown in the exhibit represent the change from the original estimated amounts."

The costs for Cathodic Protection unknowns were already granted. Dominion anticipated the need for additional work, therefore it should be required to provide detailed explanations as well as cost estimates from its contractors comparing the additional costs to the previous estimate as well as all justification for the changes.

NWP Interconnect Modification

Mr. Messersmith delineated the modification costs for the NWP interconnect beginning on line 446 of his testimony. On line 455 he is then asked "What will those modifications cost?" His response provides an estimated cost range for an interconnection facility. However, given his detailed explanation of what the interconnect will cost and affirming that the Company was already "working with Willams' NWP on conceptualized designs"[2] demonstrating the understanding Mr. Messersmith (and Williams' NWP) seemed to have of the interconnect requirements, the Division recommends that a more detailed explanation be given as to what determined that it needed a shelter now, and not earlier.

Finally, the Division believes that the above examples provide sufficient evidence to support the Division's position that Dominion should have anticipated the additional length of the service lines in rural settings, and the Cathodic Protection issue should have been more thoroughly vetted prior to presenting the cost estimate to the Commission and the change in the NWP interconnect should have already been in the works and mentioned to the Commission.

The Division requests Dominion provide: 1) copies of the permits and/or other relevant documentation with an explanation as to why the stated documentation has not been or cannot be provided; 2) clarification on the correct service line footage; 3) a detailed explanations as well as cost estimates from its contractors delineating and comparing the additional costs to the previous estimate; and 4) a more detailed explanation as to what

[2] Messersmith testimony lines 448-454 – format

determined that the interconnection shelter is needed now, and why it was not needed earlier.

Conclusion

The Division reviewed and investigated the Company's Request. Although the Division is concerned about the thoroughness of some of Dominion's work, it is not sufficient to recommend that the Commission deny the Request. The requested amount falls within the statutory requirements even with the general inflation pressure. Therefore, the Division recommends the Commission approve the Request while requiring Dominion to provide the lacking information.

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