State of Utah
Department of Commerce
Division of Public Utilities

MARGARET W. BUSSE
Executive Director

CHRIS PARKER
Director, Division of Public Utilities

SPENCER J. COX
Governor
DEIDRE HENDERSON
Lieutenant Governor

Memorandum

TO: Public Service Commission

FROM: Division of Public Utilities
Chris Parker, Director
Artie Powell, Energy Manager
Doug Wheelwright, Utility Technical Consultant Supervisor
Eric Orton, Utility Technical Consultant
Tyler McIntosh, Utility Analyst

DATE: August 13, 2021

RE: Application of Questar Gas Company dba Dominion Energy Utah for a Subscription-Based Carbon Offset Program Docket No. 21-057-14

RECOMMENDATION – Approve

The Utah Division of Public Utilities (Division) provides these comments to the Public Service Commission (Commission) regarding Dominion Energy Utah's (Dominion Energy or the Company) application for a new voluntary Carbon Offset Program. The Division recommends the Commission approve the application for the new Carbon Offset Program.

ISSUE

On June 30, 2021, Dominion Energy submitted an application to the Commission and requested approval of changes to its Utah Natural Gas Tariff No. 500 (Tariff) necessary to implement a voluntary Carbon Offset Program in Utah. Under the proposed voluntary program, Dominion Energy's customers would have the opportunity to pay a surcharge on their monthly bill that would fund the purchase of various carbon mitigating activities to offset the carbon emissions from their natural gas usage.

ANALYSIS

Dominion Energy is seeking approval to launch a voluntary, subscription-based Carbon Offset Program that would function in a similar way to the current GreenTherm program. A Carbon Offset is a quantifiable product representing the global warming equivalent of carbon reductions[1] from a mitigating activity that is measured, certified, and sold through a designated exchange. Dominion Energy would purchase the offsets and allow customers, who seek to fund such activities, the opportunity to purchase offsets as part of their billing. The Carbon Offset Program gives all customers that choose to do so the option to purchase monthly blocks of Carbon Offsets for $5.00 a month. For a typical customer using 80 dekatherms over a 12-month subscription period a block would offset 100% of the natural gas emissions from the customer's usage. The proposed Carbon Offset Program is designed with the following principles in mind:

1. It will have a separate accounting of costs.

2. It will be paid for by customers who choose to subscribe to the Program. Non-participating customers will bear no costs related to the Program.

3. The product offering will be clear and transparent to ensure participants know what they are paying for.

4. Proper oversight and verification will ensure that all Carbon Offsets offered to customers are properly purchased and retired.

The Company had a survey conducted in the first half of 2020 to see who would possibly be interested in this new program. There were 210 participants in Utah that were included in this survey and 78% of Utah respondents indicated interest in participating in the Carbon Offset program. Nearly half of those were very or extremely interested in the program and 81% of those would pay the $5 per month to offset some or all of their carbon emissions. This program is expected to be self-sustaining, meaning that non-participating customers would not bear any

[1] Non CO2 greenhouse gases have varying global warming potentials (GWP). The GWP multiplied by the gas emissions reductions convert the reductions to CO2 equivalent units. Carbon Offset product can then be sold and compared CO2 emissions regardless of source of the reductions.

cost burden related to the program. Dominion Energy will not generate any profit from the Program. Participating customers will pay for the costs of the program with no markup or margin. For those interested in the program it will be paid through their monthly bill and will create increased awareness and understanding for all those customers that choose to participate in the program.

Dominion Energy will account for the program in the same manner it accounts for the existing GreenTherm and Thermwise programs. It will also create a unique and separate balancing account, account 191.5, which will be dedicated to accounting for program activities independent of other utility accounts. Program costs will consist of two main categories: the cost of the Carbon Offsets and the cost of marketing/administering the program. Dominion Energy has discussed its plans with stakeholders to develop the program and plans to continue to collaborate as the details of the program are communicated to customers. The accounting method for the program will confirm that customers that chose to participate will be assured that Dominion Energy has purchased and effectively retired quality offsets. The accounting method will also make sure that the program's cost is fully covered.

Dominion Energy requests that the Commission approve this application, implement the proposed Tariff Section 8.10, the proposed changes to Tariff Sections 8.07, and the Tariff's glossary in accordance with its rules and procedures, and Dominion Energy's Tariff. It also will record the revenue as a regulatory asset the costs incurred for the Program as discussed in this Application, which include:

i. Customer contributions

ii. Marketing and administrative costs

iii. Interest expense

iv. Expenses associated with the purchase of Carbon Offsets v. Expenses associated with funding of qualifying initiatives.

Dominion Energy also asks the Commission to issue a deferred accounting order to allow it to create a Carbon Offset account which would be Account No. 191.5.

The Division has several concerns with the proposed program. First, as noted in the application, most, approximately 75%, of the Carbon Offsets are being generated from a project located in Utah. However, DEU is proposing to purchase Carbon Offsets from two projects located in other states, one in Minnesota and the other in Missouri. There are competing public policy considerations regarding the location of the projects. The first consideration is that customers who are purchasing the Carbon Offsets will benefit from the lowest cost projects to provide the offsets. The competing consideration is that many Carbon Offset generating projects will have at least some level of local economic and local air quality benefits in addition to the more general global emissions reductions. The Division believes that this will require a balancing of the interests. The Division does not support a requirement that all projects be in the state of Utah but does support a preference for Utah based projects to the extent that they are reasonably economically comparable. Not only is the local preference in the best interests of all Utah ratepayers, but potential participating customers are more likely to favor visible local projects. Local projects may also increase participation by raising awareness of the program. Therefore, the Division recommends that the Company report on the mix and location of acquired or potential Carbon Offset projects.

Second, since this program is similar to the GreenTherm program, there could be some customer confusion related to the two programs. The Division recommends a clear and concise one-page customer information paper that clearly delineates the two options. It is important for the customer to understand which of the programs they are signing up for, the costs, and what the customer is receiving.

Third, the Division is concerned about the amount of administrative cost associated with this new program. According to Dominion Energy's application, the program's administrative costs represent approximately 50% of the total program cost in year 1. Although the program is expected to be self-sustaining with surcharges covering both the administration costs as well as the costs of Carbon Offsets, the hope would be that the administration costs over the years would go down below the 50% that they are showing for year 1. The Division recommends that this value be tracked and reported during each annual review. If administrative costs over time are unreasonably high relative to the overall program costs and revenues, the program may need modification.

The Division recommends that the program be audited by the Division. The Division is not seeking a significant procedure for this, but requests that the Commission order Dominion Energy to provide the unaudited financial information to the Division on a quarterly basis. The Division will then annually file with the Commission a summary of its review. To the extent that the Division finds issues, it will work with Dominion Energy and interested stakeholders to resolve them and/or file recommendations with the Commission.

CONCLUSION

After review of the Company's filing and testimony the Division has determined that this program could be a benefit to those that wish to enroll. With it being a voluntary program, the ability to join or cancel at any time and all costs self-contained, other Dominion Energy customers who choose to not participate will be held harmless. The Division recommends that the Commission approve the Carbon Offset program, but would recommend that the Commission order Dominion Energy to provide the unaudited financial information to the Division on a quarterly basis.

cc: Kelly Mendenhall – Questar Gas
Michele Beck – Office of Consumer Services