State of Utah

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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

Russ Cazier, Utility Analyst

Tyler McIntosh, Utility Analyst

Date: October 19, 2021

Re: **Dominion Energy Utah, Docket Nos.**

Docket No. 21-057-17, Adjustment in Rates and Charges to the 191 Pass-Through.

Docket No. 21-057-20, Amortization of the Conservation Enabling Tariff (CET).

Docket No. 21-057-23, Adjustment to the Low-Income/Energy Assistance Rate.

Recommendation (Approve)

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 outlined by Dominion Energy Utah (Dominion or Company) and as recommended herein by the Division.

The Division recommends the Commission approve the requested rate changes in Docket Nos. 21-057-17 (191 Pass-Through) on an interim basis. Approval of final rates are recommended for Docket Nos. 21-057-20 (CET) and 21-057-23 (Low-Income/Energy Assistance Rate). All three

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Docket Applications have requested an effective date of November 1, 2021, and the Division supports that requested effective date.

The Company also simultaneously filed Docket Nos. 19-057-02 (Tariff) modifications, 21-057-18 (Daily Transportation Imbalance Charge) adjustment, 21-057-19 (Infrastructure Rate) adjustment, 21-057-21 (Energy Efficiency Account) amortization, and 21-057-22 (Sustainable Transportation and Energy Plan Surcharge) modification. All of which also requested using the same effective date. The Division's responses to these five Dockets are being filed under separate memos. In total if all eight Dockets are approved, the combined changes will increase a typical GS customer's annual bill by $63.02 or 8.98%.

Issue

On October 1, 2021, Dominion filed the applications identified above and the Commission subsequently issued an Action Request to the Division. On October 5, 2021, the Commission held a scheduling conference on the above matter. The Commission's Scheduling Order established October 19, 2021, as the date the Division and others would file initial comments on the eight Dockets.

Docket No. 21-057-17

The 191 Pass-Through filing is a request for Commission approval to increase the commodity rates and charges for the Company's natural gas service in Utah by $84.2 million and to approve a decrease of the $1.5 million in the supplier non-gas (SNG) category for a net increase of $82.7 million. If the Commission grants this application, typical GS residential customers using 80 Dth per year will see an increase in their yearly bill of $57.88[1] or 8.24%, independent of any other dockets filed.

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

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Docket No. 21-057-20

The Conservation Enabling Tariff (CET) filing is a request to amortize the August 2021 under collected balance of $2.8 million. The previous filing was an amortization for an under collected balance of $4.1 million. If the Commission grants this application, typical GS residential customers using 80 Dth per year will see a decrease in their yearly bill of $1.01 or 0.14%, independent of any other dockets filed.

Docket No. 21-057-23

The Low-Income/Energy Assistance filing is a request to adjust the collection rate to collect the approved $1.5 million, plus the under collected balance of $86,735. In addition to adjusting the rate, the proposed customer credit to low-income customers will increase from $77 to $107. If the Commission grants this application, typical GS residential customers using 80 Dth per year will see a decrease in their yearly bill of approximately $0.02, independent of any other dockets filed.

Discussion

Docket No. 21-057-17 Adjustment in Rates and Charges to the 191 Pass-Through

The 191 Pass-Through filing is a request for Commission approval to increase the commodity rates and charges for the Company's natural gas service in Utah by $84,274,908.

Rate Details

This filing is based on the projected Utah gas costs of $592,197,910[2] for the forecast test year ending October 31, 2022. The commodity portion of the gas cost represents an increase of $84.2 million and the supplier non-gas cost portion (SNG) represents a decrease of $1.5 million for a combined net increase of $82.7 million.[3] The driving force behind the price increase is higher

[2] Exhibit 1.1, Page 2, Line 17, Column E.
[3] Pass-Through Model, Utah Summary by Class.

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forecasted gas costs for the test period. The gas price forecast is based on estimates from two independent agencies[4].

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 $3.97 per Dth[5] compared to $4.05 per Dth[6] in the previous filing. Market and contract purchases for natural gas are projected to be higher at $4.64[7] per Dth compared to $3.21[8] 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. The net result of the change in gas costs is an increase in the Total Sales Unit Commodity Cost of $0.74 to $4.94 per Dth.[9]

In the previous filing, the 191 balancing account was under-collected by $55.598 million, and the Company established a debit amortization of $0.49074[10] per Dth. As of August 31, 2021, the commodity portion of the 191 account was $57.1 million under-collected and the Company is proposing to establish a debt amortization of $0.50038[11] per Dth.

RIN Proceeds from CNG

From April through August 2021, $36,663 in renewable natural gas credits or RIN (Renewable Identification Numbers) were generated through RNG sales at the Company's CNG Stations. In addition, the Company had $37,497 in previously generated credits for a total of $74,160 to be amortized. The proceeds totaled $36,663.[12] As a result, the company is proposing a credit of $0.36648 that will reduce the commodity cost for NGV customers.[13] This is a slight increase from the existing credit of $0.33706.

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[4] www.spglobal.com, S&P Global - Market Intelligence, SNL Bidweek Index.
[5] Exhibit 1.2, Page 3, Column D, Line 20.
[6] Docket No. 21-057-11, Exhibit 1.2, Page 3, Column D, Line 20.
[7] Exhibit 1.2, Page 4, Column D, Line 6.
[8] Docket No. 21-057-11, Exhibit 1.2, Page 4, Column D, Line 6.
[9] Exhibit 1.5, Page 1, Column F, Line 9.
[10] Docket No. 21-057-11, Exhibit 1.5, page 1, line 8, Column D.
[11] Exhibit 1.5, page 1, line 8, Column D.
[12] Pass-thru Application, Paragraph 18.
[13] Exhibit 1.5, Page 6, Line 7.

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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.

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 process of under and over-collection during the year is intended to minimize the amount of interest paid or collected by the Company on the SNG costs included in the 191 balance. The Company is projecting total SNG costs for the test period of $85,196,514[14] for the forecast test year plus a $5,372,883 amortization of the under collected amount from the previous period for a total of $90,569,397 million.[15] In the Company's last pass-through filing (Docket No. 21-057-11), an amortization rate was established based on the balance in the SNG account at the end of March 2021 and is set annually. In this filing, the Company is requesting to keep the amortization rate at $0.50038 to collect the forecasted SNG cost and the adjusted amortization amount. Currently contracts are negotiated among Kern River Gas Transmission Company and QEP. It's worth noting that a sale of QEP to Southwest Gas Holdings Inc. has been announced and entered into a definitive agreement.

[14] Exhibit 1.5, page 2, Column D, Line 1.
[15] Exhibit 1.5, page 2, Column D, Line 3.

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Gas Supply

For the test year, November 2021 through October 2022, the Company is projecting a total system requirement of 120,806,202 Dth.[16] From the total requirement amount, 117,935,696 Dths[17] will be used to meet the projected sales requirement with 2,870,506 Dths used for gas volume reimbursement due to gathering, transportation, distribution fuel, and shrinkage. Of the total gas requirement, 47.0%[18] will be satisfied with the Wexpro cost-of-service production, 27.0%[19] will be satisfied under current purchase contracts and 26.0%[20] will be purchased with future contracts and spot market transactions. The total expected fuel cost for the test period is $611.834 million.[21]

The cost-of-service gas from all Wexpro production is projected to cost $225,134,790 at an average cost of $3.97 per Dth,[22] which is $0.08 lower 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 $180,551,144 at an average cost of $4.31 per Dth[23] including gathering costs. The volume from Wexpro I wells represents approximately 73.8% of the total cost-of-service production. Wexpro II production has a projected cost of $44,583,646 at an average cost of $2.99 per Dth[24] including gathering and represents approximately 26.2% of total production.

The average price of cost-of-service gas from Wexpro has decreased slightly from the previous filing and is lower than the projected market price for the first time in many years.

[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, Line 20 / 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.
[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.

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The cost-of-service gas production includes the operator service fee (OSF) payable to Wexpro of $197,238,929.[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 are displayed in Chart 1 below.

Chart 1 – CONFIDENTIAL

[redacted]

The forecast price for natural gas in the test period is higher than the previous two forecasts 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 $4.64 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. 20-057-14 and 21-057-11) 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

[25] Exhibit 1.2, Page 1, Line 4 + Line 9.
[26] Exhibit 1.2, Page 4, Column D, Line 6.

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gas at Opal, Wyoming (Opal FOM).[27] 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 initially much higher than the forecast market price

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 previous 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. The gas that has been injected into storage is withdrawn during the high

[27] www.spglobal.com, S&P Global - Market Intelligence, SNL Bidweek Index.

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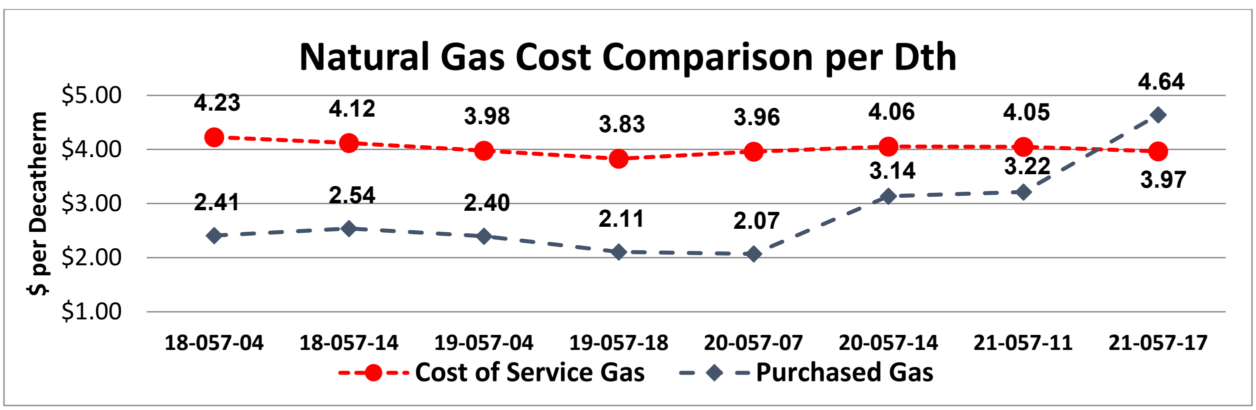
demand winter heating season. The use of storage gas reduces but does not eliminate the need to purchase gas during the high demand winter months.

Comparison to the 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 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 decreased to $3.97 compared to $4.06 per Dth in the previous filing and purchased gas has increased to $4.64 compared to $3.14 per Dth. This is the first time in several years that the price of COS production has been lower than the anticipated price for market purchases.

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Effect on a typical GS Customer

If approved independently, the effect of this change for a typical GS residential customer is an increase of $57.88 or 8.24% in their annual bill. The Division recommends the Commission approve the Application with an effective date of November 1, 2021.

Docket No. 21-057-20 Amortization on the Conservation Enabling Tariff (CET)

In Docket No. 09-057-16, the Commission authorized the Company to establish and utilize a CET balancing account 191.9. The CET is a mechanism designed to ensure the Company collects from GS customers only the Commission authorized revenue per customer. Tariff §2.08 sets forth procedures for recovering the allowed distribution non-gas (DNG) revenue per customer by means of periodic adjustments to rates. The rate changes requested in this Docket affect only the CET component of the distribution natural gas (DNG) rates of the GS rate class.

Rate Details

In this filing, the Company proposes to amortize the August 2020 under-collected balance of $2,875,885. Exhibit 1.1 provides a summary of the accounting entries and monthly balances from July 2020 through August 2021. Exhibit 1.2 provides a summary of the changes in the winter and summer usage blocks. The CET amortization rates reflected in the GS Rate Class tariff sheets filed with this application will change both blocks 1 and 2 of the summer and winter rates.

Effect on a typical GS Customer

If approved independently, the effect of this change for a typical GS residential customer is a decrease of $1.01 in their annual bill. The Division recommends the Commission approve the Application with an effective date of November 1, 2021.

Docket No. 21-057-23 Adjustment to the Low Income/Energy Assistance Rate

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The Division has reviewed the filing and exhibits and agrees with the calculations used to estimate the number of participants and the credit per customer. The proposed credit assumes 18,899 participants during the next 12 months and will adjust the allowed credit to $107 per customer. This estimation is determined by averaging the actual participants from the prior three years, 2018, 2019 and 2020. Exhibit 1.2 column (F) shows the new low-income assistance rate per Dth for each customer class. The projected payout fund calculation of $2,024,149 divided by the 18,999 participants yields the rounded payout per customer of $107. On September 7, 2021, Dominion met with interested parties including the Division, the Office of Consumer Services, and AARP. Based on the available balance, the forecast collection amounts in the test period, and the estimated number of participants, the proposed $107.00 per customer appears to be appropriate.

The number of participants in this program has been decreasing since its inception. It is unclear if improving economic conditions or if the mild winter temperatures have caused reduced participation.

Rate Details

In Docket No. 10-057-08, the Commission authorized the Company to establish an Energy Assistance Program with a target funding level of $1.5 million per year. Exhibit 1.1 of this filing provides a summary of the annual account balance in the 191.8 account for year 1 through year 9 and monthly accounting entries for year 10 (August 2020 – July 2021). As of July 2021, the Company had under collected $86,375 since the beginning of the program. The combination of the unpaid balance and projected collections during the rate effective period will result in an allowed amount of $1,586,375 to be collected from customers during the test period.

Effect on a typical GS Customer

If approved independently, the effect of this change for a typical GS residential customer is a decrease of $0.02 in their annual bill. The Division recommends the Commission approve the Application with an effective date of November 1, 2021.

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Conclusion

The Company filed eight independent dockets with an effective date of November 1, 2021. This memorandum discussed three of the eight dockets.[28] Each docket has been independently evaluated and the customer impact for each docket has been calculated. Since all eight 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 eight dockets are approved.

[28] Docket Nos. 21-057-02, 21-057-18, 21-057-19, 21-057-21, 21-057-22 are discussed in additional memos.

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Docket	Title	$ Annual Change	% Change
19-057-02	Tariff Distribution Rates & Charges	$(2.15)	(0.31)%
21-057-17	191 Pass-Through Account	$57.88	8.24%
21-057-18	Daily Transportation Imbalance Charge	N/A	N/A
21-057-19	Infrastructure Rate Adjustment	$2.68	0.38%
21-057-20	Conservation Enabling Tariff (CET) Account	$(1.01)	(0.14)%
21-057-21	Energy Efficiency Deferred Account	$5.66	0.81%
21-057-22	Sustainable Transportation and Energy Plan (STEP) Surcharge	$(0.02)	0.00%
21-057-23	Low-Income/Energy Assistance Rate	$(0.02)	0.00%
	COMBINED IMPACT	$63.02	8.98%

The net impact if all eight of the dockets are approved is an increase of $63.02 or 8.98% to a typical GS customer's annual bill. The Division also recommends the Commission approve the rates on an interim basis for one of the changes proposed by Dominion Energy Utah addressed in this memo. Interim rates would apply to the requested changes in Docket Nos. 21-057-23 (191 Pass-Through Account). The proposed rate change for Docket No. 21-057-20 (CET), and 21-057-23 (Low- Income/Energy Assistance Rate) are not subject to the Division audit and can be approved as final rates. All eight Dockets have an effective date of November 1, 2021. The proposed changes are in the public interest and represent just and reasonable rates for Utah customers.

Cc: Kelly Mendenhall, Dominion Energy Utah
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