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

Tyler McIntosh, Utility Analyst

Russ Cazier, Utility Analyst

Date: December 16, 2021

Re: **Docket No. 21-057-28,** Dominion Energy Utah, Adjustment in Rates and Charges to the 191 Pass-Through

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 No 21-057-28 (191 Pass-Through) on an interim basis.

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Issue

On December 1, 2021, Dominion filed the applications identified above and the Commission subsequently issued an Action Request to the Division. On December 6, 2021, the Commission held a scheduling conference on the above matter. The Commission's Scheduling Order established December 16, 2021, as the date the Division and others would file initial comments.

Questar Gas is requesting the Commission approve this application, which would result in an increase of $28,885,223 in its Utah natural gas rates. The driving force behind the requested increase is higher forecasted gas costs for the test period. The Company proposes an increase of $28,315,488 in the commodity portion of rates and an increase of $569,735 in the supplier non-gas (SNG) portion of rates. If the Commission grants this Application, typical residential customers using 80 dekatherms per year will see an increase in their total annual bill of $20.18 (or 2.63%).

Discussion

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 $28,885,223.

Rate Details

This filing is based on the projected Utah gas costs of $615,389,550[1] for the forecast test year ending December 31, 2022. The commodity portion of the gas cost represents an increase of $28.3 million and the supplier non-gas cost portion (SNG) represents a decrease of $570 thousand for a combined net increase of $28.8 million.[2] The driving force behind the price increase is higher forecasted gas costs for the test period. The gas price forecast is based on estimates from two independent agencies[3].

[1] Exhibit 1.1, Page 2, Line 17, Column E.
[2] Pass-Through Model, Utah Summary by Class.
[3] www.spglobal.com, S&P Global - Market Intelligence, SNL Bidweek Index.

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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 $4.12 per Dth[4] compared to $3.97 per Dth[5] in the previous filing. Market and contract purchases for natural gas are projected to be higher at $4.86[6] per Dth compared to $4.64[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 filing, the 191 balancing account was under-collected by $57.1 million, and the Company established a debit amortization of $0.50038[8] per Dth. As of October 31, 2021, the commodity portion of the 191 account was $65.4 million under-collected and the Company is proposing to establish a debt amortization of $0.57020[9] per Dth. The net result of the change in gas costs is an increase in the Commodity Rate of $0.24 per Dth to $5.19.

RIN Proceeds from CNG

In the previous Docket No. 21-057-17, the RIN (Renewable Identification Numbers) proceeds were generated though RNG (renewable natural gas) sales at the Company's CNG Station. The RIN proceeds at that time totaled $74,160. A total of $11,916 is expected to be amortized by December 1, 2021 with an amount of $62,244 remaining to be amortized. In addition, new RIN proceeds have been received in September and October 2021 totaling $14,325. The Sum of the remaining proceeds are $76,569.[10] As a result, the company is proposing a credit of $0.37839 that will reduce the commodity cost for NGV customers.[11] This is a slight increase from the existing credit of $0.36648.

[4] Exhibit 1.2, Page 3, Column D, Line 20.
[5] Docket No. 21-057-17, Exhibit 1.2, Page 3, Column D, Line 20.
[6] Exhibit 1.2, Page 4, Column D, Line 6.
[7] Docket No. 21-057-17, Exhibit 1.2, Page 4, Column D, Line 6.
[8] Docket No. 21-057-17, Exhibit 1.5, page 1, line 8, Column D.
[9] Exhibit 1.5, page 1, line 8, Column D.
[10] Pass-thru Application, Paragraph 18.
[11] 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 balances. The Company is projecting total SNG costs for the test period of $86,299,919[12] for the forecast test year plus a $5,372,883 amortization of the under collected amount from the previous period for a total of $91,672,802 million.[13] In the Company's spring pass-through filing (Docket No. 21-057-11), an amortization rate was established; this is set annually. In this filing, the Company is requesting to keep the amortization rate at $0.5618 to collect the forecasted SNG cost and the adjusted amortization amount.

[12] Exhibit 1.5, page 2, Column D, Line 1.
[13] Exhibit 1.5, page 2, Column D, Line 3.

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Gas Supply

For the test year, November 2021 through December 31 2022, the Company is projecting a total system requirement of 120,833,302 Dth.[14] Of the total requirement, 118,335,278 Dths[15] will be used to meet the projected sales requirement with 2,498,024 Dths used for gas volume reimbursement due to gathering, transportation, distribution fuel, and shrinkage. Approximately, 46.4%[16] of the annual gas requirement will be satisfied with the Wexpro cost-of-service production, 21.5%[17] will be satisfied under current purchase contracts and 32.1%[18] will be purchased with future contracts and spot market transactions. The total expected fuel cost for the test period is $635.744 million.[19]

The cost-of-service gas from all Wexpro production is projected to cost $231,179,171 at an average cost of $4.12 per Dth,[20] which is $0.15 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 $183,735,814 at an average cost of $4.45 per Dth[21] including gathering costs. The volume from Wexpro I wells represents approximately 73.6% of the total cost-of-service production. Wexpro II production has a projected cost of $47,443,357 at an average cost of $3.20 per Dth[22] including gathering and represents approximately 26.4% of total production.

The cost-of-service gas production includes the operator service fee (OSF) payable to Wexpro of $202,087,652.[23] As part of its audit and review of the 191 account, the Division is reviewing the

[14] Exhibit 1.2, Page 3, Column C, Line 20 + Page 4, Column C, Line 6.
[15] Exhibit 1.5, Page 1, Column E, Line 6.
[16] Exhibit 1.2, Page 3, Column C, Line 20 / Exhibit 1.2, Page 3, Column C, Line 20 + Page 4, Column C, Line 6.
[17] Exhibit 1.2, Page 4, Column C, Line 3 / Exhibit 1.2, Page 3, Column C, Line 20 + Page 4, Column C, Line 6.
[18] 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.
[19] Exhibit 1.1, Page 2, Column C, Line 17.
[20] Exhibit 1.2, Page 3, Column D, Line 20.
[21] Exhibit 1.2, Page 3, Column D, Line 8.
[22] Exhibit 1.2, Page 3, Column D, Line 13.
[23] Exhibit 1.2, Page 1, Line 4 + Line 9.

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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 only for winter months. In the current filing, the Company uses an average forecast price of $4.86 per Dth[24] for spot and contract purchases. Chart 2 below provides a comparison of the forecast market prices used in the current and the three previous pass-through applications (Docket Nos. 20-057-14, 21-057-11 and 21-057-17) and has been included to show how the forecast price has changed over the past 24 months. The solid line included in the graph is the historical first of month spot price for

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

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natural gas at Opal, Wyoming (Opal FOM).[25] 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

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

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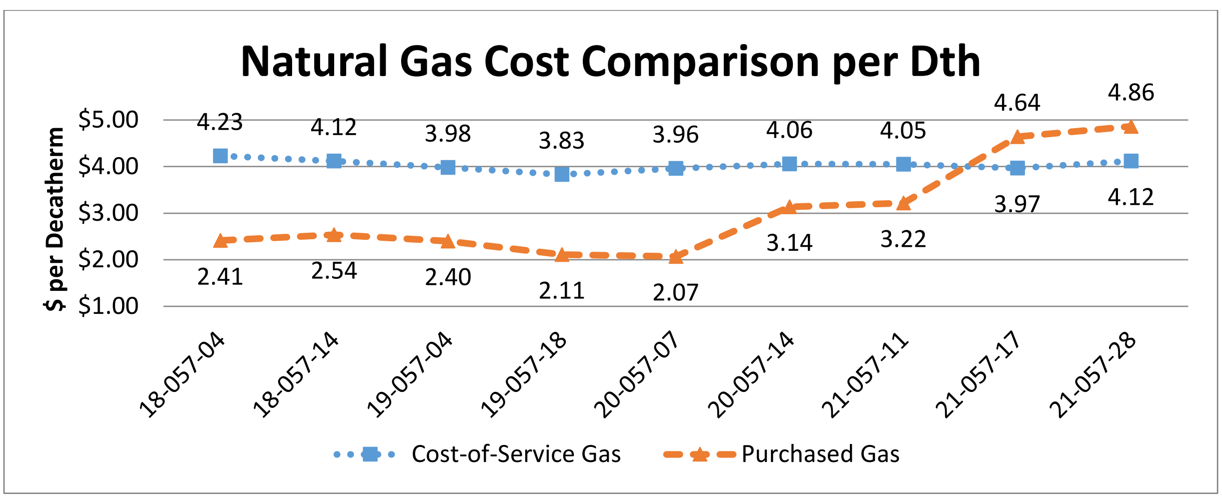
summer months to satisfy the summer demand in addition to allowing the Company to inject gas into storage for later use. The gas that has been injected into storage is withdrawn during the high demand winter heating season. The use of storage gas reduces but does not eliminate the need to purchase gas during the high demand winter months. In addition to the Wexpro production, the Company has executed some fixed price contracts with third party providers for a portion of the winter supply requirements. Market purchases will still be required during the winter heating season.

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 eight 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



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In the current filing, the cost-of-service gas has increased to $4.12 compared to $3.97 per Dth in the previous filing and purchased gas has increased to $4.86 compared to $4.64 per Dth. The chart demonstrates the significant increase in the market price compared to the COS production has been lower than the anticipated price for market purchases.

Effect on a typical GS Customer

If approved independently, the effect of this change for a typical GS residential customer is an increase of $20.18 or 2.63% in their annual bill. The Division recommends the Commission approve the Application with an effective date of January 1, 2022.

Conclusion

The Company is required to file a pass-through application at least twice per year with the Commission and this filing represents the third filing in 2021. Periodic filings by the Company provide a regular review of the current market conditions and allows the Company to adjust rates as necessary. The primary reason for the proposed increase in rates is due to the significant increase in the anticipated cost of market purchases. With this updated information it would be unwise to delay adjustment and potentially create a very large under collection. The Division will continue to monitor the published natural gas prices and compare them to the prices used in this pass-through filing to see if any trends develop that may warrant an out-of-period filing by the Company. The Division supports and recommends the rate changes be approved on an interim basis with an effective date of January 1, 2022. The interim approval will allow additional time for the Division to complete an audit of the entries into the respective accounts. If the application is approved, a typical GS residential customer will see an increase of approximately $20.18 or a 2.63% increase in their annual bill. 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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