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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: July 7, 2022

Re: **Dominion Energy Utah, Docket No. 22-057-08,** Adjustment in Rates and Charges to the 191 Pass-Through

Recommendation (Approve)

After a preliminary review of the application, the Division of Public Utilities (Division) finds the proposed rates to be just, reasonable, and in the public interest. The Division recommends the Public Service Commission of Utah (Commission) approve the rates as outlined by Dominion Energy Utah (Dominion or Company).

The Division recommends the Commission approve the requested rate change on an interim basis until an audit can be completed.

Issue

On June 1, 2022, Dominion filed the application identified above and the Commission subsequently issued an Action Request to the Division. On June 13, 2022, the Commission

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held a scheduling conference on the above matter. The Commission's Scheduling Order established July 7, 2022, as the date the Division and others would file initial comments. This memo represents the Division's comments.

Discussion

Dominion Energy Questar Gas is requesting the Commission approve this application, which would result in an increase of $93,837,427 in its Utah natural gas rates, and includes new costs associated with the Company's liquified natural gas (LNG) facility. The driving force behind the requested increase is higher forecasted gas costs for the test period. The Company proposes an increase of $93,837,427 which includes an increase of $94,043,676 in the commodity portion of the rates and a decrease of $206,249 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 $65.20 (or 8.27%).

LNG Facility

The electricity cost and the commodity cost for the liquified natural gas (LNG) facility are new in this pass-through. The LNG facility will only serve the Utah jurisdiction, which means all the costs that are associated with this facility will be directly assigned to Utah.

The LNG facility is scheduled to be completed and placed into service in the 4th quarter of 2022. The application assumes that the LNG tank will be filled from September to January for a total cost of $6,669,593[1] and would be available to use during the 2022-2023 winter heating season. There is an adjustment of ($5,669,154)[2] that is made due to the timing difference between when gas is injected into and subsequently withdrawn from the LNG tank. The return on working storage gas balances is estimated to be $274,737[3] and is calculated based on the estimated amount held in the facility each month. If the tank is not

[1] Exhibit 1.2, Page 6, Line 1.
[2] Exhibit 1.2, Page 6, Line 4.
[3] Exhibit 1.2, Page 6, Line 18.

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filled or withdrawn as anticipated, the actual cost will vary and will be trued up as part of the 191 balancing account.

The LNG facility will require a significant amount of electricity to cool and liquify the natural gas. For the test year, electricity costs of the LNG plant are estimated to be $2,025,096[4] and are included in the SNG cost of this application. The cost of the electricity that will be needed to run the LNG facility will likely fluctuate from year to year based on the amount of liquification that takes place each year. The electricity costs for the LNG facility are included in this application and have also been included in the revenue requirement calculations in the company's current General Rate Case in Docket No. 22-057-03. The Division supports the Company's request to include the cost of the electricity for the LNG plant in the 191 pass-through since the LNG resource is not intended to be used on a regular and constant basis. If the purpose and use of the LNG plant changes and the resource is used on a regular basis, the division may change its position and recommend including the costs in a future general the rate case. If the Commission approves the inclusion of the electricity cost in this filing, the Company will remove the amount from the General Rate Case.

Rate Details

This filing is based on the projected Utah gas costs of $714,769,878[5] for the forecast test year ending July 31, 2023. The proposed rate represents an increase of $93.8 million[6] and is comprised of an increase of $94 million in the commodity portion of the gas cost and a decrease of $206 thousand in the supplier non-gas cost (SNG) portion. 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[7].

[4] Exhibit 1.4, Page 2, Line 14.
[5] Exhibit 1.1, Page 2, Line 21, Column E.
[6] Pass-Through Model, Utah Summary by Class.
[7] S&P Global Platts and HIS Markit.

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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 $3.97 per Dth[8] compared to $4.12 per Dth[9] in the previous filing. Market and contract purchases for natural gas are projected to be higher at $6.33[10] per Dth compared to $4.86[11] per Dth in the previous filing. Due to the large volume of cost-of-service gas from Wexpro, market purchases are planned primarily during the winter months.

In the previous filing, the 191 balancing account was under-collected by $65.4 million, and the Company established a debit amortization of $0.57020[12] per Dth. As of June 1, 2022, the commodity portion of the 191 account was $60.6 million under-collected, and this filing is adding $1.3 million for estimated LNG costs.[13] In this filing, the Company is proposing to leave the debit amortization unchanged at $0.57020[14] per Dth. The net result of the change in gas costs is an increase in the Commodity Rate of $0.82 per Dth to $6.01.

RIN Proceeds from CNG

In the previous Docket No. 21-057-28, the RIN (Renewable Identification Numbers) proceeds were generated through RNG (renewable natural gas) sales at the Company's CNG Stations. The RIN proceeds at that time totaled $76,569. A total of $49,105 is expected to be amortized by August 1, 2022, with an amount of $27,464 remaining to be amortized. In addition, new RIN proceeds have been received from November 2021 through April 2022 totaling $68,727. The Sum of the remaining proceeds is $96,160.[15] As a result, the company is proposing a credit of $0.33195 that will reduce the commodity cost for NGV customers.[16] This is a decrease from the existing credit of $0.37839.

[8] Exhibit 1.2, Page 3, Column D, Line 20.
[9] Docket No. 21-057-28, Exhibit 1.2, Page 3, Column D, Line 20.
[10] Exhibit 1.2, Page 4, Column D, Line 6.
[11] Docket No. 21-057-28, Exhibit 1.2, Page 4, Column D, Line 6.
[12] Docket No. 21-057-28, Exhibit 1.5, page 1, line 8, Column D.
[13] Exhibit 1.5, Page 1, Line 2 and 3.
[14] Exhibit 1.5, page 1, line 9, Column D.
[15] Pass-thru Application, Paragraph 19.
[16] Exhibit 1.5, Page 6, Line 9.

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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 $88,613,996[17] for the forecast test year plus a $3,222,746 amortization of the under-collected amount from the previous period for a total of $91,836,742 million.[18] The Company is requesting an adjustment to the base SNG rate and to the SNG amortization rate in this filing.[19]

[17] Exhibit 1.5, page 2, Column D, Line 1.
[18] Exhibit 1.5, page 2, Column D, Line 3.
[19] Exhibit 1.5, page 6, Lines 11 – 15.

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Gas Supply

For the test year, June 2022 through July 2023, the Company is projecting a total system requirement of 121,390,165 Dth.[20] Of the total requirement, 118,910,311 Dths[21] 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 45.3%[22] of the annual gas requirement will be satisfied with the Wexpro cost-of-service production 21.0%[23] will be satisfied under current purchase contracts and 32.9%[24] will be purchased with future contracts and spot market transactions. The total expected fuel cost for the test period is $737,725,230 million.[25]

The cost-of-service gas from all Wexpro production is projected to cost $218,175,015 at an average cost of $3.97 per Dth,[26] which is $0.14 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 $164,130,438 at an average cost of $4.08 per Dth[27] including gathering costs. The volume from Wexpro I wells represents approximately 73.3% of the total cost-of-service production. Wexpro II production has a projected cost of $14.673,02 at an average cost of $3.68 per Dth[28] including gathering and represents approximately 26.7% of total production.

[20] Exhibit 1.2, Page 3, Column C, Line 20 + Page 4, Column C, Line 6.
[21] Exhibit 1.5, Page 1, Column E, Line 7.
[22] Exhibit 1.2, Page 3, Column C, Line 20 / Exhibit 1.2, Page 3, Column C, Line 20 + Page 4, Column C, Line 6.
[23] Exhibit 1.2, Page 4, Column C, Line 3 / Exhibit 1.2, Page 3, Column C, Line 20 + Page 4, Column C, Line 6.
[24] 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.
[25] Exhibit 1.1, Page 2, Column C, Line 21.
[26] Exhibit 1.2, Page 3, Column D, Line 20.
[27] Exhibit 1.2, Page 3, Column D, Line 8.
[28] 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 $206,500,977.[29] 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, IHS Markit and S&P Global. (formerly known as CERA and PIRA) The two price forecasts along with the average of the two forecasts are displayed in Chart 1 below.

Chart 1 CONFIDENTIAL

The forecast price for natural gas in the test period is higher than the previous two forecasts [redacted] Since market purchases are anticipated only during the winter months, the Company model uses the average price for spot purchases only for winter months. It should be noted that the current application is projecting that the

[29] Exhibit 1.2, Page 1, Line 12.

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LNG facility will be filled from September 2022 through January 2023 with 1.233 million Dth of natural gas. Historically, natural gas prices are higher in the winter months and lower during the lower demand summer months. Both the historical price and the current forecast anticipate that the price of natural gas will be lower in the warmer months, and it may be advantageous to delay filling the LNG facility. A portion of the facility may need to be filled in order to allow for system testing and limited use during the next heating season but filling the remaining portion may need to be delayed. Exhibit 1.2, page 6, is projecting a total cost of $6.7 million to fill the facility at an average cost of $5.41 per Dth. The average forecast price in May 2023 is [redacted] which would suggest that a delay in filling the facility until the warmer months may be appropriate.

Chart 2 below provides a comparison of the forecast market prices used in the current and the three previous pass-through applications (Docket Nos. 21-057-11, 21-057-17 and 21-057-28) 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 natural gas at Opal, Wyoming (Opal FOM).[30] 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 much higher than the forecast market price

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

Redacted

Chart 2 – CONFIDENTIAL

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 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 fixed price

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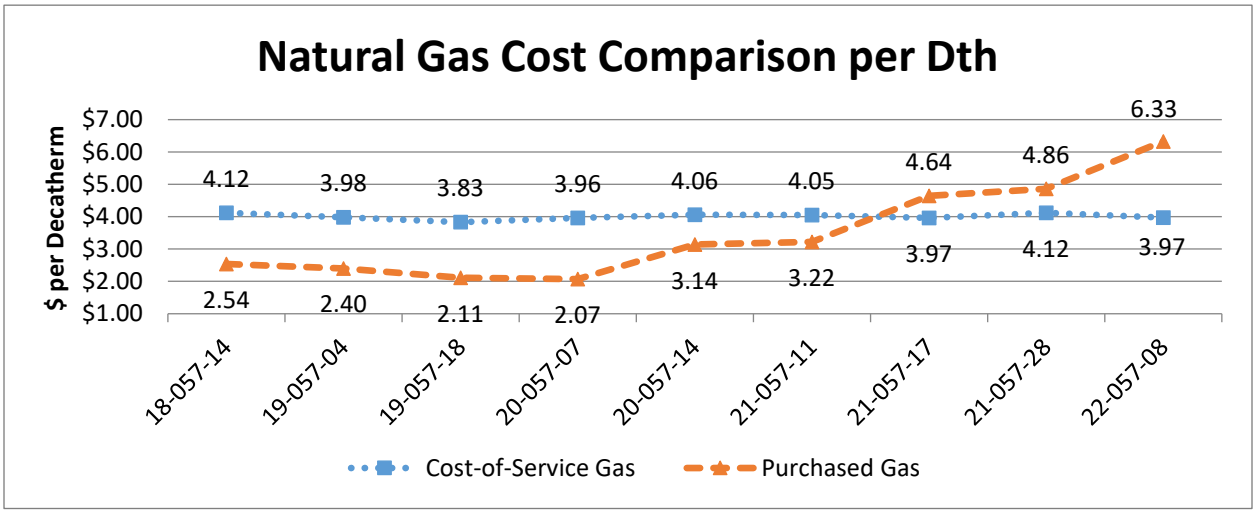
contracts with third party providers for a portion of the winter supply requirements however, market purchases will still be required during the winter heating season.

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



In the current filing, the cost-of-service gas has decreased to $3.97 compared to $4.12 per Dth in the previous filing and purchased gas has increased to $6.33 compared to $4.86 per Dth. The chart demonstrates the significant increase in the purchased gas price.

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Effect on a typical GS Customer

If approved, the effect of this change for a typical GS residential customer using 80 dekatherms per year will be an increase in their total bill of $65.20 or 8.27%.

Conclusion

The Company is required to file a pass-through application at least twice per year with the Commission and this filing represents the first filing in 2022. 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. 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 the Company's request to include the cost of the electricity for the LNG plant in the 191 pass-through but will continue to monitor the actual usage of this facility. If the purpose and use of the LNG plant changes and the resource is used on a regular basis, the division may change its position and recommend including the costs in a future general rate case.

The Division supports and recommends the rate changes be approved on an interim basis with an effective date of August 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 $65.20 or 8.27% 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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