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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE
APPLICATION OF DOMINION
ENERGY UTAH FOR APPROVAL OF
GAS AFFILIATE INVENTORY
TRANSFER AGREEMENT

Docket No. 22-057-10
APPLICATION

Questar Gas Company dba Dominion Energy Utah (Dominion Energy or Company) submits this Application to the Utah Public Service Commission (Commission) for an order approving a Gas Affiliate Inventory Transfer Agreement (Agreement), a draft of which is attached to this Application as Dominion Energy Exhibit 1.0. The purpose of the Agreement is to establish the conditions under which the Company can transfer to or receive from other Dominion Energy gas affiliates certain items of inventory, spare parts, equipment, and other materials to address supply shortages resulting from manufacturing and shipping delays, market constraints and conditions, and other events and circumstances that are outside of the Company's or its affiliates' control.

BACKGROUND

A. The Inventory Shortages Being Created By Current Market Conditions.

1. The COVID-19 pandemic and other recent destabilizing national and international events have caused substantial market constraints, manufacturing and shipping delays, and commodity shortages. As a result, the Company and its affiliates are experiencing shortages of or delays in obtaining certain parts, equipment, pipe, and other materials (collectively, Inventory Items) necessary to replace ageing infrastructure, address gas distribution system needs, respond promptly to requests for new gas connections, and ensure that customer needs are being met.

2. For instance, as set forth in more detail in the Direct Testimony of Kelly Mendenhall, which has been filed in support of this Application as Dominion Energy Exhibit 2.0, the Company and its gas affiliates have placed standard orders for Inventory Items they have historically and routinely purchased to install, expand, and maintain gas distribution systems. However, as a result of several years of market instability, the Company and its gas affiliates are either unable to obtain necessary Inventory Items or their orders are delayed or shorted due to manufacturing and shipping problems. In one very recent instance in May of 2022, the Company ran short of risers necessary to fulfill new customer connection requests and was unable to obtain a supply of those risers from the market in time to meet customer needs. As a result, the Company was obligated to reach out to affiliates to fill that need on a short-term basis. Through subsequent discussions with affiliates, it is clear that they are experiencing the same kinds of shortages, although not necessarily with respect to the same Inventory Items.

B. The Company's Proposal.

3. The Company and its affiliates have determined that because they may have surpluses and shortages in different Inventory Item categories due to each utility's circumstances

at a given time, they could work together to address and respond to Inventory Item shortages by transferring Inventory Items between them, as needed. However, to facilitate this cooperation and ensure that each utility would be doing so in compliance with regulatory requirements, the Company is filing this Application and a similar application with the Wyoming Public Service Commission, and the Company's affiliates are filing applications with their respective regulatory oversight bodies, seeking approval of the Agreement.

4. Through this Application and the Agreement, the Company proposes to have the Agreement function as a pre-approval mechanism for the limited purpose of consummating only Inventory Item transfers to the extent they comply with the Agreement. If approved, the Agreement would allow the Company to engage with affiliates in Inventory Item transfers that it determines are needed to fill supply shortages, without requiring the Company to seek Commission approval each time a transfer is needed.

5. Under the Agreement, an Inventory Item transfer could only be consummated if certain conditions had been satisfied. First, before a transfer could be pursued, the participating utilities would have to have determined that the proposed transfer would not impact their ability to provide utility service to their customers in compliance with applicable laws and regulations. Second, the recipient would have to compensate the transferring entity either by paying the cost of the transferred Inventory Items or, alternatively, providing to the transferring entity other Inventory Items with a value commensurate to the Inventory Items being transferred. Finally, the utilities participating in the transfer would have to comply with any additional conditions reflected in the Agreement. The Company and its affiliates anticipate that Exhibit 1.0, when completed, would contain any additional regulatory conditions required by the respective commissions for

each utility to be deemed in full compliance with commission requirements for Inventory Item transfers.

6. In addition, as discussed in Mr. Mendenhall's Direct Testimony, the Company proposes to report to the Commission in its annual affiliate transaction report all Inventory Item transfers the Company participated in during the prior year.

7. If this process is approved, it will allow Company to address the Inventory Item shortages it is experiencing while streamlining the approval process for Inventory Item transfers to avoid the kind of delays this Application and the Agreement are intended to address.

C. Existing Regulatory Requirements Regarding Utility Asset Transfers.

8. There are existing regulatory rules, tariff provisions, and merger commitments that are relevant to this Application, although they are not necessarily controlling of the issue presented in this Application.

9. First, Rule R746-401-3 of the Commission's Administrative Rules requires utilities to provide notice to the Commission "at least 30 days before" the purchase, sale, or transfer of utility assets where those assets have a cost that exceeds the "lesser of \$10,000,000 or five percent of gross investment in utility plant devoted to Utah service". R746-401-3(A) & (B). While there could be instances where a proposed Inventory Item transfer would reach this threshold, the Company anticipates that such a situation would be very rare and would only occur in the unlikely event that a number of market events coincided to create both a significant supply shortage in particular Inventory Items as well as a need by the Company or one of its affiliates for the same Inventory Items in a significant quantity or value. In addition, in the unlikely event this occurred, under the Agreement, it could only be pursued if the transfer met with the conditions of the Agreement (including the conditions imposed by the Commission in Exhibit 1.0).

10. Second, § 2.06 of the Company's Natural Gas Tariff PSCU 500 states: "All other affiliate expenses, unless otherwise approved by the Commission or subject to regulation by another governmental agency, shall be either (1) cost of service based or (2) competitive with the market for similar services at the time the contract for the services was entered into." This provision is not directly on point as it deals with "affiliate expenses" and "services," and, even then, only requires that the expense be cost-of-service based or competitive with market prices for the same services. Nevertheless, even if it were deemed to apply, as proposed in the Agreement, any Inventory Item transfer would have to be at cost or in exchange for other Inventory Items of comparable value.

11. Third, Paragraph 27 of the Dominion/Questar merger stipulation states that "Dominion Questar Gas will not transfer material assets to or assume liabilities of Dominion or any other Dominion subsidiary without Commission approval."¹ The term materiality is not defined in the merger stipulation. Rule R746-700-22A.3 of the Commission's regulations provides a definition of materiality in a different context: "a change in requested Utah jurisdictional revenue requirement equal to or greater than 0.1 % of total state revenue requirement or \$500,000, whichever is less." While it is unclear if this definition is applicable to the merger stipulation, and while there could be instances where an inventory transfer exceeds this threshold, that would be the exception. Moreover, such a transfer could only be pursued if it satisfied the conditions of the Agreement (including the conditions imposed by the Commission in Exhibit 1.0).

12. Given the instability of the market and the increasing delays or shortages concerning Inventory Items, the Company submits that its proposed mechanism for addressing

¹ September 14, 2016 Order Memorializing Bench Ruling Approving Settlement Stipulation, *In the Matter of the Joint Notice and Application of Questar Gas Company and Dominion Resources, Inc. of Proposed Merger of Questar Corporation and Dominion Resources, Inc.*, Docket No. 16-057-01, Settlement Stipulation at ¶ 27.

those delays and shortages, as discussed in this Application and Mr. Mendenhall's testimony, is just, reasonable, and in the public interest.

SUPPORTING INFORMATION

This Application is supported by the Direct Testimony of Kelly Mendenhall and the attached draft of the Agreement.

PRAYER FOR RELIEF

Based upon the foregoing, and the supporting testimony, Dominion Energy respectfully requests that the Commission approve this Application and the Agreement with such conditions in Exhibit 1.0 for Inventory Item transfers as the Commission determines are appropriate and necessary.

DATED this 28th day of June, 2022.

Respectfully submitted,

DOMINION ENERGY

A handwritten signature in cursive script, appearing to read "Jennifer Nelson Clark", written over the printed name.

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CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the Application was served upon the following persons by email on June 28, 2022:

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