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DEIDRE M. HENDERSON
Lieutenant Governor

UTAH DEPARTMENT OF COMMERCE
Division of Public Utilities

MARGARET W. BUSSE
Executive Director

CHRIS PARKER
Division Director

Redacted

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: October 19, 2022

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

Docket No. 22-057-16, Adjustment in Rates and Charges to the 191 Pass-Through

Docket No. 22-057-15, Amortization of the Conservation Enabling Tariff (CET).

Docket No. 22-057-13, 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 just, reasonable, and in the public interest. The Division recommends the Public Service Commission of Utah (Commission) approve the rates for all three dockets as outlined by Dominion Energy Utah (Dominion or Company).

The Division recommends the Commission approve the requested rate change for Docket No. 22-057-16 on an interim basis until an audit of the 191 account can be completed. The Division also recommends the proposed rate changes for Dockets 22-057-13 and 22-057-15 be approved as final rates with the requested effective date of November 1, 2022.

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Issue

On September 30, 2022, Dominion filed five applications with the Commission. Subsequently, the Commission issued Action Requests to the Division for comments. Three of the applications, Docket Nos. 22-057-13, 22-057-15, and 22-057-16 are covered in these comments from the Division. The other two applications, Docket Nos. 22-057-12 and 22-057-17 are addressed in separate memos. On October 6, 2022, the Commission held a scheduling conference on the above matter. The Commission's Scheduling Order established October 19, 2022, as the date the Division and others would file initial comments. The Company's application proposes an effective date of November 1, 2022, for all five of the Dockets.

Discussion

Docket No. 22-057-16

Questar Gas Company dba Dominion Energy Utah (Dominion Energy or Company) is requesting Commission approval of a $128,167,379 increase in its Utah natural gas rates. The driving force behind the requested increase is higher forecasted gas costs for the test period. The proposal includes an increase of $128,046,117 in the commodity portion of the rate and an increase of $121,262 in the supplier non-gas (SNG) portion of the rate. If the Commission grants this application, typical GS residential customers using 70 dekatherms per year will see an increase in their total annual bill of $78.16 (or 10.29%). Typical GS residential customers using 80 dekatherms per year will see an increase in their total annual bill of $89.31 (or 10.43%) independent of any other dockets filed.

LNG Facility

The LNG facility has recently been completed and the Company has started the cooling and filling process. The completion date for this project was later than anticipated and the current application assumes that the LNG tank will be filled from September to February for

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a total cost of $7,575,865.[1] There is an adjustment of ($6,262,203)[2] that is made due to the timing difference between when gas is injected into and subsequently withdrawn from the LNG tank. Customers pay for the gas as it is withdrawn or used on the system but pay a return on the cost of the gas held in storage. The return on working storage gas balances is estimated to be $538,347[3] and is calculated based on the estimated amount held in the facility each month. Under the proposed schedule, the tank would be filled during the heating season months and would not be completely filled until February 2023 or the end of the 2022-2023 winter heating season.

As noted above, the primary reason for the increase in the 191 filing is the significant increase in the forecast price of natural gas during the heating season. The Division has expressed concern about the prudence of fully filling the LNG facility during the heating season as proposed when the forecast prices are high. The delayed completion of the facility has resulted in delayed filling of the facility, which will also have limited opportunities to be used during the current heating season. The Division and the Company have discussed partial filling 30% – 40% of the facility or 3 – 4 days of potential withdrawal to allow for possible need and availability this season. This would also allow the Company to perform operational testing of the new facility. The remainder of the facility could then be filled during summer months when prices are projected to be lower. If the tank is not filled or withdrawn as forecast and currently projected, the actual cost will vary and will be trued up as part of the 191 balancing account. The reason for modifying the proposed filling schedule is based on the current forecast for natural gas prices in future months which will likely be different than actual prices. The Company should continue to monitor the market price forecast and use prudence and good judgment in determining when to fill the new LNG facility.

[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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The completed 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 $2,088,763[4] and are included in the SNG cost of this application. The Commission approved including the electricity cost in a previous 191 pass-through application.[5] 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. 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 LNG electricity costs in a future general rate case.

Rate Details

This filing is based on the projected Utah gas costs of $872,339,413[6] for the forecast test year ending October 31, 2023. The proposed rate represents an increase of $128.2 million[7] and is composed of an increase of $128 million in the commodity portion of the gas cost and an increase of $121 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.[8]

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 $4.63 per Dth[9] compared to $3.97 per Dth[10] in the previous filing. Market and contract purchases for natural gas are projected to be higher at $7.85[11] per Dth compared

[4] Exhibit 1.4, Page 2, Line 14.
[5] Report and Order, Docket No. 22-057-08
[6] Exhibit 1.1, Page 2, Line 21, Column E.
[7] Pass-Through Model, Utah Summary by Class.
[8] S&P Global Platts and HIS Markit.
[9] Exhibit 1.2, Page 3, Column D, Line 20.
[10] Docket No. 21-057-08, Exhibit 1.2, Page 3, Column D, Line 20.
[11] Exhibit 1.2, Page 4, Column D, Line 6.

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to $6.33[12] 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[13] per Dth. As of August 31, 2022, the commodity portion of the 191 account was $61.1 million under collected, and this filing is adding $1.8 million for estimated LNG costs.[14] In this filing, the Company is proposing to change the debit amortization to $0.53231[15] per Dth. The net result of the change in gas costs is an increase in the Commodity Rate of $1.16 per Dth to $7.12.

RIN Proceeds from CNG

Renewable Identification Numbers (RIN) proceeds were generated through renewable natural gas (RNG) sales at the Company's compressed natural gas (CNG) stations. In Docket No 20-057-14, the Commission directed the company to continue to evaluate other methods to more transparently account for the NGV RIN credit in the 191 account. In a previous application, Docket No. 21-057-08, the RIN proceeds totaled $96,190. A total of $27,242 is expected to be amortized by November 1, 2022, with an amount of $68,948 remaining to be amortized. Additionally, new RIN proceeds have been received from May 2022 through August 2022 totaling $70,422. The Sum of the remaining proceeds is $139,370.[16] As a result, the company is proposing a credit of $0.48096 that will reduce the commodity cost for NGV customers.[17] This is an increase from the existing credit of $0.33195.

[12] Docket No. 21-057-08, Exhibit 1.2, Page 4, Column D, Line 6.
[13] Docket No. 21-057-28, Exhibit 1.5, page 1, line 8, 12 & 15 Column E.
[14] Exhibit 1.5, Page 1, Line 2.
[15] Exhibit 1.5, page 1, line 9, 12 & 15 Column D.
[16] Pass Through Application, Paragraph 19.
[17] 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 $88,410,892[18] plus a $3,222,746 amortization of the under-collected amount from the previous period for a total of $91,633,638 million.[19] The Company is requesting a slight increase in the base SNG rate from 0.38263 to 0.38433. The SNG amortization rate is the same at the previous filing at 0.01392.[20]

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

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Gas Supply

For the test year, November 2022 through October 2023, the Company is projecting a total system requirement of 124,039,742 Dth.[21] Of the total requirement, 118,552,357 Dths[22] will be used to meet the projected sales requirement with 5,487,385 Dths used for storage, gas volume reimbursement due to gathering, transportation, distribution fuel, and shrinkage. Approximately 45.2%[23] of the annual gas requirement will be satisfied with the Wexpro cost-of-service production, 26.1%[24] will be satisfied under current purchase contracts and 28.7%[25] will be purchased with future contracts and spot market transactions. The total expected fuel cost for the test period is $872,339,413 million.[26]

The cost-of-service gas from all Wexpro production is projected to cost $259,773,491 at an average cost of $4.63 per Dth,[27] which is $0.66 higher than the previous filing. Prices for cost-of-service gas from Wexpro are relatively stable but fluctuate somewhat for various reasons, including royalties and similar provisions that relate to market prices. 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 $193,183,651 at an average cost of $4.88 per Dth[28] including gathering costs. The volume from Wexpro I wells represents approximately 65.6% of the total cost-of-service

[21] Exhibit 1.2, Page 3, Column C, Line 20 + Page 4, Column C, Line 6.
[22] Exhibit 1.5, Page 1, Column E, Line 7.
[23] Exhibit 1.2, Page 3, Column C, Line 20 / Exhibit 1.2, Page 3, Column C, Line 20 + Page 4, Column C, Line 6.
[24] Exhibit 1.2, Page 4, Column C, Line 3 / Exhibit 1.2, Page 3, Column C, Line 20 + Page 4, Column C, Line 6.
[25] 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.
[26] Exhibit 1.1, Page 2, Column C, Line 21.
[27] Exhibit 1.2, Page 3, Column D, Line 20.
[28] Exhibit 1.2, Page 3, Column D, Line 8.

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production. Wexpro II production has a projected cost of $66,589,841 at an average cost of $4.03 per Dth[29] including gathering and represents approximately 34.4% of total production.

The cost-of-service gas production includes the operator service fee (OSF) payable to Wexpro of $234,420,031.[30] 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

[29] Exhibit 1.2, Page 3, Column D, Line 13.
[30] Exhibit 1.2, Page 1, Line 12.

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The forecast price for natural gas in the test period is higher than the previous two forecasts for both the winter and summer months and there is a wide disparity between the two forecasts during the winter heating season.

Chart 2 below provides a comparison of the forecast market prices used in the current and the four previous pass-through applications (Docket Nos. 21-057-11, 21-057-17, 21-057-28 and 22-057-08) and has been included to show how the forecast price has changed over the past 28 months. The solid line included in the graph is the historical first of month spot price for natural gas at Opal, Wyoming (Opal FOM).[31] 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.

Chart 2 – CONFIDENTIAL

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

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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 winter months. In addition to the Wexpro production, the Company has executed fixed price contracts with third party providers for a portion of the winter supply requirements. However, spot 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.

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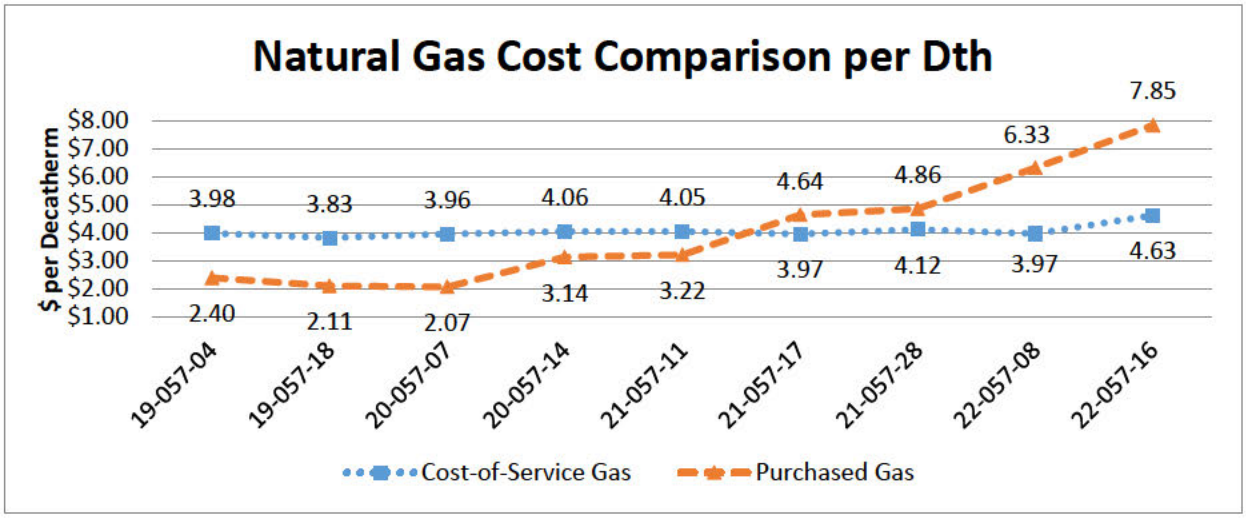
Chart 3



In the current filing, the cost-of-service gas has increased to $4.63 compared to $3.97 per Dth in the previous filing and purchased gas has increased to $7.85 compared to $6.33 per Dth. The chart demonstrates the significant increase in the purchased gas price and the primary reason for the proposed increase.

Effect on a typical GS Customer

If approved, the effect of this change for a typical residential customer using 70 dekatherms per year would be an increase in their total annual bill of $78.16 or 10.29%. A typical customer using 80 dekatherms per year would be an increase in their total annual bill of $89.31 or 10.43%.

Docket No. 22-057-15

The amount of the Conservation Enabling Tariff (CET) is established as part of a General Rate Case. Any under or over collection of the approved amount is corrected and trued up in conjunction with the 191 pass through filing. Docket No 09-057-16 established that the CET program is a way for the company to be successful in allowing the company to collect its commission allowed DNG revenue from the General Service class and in return provide

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a mechanism that removes the Company's disincentive to promote energy-efficiency programs. In this filing, the Company is requesting to amortize the August 2022 under collected balance of $4.1 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 70 Dth per year will see a decrease in their yearly bill of $0.81 or 0.11%, independent of any other dockets filed.

Docket No. 22-057-13

In Docket No 10-057-08, Questar Gas, now Dominion Energy was approved for a Tariff change that Implemented a Low-Income Assistance Program. In its approved application the company stated, "Dominion Energy Utah also respectfully requests that the dollars collected, and the costs associated with the Low-Income Assistance Program to be recorded in account number 191.8 and be subject to adjustment at least annually to ensure that the target funding level of $1.5 million is maintained." 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 $77,104.[32] Dominion Energy is proposing to maintain the current customer credit of $107 for the upcoming heating season. The credit is calculated by using and estimated 15,700 participants during the upcoming heating season. If the Commission grants this application, typical GS residential customers using 70 Dth per year will see an increase in their yearly bill of approximately $0.02, independent of any other dockets filed.

Conclusion

The Company is required to file a 191 Pass-Through application at least twice per year with the Commission and this filing represents the second filing in 2022. Periodic filings by the Company provide a regular review of the current market conditions and allows the

[32] Docket 22-057-13 Application, Page 3, Paragraph E

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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 due to the increase in the price of natural gas. 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 requested rate change with an effective date of November 1, 2023. Approval for Docket No. 22-057-16 should be on an interim basis until an audit of the 191 account can be completed. The Division concludes that the proposed rate change for Dockets 22-057-13 and 22-057-15 are in the public interest and recommends that they be approved on a permanent basis.

If all five of the applications are approved, a typical residential customer using 70 dekatherms per year will see an increase in their total annual bill of $76.14 or 10.05%. A typical customer using 80 dekatherms per year will see an increase in their total annual bill of $87.04 or 10.19%.

Cc: Kelly Mendenhall, Dominion Energy Utah
Austin Summers, Dominion Energy Utah
Jessica Ipson, Dominion Energy Utah
Michele Beck, Office of Consumer Services