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
Brenda Salter, Assistant Director
Doug Wheelwright, Utility Technical Consultant Supervisor
Russ Cazier, Utility Analyst

Date: February 15, 2023

Re: **Docket No. 23-057-03,** Dominion Energy Utah - Adjustment in Rates and Charges to the 191 Pass-Through.

Recommendation (Approve)

The Division of Public Utilities (Division) has reviewed the application Dominion Energy Utah (Dominion or Company) filed with the Public Service Commission of Utah (Commission) and finds the proposed rate changes to be just, reasonable, and in the public interest. The Division recommends the Commission approve the requested rate change for Docket No. 23-057-03 on an interim basis until an audit of the 191 account can be completed. The Division acknowledges the requested effective date of March 1, 2023.

Issue

On February 1, 2023, Dominion filed two applications with the Commission; this request and the request to adjust the Daily Transportation Imbalance Charge (TIC). The TIC was filed as Docket No. 23-057-04, and the Division has prepared comments separate from these comments.

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On February 7, 2023, the Commission held a consolidated scheduling conference for the two dockets. The Commission's Scheduling Order established February 15, 2023, as the date the Division would file initial comments for both dockets.

Discussion

Dominion is requesting Commission approval of a $92,092,281 increase in its Utah natural gas rates. The proposal seeks to increase the commodity portion of the rate $94,171,026 and decrease the supplier non-gas (SNG) portion $2,078,745. The driving force behind the request is the large increase of the under-collected 191 account commodity balance in December of 2022. If the Commission grants this application, a typical GS residential customer using 70 dekatherms per year will see an increase in their total annual bill of $55.78 or 6.43%.

LNG Facility

From the time the Company's LNG facility was placed into service in the 4th quarter of 2022, Dominion has acted with discretion in making market purchases of natural gas to liquify and inject into storage at the facility. As stated, and agreed upon,[1] the Company would only partially fill the facility during this 2022-2023 heating season.

In this application, Dominion plans to fill the LNG storage tank from May through August 2023, for an estimated total cost of $5,241,243[2] with an adjustment of ($4,559,860)[3] for the timing difference between when LNG is injected into and subsequently withdrawn from the LNG storage tank. Utah 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 $264,846[4] and is calculated based on the estimated amount held in the facility each month. If the tank is not filled or withdrawn as forecasted and

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[1] Report and Order, Docket No. 22-057-16.
[2] Exhibit 1.2, Page 6, Line 1, Column B.
[3] Exhibit 1.2, Page 6, Line 4.
[4] Exhibit 1.2, Page 6, Line 18, Column D.

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currently projected, the actual cost will vary and will be trued up as part of the 191 balancing account.

The LNG Facility requires a significant amount of electricity to cool and liquify the natural gas. The cost of electricity needed to run the LNG facility is based on the volume of dekatherms liquified and injected into storage. For the test year, electricity costs at the LNG plant are estimated to be $2,295,625[5] and are included in the SNG cost of this application. The Commission approved the electricity cost in a previous 191 pass-through application.[6]

Rate Details

The Utah gas costs in the previous filing, Docket No. 22-057-16, was $845,082,562 with a forecast test year ending October 31, 2023.[7] This filing is based on projected Utah gas costs of $781,470,125 for the forecast test year ending February 29, 2024.[8] The gas price forecast is based on estimates from two independent agencies.[9]

This filing represents a decrease in the forecast price but includes a large under-collected balance in the 191 account from previous periods. The proposed rate represents an increase of $92.1 million[10] and is composed of an increase of $94.1 million in the commodity portion of the gas cost and a decrease of $2.0 million in the supplier non-gas cost (SNG) portion. The driving force behind the price increase in this filing is the under-collection commodity portion in the 191 account due to high gas prices in prior periods.

The test year natural gas costs consist of cost-of-service gas from Wexpro, contract and market purchases, and storage and transportation costs. The forecast price for cost-of-service production decreased to $4.22 per Dth[11] compared to $4.63 per Dth[12] in the

[5] Exhibit 1.4, Page 2, Line 14.
[6] Report and Order, Docket No. 22-057-08.
[7] Docket No. 22-057-16, Exhibit 1.1, Page 2, Line 21, Column E.
[8] Exhibit 1.1, Page 2, Line 21, Column E.
[9] IHS Markit, and S&P Global Platts.
[10] Pass-Through Model, Utah Summary by Class.
[11] Exhibit 1.2, Page 3, Column D, Line 20.
[12] Docket No. 21-057-08, Exhibit 1.2, Page 3, Column D, Line 20.

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previous filing. Market and contract purchases for natural gas are projected to be $7.22 per Dth[13] compared to $7.85 per Dth[14] 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 and have been higher in recent months compared to prior years.

Storage levels of working gas at storage facilities are lower this year. At time of filing, Clay Basin storage was 26% full compared to 41% on February 1, 2022.[15] The separation of year-over-year volume differences really started to occur late November and is currently 15% lower.

In the previous filing, the 191 balancing account was under-collected by $61.2 million, and the Company established a debit amortization of $0.57020 per Dth.[16] As of December 31, 2022, the commodity portion of the 191 account was $225 million under-collected plus $946.2 thousand for estimated LNG costs.[17] In this filing, the Company is proposing to increase the debit amortization for under-collection of gas cost from $0.53231 to $1.94243 per Dth.[18] The net result of the change in natural gas costs is an increase in the Commodity Rate of $0.81 per Dth from $7.12165 to $7.93468.[19]

RIN Proceeds from CNG

Natural Gas Vehicle (NGV) customers Renewable Identification Numbers (RIN) proceeds were generated through renewable natural gas (RNG) sales at the Company's compressed natural gas (CNG) stations. In the previous application, Docket No. 22-057-16, the RIN proceeds totaled $96,190.[20] A total of $46,582 is expected to be amortized by March 1, 2023, with an amount of $92,788 remaining to be amortized. Additionally, new RIN proceeds have been received from September 2022 through December 2022 totaling

[13] Exhibit 1.2, Page 4, Column D, Line 6.
[14] Docket No. 21-057-08, Exhibit 1.2, Page 4, Column D, Line 6.
[15] Pipeview.questar.com
[16] Exhibit 1.5, Page 1, Lines 9, 12 & 15 Column E.
[17] Exhibit 1.5, Page 1, Line 2.
[18] Exhibit 1.5, Page 1, Lines 9, 12 & 15 Column D.
[19] Exhibit 1.5, Page 6, Line 3.
[20] Exhibit 1.5, Page 1, Footnote 4.

Redacted

$75,754. The sum of the remaining proceeds to be amortized over the test year is $168,542.[21] As a result, the company is proposing a credit of $0.58164 that will reduce the commodity cost for NGV customers.[22] This is an increase from the existing credit of $0.48096.

Supplier Non-Gas Costs (SNG)

SNG costs are set by contractual transportation and storage agreements and tariffs. Historically SNG costs have been relatively stable and predictable, which is unlike the volatility that exists in the market price of natural gas. These costs are associated with transporting market purchased 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 year of $87,226,780[23] plus a $3,222,746 amortization of the under-collected amount from the previous period for a total of $90,449,526 million.[24] The Company is requesting a slight

[21] Pass-Through Application, Paragraph 19.
[22] Exhibit 1.5, Page 6, Line 9.
[23] Exhibit 1.5, page 2, Column D, Line 1.
[24] Exhibit 1.5, page 2, Column D, Line 3.

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decrease in the base SNG winter rate from 0.91359 to 0.89319. The SNG amortization rate is the same as the previous filing at 0.03321.[25]

Gas Supply

For the test year, March 1, 2023, through February 29, 2024, the Company is projecting a total system requirement of 122,112,788 Dth.[26] Of the total requirement, 119,580,866 Dths[27] will be used to meet the projected sales requirement with 2,531,922 Dths used for storage, gas volume reimbursement due to gathering, transportation, distribution fuel, and shrinkage. Approximately 45.9%[28] of the annual gas requirement will be satisfied with the Wexpro cost-of-service production, 26.2%[29] will be satisfied under current purchase contracts and 27.8%[30] will be purchased with future contracts and spot market transactions. The total expected natural gas cost for the test year is $806,484,998 million.[31]

The cost-of-service gas from all Wexpro production is projected to cost $237,045,725 at an average cost of $4.22 per Dth,[32] which is $0.41 less 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 $171,818,019 at an average cost of $4.45 per Dth[33] including gathering costs. The volume from Wexpro I wells represents approximately 68.7% of the total cost-of-service

[25] Exhibit 1.5, page 6, Lines 11 – 16.
[26] Exhibit 1.2, Page 3, Column C, Line 20 + Page 4, Column C, Line 6.
[27] Exhibit 1.5, Page 1, Column E, Line 7.
[28] Exhibit 1.2, Page 3, Column C, Line 20 / Exhibit 1.2, Page 3, Column C, Line 20 + Page 4, Column C, Line 6.
[29] Exhibit 1.2, Page 4, Column C, Line 3 / Exhibit 1.2, Page 3, Column C, Line 20 + Page 4, Column C, Line 6.
[30] 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.
[31] Exhibit 1.1, Page 2, Column C, Line 21.
[32] Exhibit 1.2, Page 3, Column D, Line 20.
[33] Exhibit 1.2, Page 3, Column D, Line 8.

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production. Wexpro II production has a projected cost of $65,227,706 at an average cost of $3.71 per Dth[34] including gathering and represents approximately 31.3% of total production.

The cost-of-service gas production includes the operator service fee (OSF) payable to Wexpro of $226,704,507.[35] 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 Platts (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

[redacted]

The forecast price for natural gas in the test year is very close to pricing forecast in the previous filing for the winter and summer months. The difference in this forecast pricing is

[34] Exhibit 1.2, Page 3, Column D, Line 13.
[35] Exhibit 1.2, Page 1, Line 12.

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slightly lower prices in the first few months and slightly higher prices in the furthest out months.

Below, Chart 2 provides a comparison of local market price to forecasted pricing averages from the same two forecasting entities mentioned above with Chart 1, IHS Markit and S&P Global. The solid line is the historical first-of-month spot price for natural gas at Opal, Wyoming (Opal FOM).[36] The fluctuating semi-solid lines are forecast averages of market prices from this filing and the Company's previous five filings. This chart also shows how actual market prices can deviate from the anticipated price. This comparison shows the actual market price during this 2022-2023 heating season to be higher than the forecast market price last heating season.

Chart 2 – CONFIDENTIAL

[redacted]

A comparison of the forecast price used to set rates compared to the actual first-of-month price is also helpful to understand the correlation of over and under-collection of gas costs in the 191 balancing account.

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

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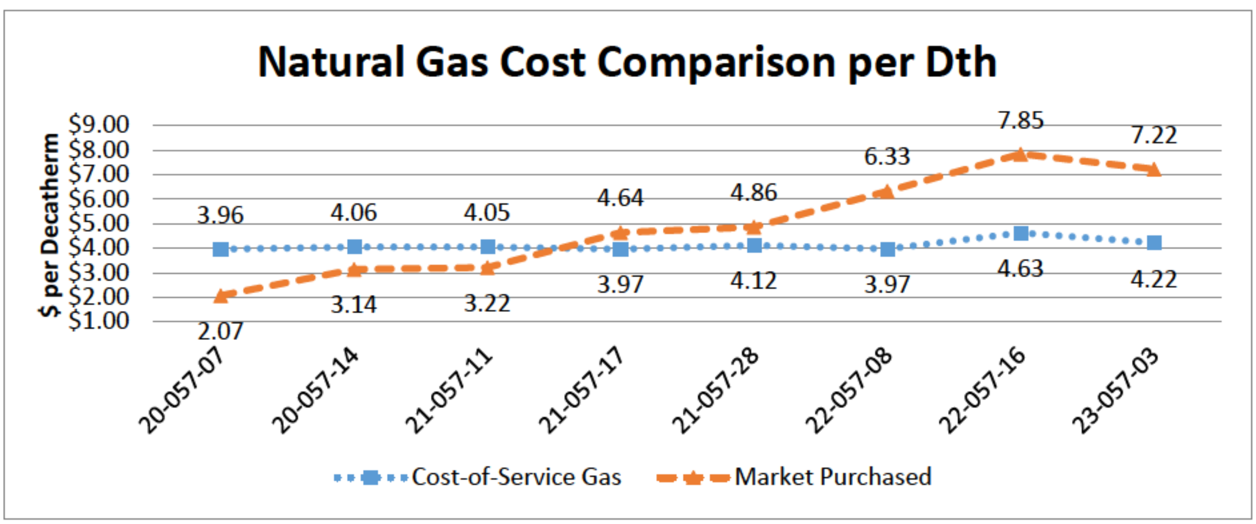
Pricing Hedges

The Wexpro production and the Company's gas storage facilities play an important role in the Company's plan to hedge against natural gas market price volatility while meeting its total system requirement. The current practices generally facilitate Wexpro production flow satisfying the lower demand of the summer season and placing its additional production gas into Company storage facilities for later use. The natural gas injected into storage then becomes working gas withdrawn during the higher demand winter heating season. This practice reduces but does not eliminate the need to purchase gas during the winter months. Additionally, the Company secures fixed price contracts elsewhere with third party providers for a portion of the winter supply requirements. This practice lessens what the Company purchases from the spot 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 year as Exhibit 1.2. To compare the projected natural gas costs in the current filing with previous pass-through filings, the Division has prepared Chart 3 below.

Chart 3



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In the current filing, the cost-of-service gas from Wexpro I and Wexpro II production has decreased from $4.63 per Dth to $4.22 per Dth. Similarly, market purchased natural gas has decreased from $7.85 per Dth to $7.22 per Dth. The chart illustrates the significant increase of the market purchased gas price in recent months.

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 $55.78 or 6.43%.

Possible Changes to the Proposal

The Company has informed the Division of additional under-collection that has occurred in the 191 account for periods after this application's under-collection was fixed. It is anticipated that Dominion will file an additional pass-through application to amortize a significant under-collected amount that occurred in January 2023. The anticipated filing will result in a second increase in customer rates. Since the second filing is necessary and will require a second increase, the Commission may want to consider leaving the SNG rate unchanged and ignore the proposed $2.1 million decrease in the SNG portion of this filing. This would result in the Commission approving an increase of $94.171 million in the commodity portion of rates and could help recover some of the under-collection in the next few months.

At the Division's request, the Company has prepared a revised model to reflect maintaining the current SNG rate. Exhibit 1.6 calculates the effect of the proposed change on a typical GS customer using 70 Dth per year. The revised model calculates an 8.15% increase in customer rates compared to the 6.43% increase as filed and represents a departure from the procedures used to calculate the proposed rate. Although this deviates from general practice, the Division would support a slight departure because the under-collection in January is already known and is significant in amount. It could be in the public interest to include the larger increase now, while volumes remain somewhat higher with seasonal use, instead of waiting for the next application to come just as high usage volumes decline and

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limit collection through the summer months. The revised model and the appropriate exhibits have been included as DPU Exhibit 1.1.

Conclusion

The Company is required to file a 191 pass-through application at minimum annually with the Commission. This filing is the Company's first for 2023, and therefore fulfills its annual statutory requirement. The Company will need to file additional pass-through applications this year due to continued volatility in natural gas prices and under-collection of the commodity portion in the 191 account.

Local weather temperatures dropped significantly in the final week of November 2022, storage volumes of working gas undertook higher withdrawal rates, demand for electricity in the Pacific states increased, and by the first week of December market prices for natural gas had increased dramatically. As a result, the 191 under-collected commodity balance increased $163,343,962 in December 2022.[37] Combined with the prior month balance, the under-collected balance had grown to $225.7 million as of December 31, 2022. This is the highest under-collected amount that the Company has ever recorded.

The Division supports and recommends the requested rate change with an effective date of March 1, 2023. The Commission may want to consider a slight modification to the proposed application since an additional increase in rates will be required due to the additional under-collected amount that occurred in January after this application was filed. Approval for Docket No. 23-057-03 should be on an interim basis until an audit of the 191 account can be completed. The Division concludes that the proposed rates are just, reasonable, and in the public interest. Under the Company's proposed application, a typical residential customer using 70 dekatherms per year will see an increase in their total annual bill of $55.78 or 6.43%.

[37] Pass-Through Application, Paragraph 17.

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