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
Abdinasir Abdulle, Utility Technical Consultant Supervisor
Jeff Einfeldt, Utility Technical Consultant

Date: May 10, 2023

Re: **Docket No. 23-057-06,** Dominion Energy Utah Results of Operations Report for the twelve months ended December 31, 2022.

Recommendation (No Action)

After a review of Dominion Energy Utah's ("DEU") Results of Operations ("Report" or "ROO"), the Division of Public Utilities ("DPU") recommends the Public Service Commission of Utah ("Commission") take no action.

Issue

On April 13, 2023, DEU filed its ROO for the year ended December 31, 2022, pursuant to the Commission's Order in Docket No. 93-057-01. The Commission issued an Action Request on the same day directing the Division to review the Report and make recommendations, with a due date of May 12, 2023. This memorandum is the Division's response to the Action Request.

Discussion

The Results of Operations report submitted by DEU is in the same format and uses the same model as previous ROOs submitted annually to the Commission and in prior rate cases. The current filing includes both unadjusted and adjusted results on a system average and Utah average jurisdictional basis. The fully adjusted results include the normalization and annualized adjustments consistent with previous Reports and general rate cases. A description of each adjustment is included in the filing. The descriptions reference the docket numbers where the Commission order resulted in an adjustment to earnings.

The Division used review procedures to compare the current year Report to the prior year Report. The Division also relies on the external auditors' financial report and opinion in addition to DEU's Annual Results of Operations. In previous years, Division staff also requested DEU prepare a comparison of the actual results to the forecast using the Commission's authorized capital structure and costs approved in Docket No. 19-057-02. On page 65 of 66 of the 2022 Report, the Company included a comparison of the 2022 actual results to the 2022 forecast.

Page 5 of 66 of the ROO is titled "Utah – Dec 2022 Adjusted Average Results." It begins with historical results for Total DEU, then shows the adjustments and imputed tax adjustment for Total DEU to arrive at Adjusted System Total and the Utah Jurisdiction DNG Related results. The following table provides summary information for comparative purposes. The table also includes the forecast summary information using the Commission's authorized capital structure and costs approved in the company's most recent applicable rate case, Docket No. 19-057-02.[1] All numbers reflect Utah Jurisdiction DNG Related amounts (in millions). The information contained in the following table can also be found on page 65 of the ROO. As a note, the Division found discrepancies between the financial information listed on page 5 and page 65 of the ROO. DEU corrected the amounts listed on page 65 and filed the corrected ROO with the Commission on May 9, 2023.

[1] The applicable DEU rate case was Docket No. 19-057-02 that became effective March 2020, and was in effect the entire year ending December 31,2022. The most recent rate case filed in Docket No.22-057-03 became effective January 1, 2023.

	Dec-21	Dec-22	Forecast Dec-22
Revenues	$ 400	$ 425	$ 418
Total O&M	(120)	(126)	(130)
Depreciation and Amortization	(81)	(87)	(94)
Taxes other than Income	(27)	(25)	(31)
Income Taxes	(34)	(35)	(31)
Net Operating Income	$ 138	$ 152	$ 132
Net Utility Plant	$ 2,155	$ 2,379	$ 2,280
Other Rate Base Accounts	(214)	(200)	(199)
Total Net Rate Base	$ 1,941	$ 2,179	$ 2,081
Earned Return on Rate Base	7.11%	6.96%	6.37%
Earned Return on Equity	8.90%	8.74%	8.54%

In DEU's 2019 general rate case, the Commission authorized an earned return on rate base of 7.178% and an earned return on equity of 9.50%.[2] The Division notes, per the 2022 ROO, DEU reports a return on rate base of 6.96% and a return on equity of 8.74%, which are below the rates authorized in the applicable general rate case.

In the 2019 general rate case, the Commission authorized the following overall cost of capital:

	Percent of Total	Cost	Weighted Average
Long-term Debt	45.00%	4.34%	1.95%
Common Stock Equity	55.00%	9.50%	5.23%
Total	**100.00%**		**7.18%**

[2] In the Matter of the Application of Dominion Energy Utah to Increase Distribution Rates and Charges and Make Tariff Modifications, Docket No. 19-057-02, Commission Report and Order, pg. 5-6.

DEU reports the actual average capital structure for the 13 Months ending December 31, 2022, as:

	Percent of Total	Cost	Weighted Average
Long-term Debt	44.60%	4.75%	2.12%
Common Stock Equity	55.40%	9.60%	5.32%
Total	**100.00%**		**7.44%**

In addition, the Division compared the adjustments made to the year-end 2022 ROO to the adjustments made in the prior year. The adjustments made in 2022 and 2021 are summarized and explained in detail by various categories and are included in the Summary of Adjustments section in each year's filing. A description of the adjustments for 2022 begins on page 30 of the filing. The adjustments are summarized as follows:

Adjustment	2022 Pg #	2021 Amount	2022 Amount	Difference
Rate Base	28	$ (146,836,872)	$ (284,115,041)	$ (137,278,169)
Energy Efficiency Adjustment[3]	34	(24,594,614)	(29,176,620)	(4,582,006)
STEP Adjustment	34	(488,343)	(491,475)	(3,132)
Underground Storage	35	(44,932,896)	(48,124,019)	(3,191,123)
Wexpro Plant Adjustment	37	(145,017)	(95,622)	49,395
Bad Debt Adjustments	39	(1,040,105)	(1,392,104)	(351,999)
Incentive Plans	42	(2,837,040)	(2,185,441)	651,599
Event Tickets	45	-	-	-
Advertising Adjustment	49	-	-	-
Donations & Memberships	53	(176,631)	(181,867)	(5,236)
Reserve Accrual	57	322,006	(341,174)	(663,180)
Labor Adjustment	59	2,865,994	3,196,311	330,317
Pension Adjustment	61	4,383,941	8,454,518	4,070,577

[3] The Division noticed a discrepancy between the amounts reported for Energy Efficiency and STEP on page 34 of the ROO compared to the Energy Efficiency tab of the accompanying Excel workbook. DEU updated the information on page 34 of the ROO to the correct amounts listed in the Excel Workbook. This corrected information is part of DEU's corrected ROO filing on May 9, 2023.

One purpose of the comparison was to note material differences between the years and to determine if the differences were reasonable. Another purpose was to evaluate the 2022 adjustments to determine if the presentation, explanations, and balances were consistent and similar to prior years, and that the assumptions and the computation of the adjustments appeared consistent.

The Division notes the following based on its analysis of the aforementioned adjustments.

- Adjustments to the Rate Base are made using the methodology of bringing the year-end rate base balances to meet a 13-month average. The adjustment for 2022 was $(284,115,041) while the adjustment for 2021 was $(146,836,872), a difference of $(137,287,169). The major components of the 2022 adjustment relate to account 376 – Mains $(89,394,000); account 101- Gas Plant in Service $(110,241,000); account 106 – Complete Construction not yet Classified $(236,422,000).

- Bad Debt Expense adjustment for 2022 was $(1,392,104), while the adjustment for 2021 was $(1,040,105). Bad Debt expense continues to be calculated using a three-year average.

- The Incentive Plan adjustment removes incentive compensation expenses related to financial goals that were either paid directly by DEU or allocated from Dominion Energy. Because the incentive plan payouts vary, a three-year average of payouts related to operation goals has been used in the calculation of normalized incentive plan expenses. The adjustment for 2022 was $(2,185,441), while the adjustment for 2021 was $(2,837,040).

- The Reserve Accrual includes legal liabilities associated with the Company's self-insurance program and represents DEU's best estimate of legal costs annually. The annual accrual is then adjusted to the average of the actual legal payments for the last 5 years. The adjustment for 2022 was $(341,174) based on an annual accrual of $837,614, while the adjustment for 2021 was $322,006 based on an annual accrual of $139,068.

- The Labor Adjustment calculation includes a capitalization ratio, which is a measure of the portion of capitalized labor and overhead costs and not currently expensed. The Company uses a five-year average for ratemaking and for calculating results of operations. This adjustment increased from $2,865,994 in 2021 to $3,196,311 in 2022. This increase was due to the movement of the actual capitalization ratio for the year to 47.46% and the 5-year average capitalization ratio to 51.14%.

- The Pension Adjustment removes the pension credit, asset, and liability from the revenue requirement. This adjustment has two components; one is a $(101,960,768) reduction to rate base and the other is a $8,454,518 adjustment to remove the pension expense.

Conclusion

Based on the Division's review and comparison of DEU's Results of Operations for the year ended December 31, 2022, nothing came to the Division's attention of a material nature to indicate any need for modification of the filing or for action to change the Results of Operations as filed. Therefore, the Division recommends the Commission take no further action in this matter.

cc: Kelly Mendenhall, Dominion Energy Utah
Michele Beck, Office of Consumer Services