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UTAH DEPARTMENT OF COMMERCE
Division of Public Utilities

MARGARET W. BUSSE
Executive Director

CHRIS PARKER
Division Director

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
Abdinasir Abdulle, Utility Technical Consultant Supervisor
Jeff Einfeldt, Utility Technical Consultant
Annette Orton, Utility Analyst

Date: April 24, 2024

Re: **Docket No. 24-057-06,** Dominion Energy Utah Results of Operations Report for the twelve months ended December 31, 2023.

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 March 25, 2024, DEU filed its ROO for the year ended December 31, 2023, 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 April 24, 2024. DEU then filed an updated ROO on March 26, 2024, to correct a minor error in the report. 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's Report to the prior year's 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 61 of 62 of the 2023 Report, the Company included a comparison of the 2023 actual results to the 2023 forecast.

Page 5 of 62 of the ROO is titled "Utah – Dec 2023 Adjusted Avg 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 with the prior year. 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. 22-057-03.[1] All numbers reflect Utah Jurisdiction DNG Related amounts (in millions). The information contained in the following table can also be found on page 61 of the ROO.

[1] The applicable DEU rate case was Docket No. 22-057-03 that became effective January 1, 2023, and was in effect the entire year ending December 31,2023.

	Dec-22	Dec-23	Forecast Dec-23
Revenues	$ 425	$ 492	$ 486
Total O&M	(126)	(147)	(129)
Depreciation and Amortization	(87)	(98)	(104)
Taxes other than Income	(25)	(28)	(30)
Income Taxes	(35)	(42)	(43)
Net Operating Income	$ 152	$ 177	$ 180
Net Utility Plant	$ 2,379	$ 2,807	$ 2,889
Other Rate Base Accounts	(200)	(231)	(245)
Total Net Rate Base	$ 2,179	$ 2,576	$ 2,645
Earned Return on Rate Base	6.96%	6.85%	6.82%
Earned Return on Equity	8.74%	9.10%	9.16%

In DEU's 2022 general rate case, the Commission authorized an earned return on rate base of 6.856% and an earned return on equity of 9.60%.[2] The Division notes, per the 2023 ROO, DEU reports a return on rate base of 6.85%, equal to the authorized rate in the last general rate case, and a return on equity of 9.10%, which is below the rate authorized in the applicable general rate case.

In the 2022 general rate case, the Commission authorized the following overall cost of capital:

	Percent of Total	Cost	Weighted Average
Long-term Debt	49.00%	4.00%	1.96%
Common Stock Equity	51.00%	9.60%	4.90%
Total	**100.00%**		**6.86%**

[2] In the Matter of the Application of Dominion Energy Utah to Increase Distribution Rates and Charges and Make Tariff Modifications, Docket No. 22-057-03, Commission Report and Order, pg. 6.

DEU reports the actual average capital structure for the 12 Months ending December 31, 2023, as:

	Percent of Total	Cost	Weighted Average
Long-term Debt	44.45%	4.04%	1.80%
Common Stock Equity	55.55%	9.60%	5.33%
Total	**100.00%**		**7.13%**

In addition, the Division compared the adjustments made to the year-end 2023 ROO to the adjustments made in the prior year. The adjustments made in 2023 and 2022 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 2023 begins on page 23 of the filing. The adjustments are summarized as follows:

Adjustment	2023 Pg #	2022 Amount	2023 Amount	Difference
Rate Base	28	$ (284,115,041)	$ (198,378,886)	$ 85,736,155
Energy Efficiency Adjustment	30	(29,176.620)	(24,512,924)	4,663,696
STEP Adjustment	30	(491,475)	(491,475)	-
Underground Storage	32	(48,124,019)	(43,033,412)	5,090,607
Wexpro Plant Adjustment	34	(95,622)	(50,879)	44,743
Bad Debt Adjustments	36	(1,392,104)	(4,495,406)	(3,103,302)
Incentive Plans	39	(2,116,496)	(2,603,131)	(486,635)
Event Tickets	42	-	-	-
Advertising Adjustment	46	-	-	-
Donations & Memberships	50	(176,129)	(165,773)	10,356
Reserve Accrual	54	(341,174)	555,206	896,380
Labor Adjustment	56	3,196,311	5,361,856	2,165,545
Pension Adjustment (expense)	58	8,454,518	12,590,227	4,135,709

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 2023 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 2023 was $(198,378,886) while the adjustment for 2022 was $(284,115,041), a difference of $(85,736,155). The major components of the 2023 adjustment relate to account 376 – Mains $(111,498,000); account 101- Gas Plant in Service $(148,697,000); account 106 – Complete Construction not yet Classified $(68,333,000).

- Bad Debt Expense adjustment for 2023 was $(4,495,406) while the adjustment for 2022 was $(1,392,104). Bad Debt expense continues to be calculated using a three-year average. The percentage of uncollectible accounts compared to total revenue for 2021 was .18%, 2022 was .27%, and 2023 increased to .53%. DEU believes the increase is due in part to the increase in natural gas costs in general leading to larger customer bills, and a weakening of the economy generally. DEU believes uncollectible accounts will decrease in the future as natural gas costs return to more normal levels in the future.

- 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 2023 was $(2,603,131), while the adjustment for 2022 was $(2,116,496).

- 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 2023 was $555,206 with a five year average of

$518,953, while the adjustment for 2022 was $(341,174) with a five year average of $496,440.

- 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 $3,196,311 in 2022 to $5,361,856 in 2023.

- The Pension Adjustment removes the pension credit, asset, and liability from the revenue requirement. This adjustment has two components; one is a $(121,994,984) reduction to rate base and the other is a $12,590,227 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, 2023, 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