Memorandum

TO: Public Service Commission

FROM: Division of Public Utilities
Chris Parker, Director,
Artie Powell, Energy Manager
Doug Wheelwright, Technical Consultant

DATE: August 18, 2017

RE: Questar Gas Company dba Dominion Energy Utah Dividend
Docket No. 17-999-02

I. RECOMMENDATION – No Action

Based upon the following analysis, the Division of Public Utilities (Division) has determined that no dividends have been declared or paid by Questar Gas Company dba Dominion Energy Utah since August 2016. The Division recommends that the Commission take no action concerning the dividend but would recommend that the Company provide additional detail in the financial reporting.

II. ISSUE

On July 6, 2017, the Public Service Commission issued an action request concerning the applicability of Utah Code Ann § 54-4-27 (Payment of Dividends – Notice – Restraint) as it relates to Questar Gas Company dba Dominion Energy Utah. This memo is the Division's response to the action request.

III. ANALYSIS

Utah Code Ann § 54-4-27 identifies the notification and approval requirements that a gas or electric corporation must follow prior to the payment of a dividend. The last time the board of directors of Questar Gas declared a dividend was on August 1, 2016. That dividend represented the 287th consecutive dividend and was payable on September 12, 2016. At the same time, the board of directors also approved a contingent cash dividend equal to $0.00242 per share for each day elapsed from August 19, 2016 to the closing date of the proposed merger of Questar Corporation with Dominion Resources Inc. On September 16, 2016, the merger of Questar Corporation and Dominion Resources, Inc. was completed. From September 16, 2016 through June 30, 2017, no dividends have been paid from Questar Gas Company dba Dominion Energy Utah to the new parent company. As part of the merger commitments, Dominion agreed to comply with the existing regulations and inform the Commission of any pending dividend payment.

While no dividends have been paid by Questar Gas, during this same time period dividend payments from affiliated companies have been paid to the new parent company. Dividends from the affiliated companies have been paid in prior years, however the amount of the dividend payments has changed in recent periods. In response to DPU Field Data Request No. 1.01, the Company provided a summary of the dividend payments from Wexpro and from Questar Pipeline to Dominion. From September 16, through June 30, 2017, Wexpro has paid a total of $56.0 million in dividends and Questar Pipeline has paid a total of $73.1 million. The Company's response to Field Data Request 1.01 has been included with this memo as Exhibit 2.

In order to provide the Commission with an update of the Company's financial condition for Questar Gas dba Dominion Energy Utah, the Division has included Exhibit 1. This exhibit provides a summary of the financial results for the periods ending December 31, 2011 through June 30, 2017 and has been taken from the Company's SEC 10-K and 10-Q filings. The Commission should be aware that since the merger with Dominion, the financial information related to Questar Gas and supporting footnotes are not as detailed as what historically has been included in previous financial filings. The reduction in the amount of detailed financial information could hinder the Division's ability to identify financial trends which could impact the ability to provide a thorough analysis in future proceedings. Access to financial information for Questar Pipeline has been significantly impacted and is limited to the information that is filed with FERC. Concise income statement, balance sheet and cash flow statements for Dominion Energy Questar Pipeline are no longer available to the Division as a result of the merger.

In review of the financial information for Questar Gas, for the 12 months ending December 31, 2016, total revenue increased 0.40% from $917.6 million to $921.3 million. The slight increase in total revenue is primarily due to colder weather conditions compared to 2015 and a decrease in the market price of the natural gas commodity. During calendar year 2016, the calculation of heating degree days[1] was 15% warmer than normal compared to 2015 which was 19% warmer than normal. From a longer term perspective, total revenue has decreased from 2011 through 2016 with an average annual decrease of 1.0%. For the first half of 2017, total revenue was $536.6 million compared to $536.1 million for the same period in 2016. Net income was $46.0 million for the first half of 2017 which is identical to the $46.0 million for the same period in 2016. By comparison, net revenue for the first 6 months of 2017 was 6% higher than 2016 due to an increase in revenue from affiliates, an increase in the infrastructure replacement cost recovery and customer growth.[2]

Natural gas supplies are provided by a combination of cost-of-service production from Wexpro and from third party market purchases with the majority of the supply provided by Wexpro. With the high volume of cost-of-service production, market purchases are only required during the winter heating season. The operator service fee paid to Wexpro for cost-of-service production in 2016 was $311.7 million compared to $319.0 million in 2015. The operator service fee for the first 6 months of 2017 was $155.6 million compared to $158.7 million in 2016. Both calendar year 2016 and year-to-date 2017 reflect a decrease in the operator service fee.

The balance sheet information on page 2 of Exhibit 1 identify a change in the reporting of accounts receivable for 2016 and for the first 6 months of 2017 with less detail reported in the type of accounts receivable due to the merger. Total accounts receivable were down slightly from $168.8 million in 2015 compared to $163.7 million in 2016. The net plant and equipment

[1] The number of degrees that the average temperature for the day is below 65° Fahrenheit.
[2] Questar Gas Company, SEC Form 10-Q for quarterly period ended June 30, 2017, page 19.

has increased steadily from 2011 through 2016 averaging a 12.8% annual increase compared to total assets which increased at an average rate of 11.6%. Capital expenditures have increased from $121.5 million in 2011 to $240.4 million in 2016 primarily due to the ongoing feeder line replacement program.

Page 4 of Exhibit 1 calculates the financial ratios for the periods under review. The profitability ratios remain close to historical averages with Return on Total Capital of 6.2% in 2016 compared to the 5 year average of 6.9%. On an SEC financial reporting basis, the Company had a Return on Equity (ROE) of 8.9% for 2016. The Company's authorized return on equity is 9.85% and is calculated based on slightly different regulatory guidelines. The regulatory ROE is provided by the Company in the year-end Results of Operation and was calculated to be 9.5% for 2016. Based on the calculations, the Company does not appear to be earning more than the authorized rate of return. The Division will continue to monitor the regulatory ROE calculations and will report any findings to the Commission.

The Company's regulatory capital structure is currently 49.0% debt and 51.0% equity, which is slightly different than the five year average of 47.6% debt and 52.4% equity. Total Common Equity grew at an average rate of 7.8% for the periods under review and included a $90 million equity contribution from Questar Corporation in 2013.

Page 5 of Exhibit 1 includes the operating statistics and looks at the revenue by customer class along with the natural gas costs per dekatherm (Dth) for each period under review. In 2016, residential, commercial and industrial sales customers provided 92.8% of the total revenue dollars but represented only 52.4% of the total volume. Transportation customers represent a large portion of the Company's total volume and the percentage of transportation volume has increased from 30.7% in 2011 to 46.3% in 2016. The increase in the volume for transportation customers is likely due to the low commodity price, which has created an incentive for large volume customers to move from General Service (GS) to the transportation class. Additional operating statistics relating to the customer class volume for the interim period has been provided in prior years as part of the 10-Q filings but has not been included since the merger.

Page 6 of Exhibit 1 includes a breakdown of the cost of sales. Of particular note is the Operator Service Fee (OSF) paid to Wexpro. While the total cost of gas sold has decreased at an annual average rate of 3.4% for the periods under review, the OSF has increased at an average annual rate of 4.2% and represents the largest individual line item in the total cost of gas. The OSF grew from $253.4 million in 2011 to $349.7 million in 2014 and then decreased to $311.0 million in 2016. Cost-of-service gas production volume has been included in prior filings but has been eliminated from the reports since the merger. In addition to the volume being eliminated, the detail for the cost of goods sold has been removed from the 2017 10-Q interim period filings. The Division is continuing to monitor and review the individual charges included in the OSF and will update the Commission as appropriate. As mentioned above, a reduction in the amount of detailed financial information could hinder the Division's ability to identify financial trends that could impact the ability to provide a thorough analysis in future proceedings.

IV. CONCLUSION

The Division has determined that no dividend payments have been declared or paid by Questar Gas Company dba Dominion Energy Utah since August 2016. The Division recommends that the Commission take no action concerning the dividend but would recommend that the Company provide additional detail in the financial reporting.

cc: Barrie McKay – Questar Gas
Kelly Mendenhall – Questar Gas
Michele Beck – Office of Consumer Services