State of Utah

Department of Commerce
Division of Public Utilities

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Memorandum

To: Public Service Commission of Utah

From: Utah Division of Public Utilities

Chris Parker, Director

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Doug Wheelwright, Utility Technical Consultant Supervisor

Tyler McIntosh, Utility Analyst

Scott Abbott, DPU Intern

Date: June 30, 2021

Re: **Docket No. 21-999-02,** Questar Gas Company dba Dominion Energy Utah Dividend.

Recommendation (No Action)

Based upon the following analysis, the Division of Public Utilities (Division) finds no indication that the capital and operations of Questar Gas Company dba Dominion Energy Utah (DEU or Company) will be impaired pursuant to Utah Code § 54-04-27. 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.

Issue

On June 30, 2021, the Board of Directors of the Company declared a cash dividend of $50 million. The date fixed for this payment is July 8, 2021. 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 DEU. This memo is the Division's response to the action request. While this is the first dividend in many years, it is also a significantly larger dividend payment than previous years. Previous dividend payments were also declared and paid on a quarterly basis in contrast with the current declaration.

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 Division understands the terms "impaired" and "impairment" in the statute to mean that (1) the payment of the dividend will result in actions being taken against the Company by creditors, rating agencies, or others due to a reduction in the value of the capital, the violation of loan covenants, or other agreements; (2) the payment of the dividend would result in a reduced ability of the Company to provide service through a lack of working capital or other financial capacity to continue its operations in the same manner as it would if the dividend were not paid.

The last time the board of directors of Questar Gas declared a dividend was on August 1, 2016, payable on September 12, 2016. That dividend represented the 287th consecutive dividend. From August 1, 2016 through June 10, 2021 no dividends have been paid from DEU to the new parent company.

While no dividends have been paid by DEU, 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 order to provide the Commission with an update of the Company's financial condition for DEU, the Division has included Exhibit 1. This exhibit provides a summary of the financial results for the periods ending December 31, 2015 through March 31, 2021, and has been taken from the Company's historical SEC 10-K, audited financial statements and other financial reporting. The Commission should be aware that since the merger with Dominion, the financial information related to DEU and supporting footnotes have changed. DEU is no longer required to prepare SEC 10-K or 10-Q financial reports. The Company does produce audited financial statements on an annual basis and unaudited financial statements on a quarterly basis. Since the merger, the division has been receiving the annual reports, but has not been receiving the unaudited quarterly statements. Access to financial information for Dominion Energy Questar Pipeline (DEQP) has also been significantly impacted since the merger and is limited to the information that is filed with the Federal Energy Regulatory Commission (FERC). Since the merger, concise income statement, balance sheet and cash flow statements for DEQP are no longer available.

In review of the financial information for DEU, for the 12 months ending December 31, 2020, total revenue decreased from $929.0 million to $928.7 million. The slight decrease in total revenue is primarily due to warmer weather conditions in 2020 compared to 2019 and an increase in the market price of the natural gas commodity. From a longer-term perspective, total revenue has fluctuated from 2015 through 2020 with an average annual increase of 0.2%. For the first quarter of 2021, total revenue was $413.9 million. Net income was $76.7 million for the first quarter of 2021 which is slightly higher than the $70.7 million for the same period in 2020.

Exhibit 1 shows total accounts receivable to be $169.6 million, a decrease of $14.5 million from the end of 2020. The net plant and equipment has increased to $2,877.9 million, up from $2,834.5 million from the end of 2020, and $2,580.2 million from 2019. For the years under review, net plant has experienced an average growth rate of 10.0% per year.

Per Exhibit 1, the Company had a Return on Equity (ROE) of 9.52% for 2020. The Company's authorized return on equity is 9.50%, as determined in the rate case effective March 2020. Based on the calculations, the Company's earnings are within the acceptable range. The Division will continue to monitor the regulatory ROE calculations and will report any findings to the Commission.

Per Exhibit 1 page 4, the Company's regulatory capital structure is 36.5% debt and 63.5% equity. This is well above the mandated 55% equity and 45% debt, as stipulated in docket 19-057-02. The Company received approval from the Commission on January 4, 2019 to increase the equity position above 55% based on an effort to improve DEU's credit metrics.[1] The current

[1] Docket No. 18-057-23

dividend declaration filed by the company states, "…and the equity component of the capital structure will remain above 45% after the distribution." One of the merger commitments require the Company to maintain an equity position greater than 45%. The stipulation and recent general rate case order requires equity calculation to be above 55%. Following the dividend, the equity position is projected to decrease, but will stay within the approved limits. The Company intends to continue decreasing the equity position and will be issuing debt in the near future aimed to better align the actual capital structure with those mandated in the General Rate Case.

Per Utah Code Annotated § 54-4-27, DEU is required to publish notice of the dividend in a newspaper circulated in the city where the principal place of business is located. On June 11th, 2021, the announcement was published in the Desert News.

As mentioned previously, since the merger of Questar Gas Co. and Dominion Energy, Inc. in 2016, the detail of the financial information has changed. Reductions 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.

Conclusion

The Division has determined that the dividend payments will not affect the financial standing or stability of Dominion Energy Utah. The Division recommends that the Commission take no action concerning the dividend, but would recommend that the Commission order the Company to provide the unaudited financial information to the Division on a quarterly basis.

Cc: Kelly Mendenhall – Dominion Energy
Michele Beck – Office of Consumer Services