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Action Request Response

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

Date: December 13, 2021

Re: Docket No. 21-999-02, Dominion Energy Utah's Declaration of 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.

Issue

On November 19, 2021, the Board of Directors declared a cash dividend of \$50 million payable pro rata to the record holder of Dominion Energy's common stock at the close of business on December 17, 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. This is the second dividend payment in 2020 for a total of \$100 million in dividend payments for the year.

Background

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 and (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.

Discussion

On November 19, 2021, The Board of Directors of Dominion Energy declared a gas dividend of \$50 million, payable to pro rata for the record holder of Dominion Energy’s common stock at the close of business on December 17, 2021. The date fixed for payment of this dividend is December 20, 2021.

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, 2015 through September 30, 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 Questar Gas and supporting footnotes have changed. The company 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 Questar Pipeline has also been significantly impacted since the merger and is limited to the information that is filed with the Federal Energy Regulatory Commission (FERC). Concise income statement, balance sheet, and cash flow statements for Dominion Energy Questar Pipeline are no longer available since the merger.

In review of the financial information for Dominion Energy, 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 third quarter of 2021, total revenue was \$654.9 million. Net income was \$74.3 million for the third quarter of 2021, whereas for the end of the 3rd quarter in 2020 it was \$68.7 million.

Exhibit 1, Page 2, shows total accounts receivable to be \$39.9 million for the end of 3rd quarter 2021, a decrease of \$144.2 million from the end of 2020. The significant decrease is due to the low gas usage during the summer months. Net plant and equipment increased to \$2,971.5 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 Page 4, the Company had a Regulatory 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 Division concludes that the Company's earnings are within an acceptable range of its authorized return. Calculation of the ROE for a partial year is difficult due to the seasonal nature of gas usage. The Division will continue to monitor the regulatory ROE calculations and will report any findings to the Commission.

The Company's regulatory capital structure for the 3rd Quarter was 44.4% debt and 55.6% equity. This is close to the historical average but varies slightly from the 55% equity and 45% debt, as stipulated in docket 19-057-02. Following the dividend, the equity position is projected to decrease, but will stay within the approved limits.

Per Utah Code Annotated § 54-4-27, Dominion is required to publish notice of the dividend in a newspaper circulated in the city where the principal place of business is located. On November 26, 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. The Division will continue to monitor DEU's financial and service performance and seek the appropriate remedies as needed.

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. The Company has been providing the unaudited financial information to the Division on a quarterly basis.

Cc: Kelly Mendenhall – Questar Gas
Michele Beck – Office of Consumer Services