

January 11, 2019

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*Re: Use of Replacement Index for Out-of-Date Companies in Determining Base Rate of Return*

Ladies & Gentlemen:

The October 14, 1981 Wexpro Stipulation and Agreement (Agreement) specified a method for determining an allowed rate of return to be included in calculating the operator service fee Wexpro Company (Wexpro) charges for providing natural gas for Dominion Energy and its customers. The Agreement specified using an average of the latest ordered returns on equity of twenty electric, gas and telephone "Base Rate of Return Index Companies" (Index Companies) within the eight intermountain states and including four interstate pipeline companies. These are listed in Schedule 1 of the Agreement.

The May 29, 1992 Guideline Letter noted that at times a utility in this 20-company index would be subject to a general rate case order that does not specify a return on equity. Excluding these companies subject to such "Black Box" rate orders reduced the scope and usefulness of the composite index. The Guideline Letter resolved this problem by specifying separate "Replacement Index" companies comprised of other utilities located in the eight intermountain states and adjoining states to the west and east of these eight states to be used as a surrogate return for any Index Company subject to a black box order. Therefore, when an Index Company is subject to a Black Box rate order, then this

Index Company's place in the Index is replaced with the average of the applicable Replacement Index average.

The undersigned parties agree that in order for Wexpro's base rate of return to more accurately reflect current market conditions, an update in the base rate of return calculation is warranted. Some of the Replacement Index companies have not had changes to the commission-ordered rates of return for many years. Therefore, if an Index Company has not had a rate of return order on the allowed return on equity within the past fifteen (15) years, that index company will not be used in the annual Wexpro base rate of return calculation.

Effective August 1, 2018, the parties agree and stipulate that the applicable Replacement Index composite return will be used as a surrogate return for any of the original Index Companies that have not had a return on equity order by its regulatory body within the past 15 years, as of May 31<sup>st</sup> of the applicable year the new base rate calculation goes into effect. Further, over the next five years, the 15 year cutoff will be reduced annually by one year, until a rate of return order date of 10 years is reached. Additionally, if a Replacement Index company has not had a return on equity order within the last 15 years by its regulatory body, that company will be treated as if it did not have a stated return on equity and will be treated as a Black Box company and will not be included in the Replacement Index. Replacement Index companies will also be reduced annually, until a rate of return order date of 10 years is reached.


The cutoff periods apply to both the original Index Companies and the Replacement Index companies, each year until the respective regulatory body approves a return on equity for the respective utility in a new general rate case order.

The following table clarifies how the 15 year cutoff date will reach a 10 year cutoff date in the next 5 years and how the 10 year cutoff date will then be used going forward once its reached.

<b>Annual Base Rate of Return</b>	<b>Order Date - Cutoff</b>	<b>Cutoff years</b>
August 1, 2018 - July 31, 2019	May 31, 2003	15
August 1, 2019 - July 31, 2020	May 31, 2005	14
August 1, 2020 - July 31, 2021	May 31, 2007	13
August 1, 2021 - July 31, 2022	May 31, 2009	12
August 1, 2022 - July 31, 2023	May 31, 2011	11
August 1, 2023 - July 31, 2024	May 31, 2013	10
August 1, 2024 - July 31, 2025	May 31, 2014	10
August 1, 2025 - July 31, 2026	May 31, 2015	10
...	...	...

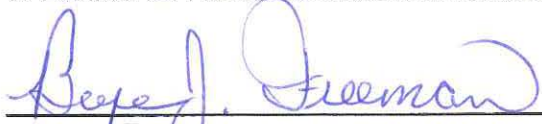
Approved:

UTAH DIVISION OF PUBLIC UTILITIES

  
\_\_\_\_\_  
Chris Parker  
Director

2/20/19  
Date

WYOMING OFFICE OF CONSUMER ADVOCATE

  
\_\_\_\_\_  
Bryce Freeman  
Administrator


2/25/19  
Date

WYOMING PUBLIC SERVICE COMMISSION STAFF

  
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Chris Petrie  
Chief Counsel

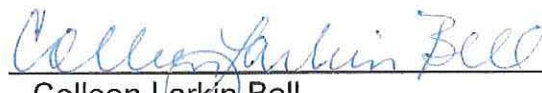
2/22/19  
Date

WEXPRO COMPANY

  
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Vice President and General Manager –  
Wexpro

2/8/19  
Date

DOMINION ENERGY UTAH / WYOMING

  
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2/18/19  
Date