State of Utah
Department of Commerce
Division of Public Utilities

KLARE BACHMAN
Executive Director

JASON PERRY
Deputy Director

IRENE REES
Director, Division of Public Utilities

OLENE S. WALKER
Governor

GAYLE F. McKEACHNIE
Lieutenant Governor

To: Public Service Commission

From: Division of Public Utilities
Irene Rees, Director
Energy Section
Judith Johnson, Manager
Darrell Hanson, Technical Consultant
Marlin H. Barrow, Utility Analyst

Date: May 24, 2004

Subject: Action Request, Questar Gas Docket # 04-057-04, Account 191 Pass Through.

ISSUE:

Questar Gas Company (QGC) filed on May 5, 2004 with the Public Service Commission, an application to increase the commodity portion of its Utah natural gas rates by $31,302,000 and its supplier non-gas portion of rates by $3,533,000 for a total increase of $34,835,000 in revenues. This will increase the typical residential customer's annual bill, assuming usage of 115 decatherms per year, by $40.54 ($3.38 a month) or 4.97%.

RECOMMENDATION:

After a preliminary review of this application, the Division of Public Utilities (Division) recommends that on an interim basis, the application be approved as filed with the proposed rates becoming effective on June 1, 2004. This is one month earlier than the typical filing's effective date due to a desire on the part of the Company to have the new rates in effect and entered into their new Customer Information System prior to putting that system in service, which is scheduled for a July 1, 2004 crossover date.

DISCUSSION:

This filing is based on a 12-month July 2004 through June 2005 test year and represents QGC's expected sales volumes and the associated pass through gas costs of the company's purchases, transportation, production royalties, gathering and storage expenses necessary to meet those sales volume projections. The Division recognizes that the requested effective date of this pass through filing is a month earlier than the test year volumes upon which the rates are based but feels that this one month difference is immaterial in the effect it will have on the forecasted test year projections.

A comparison of this pass through filing to the filing in Docket # 03-057-10, shows the commodity gas cost component of the rate increases from $3.771/Dth to $4.087/Dth, a $0.316/Dth rate increase. This $0.316/Dth rate increase, when applied against the projected firm sales volumes of 96.5 million decatherms, collects $30.5 million of the $31.3 million increase in commodity gas costs. (Line 8 of the exhibit)

Gas related costs, which consist of company owned production, gas purchases and gathering, transportation and storage costs, total $17.4 million of the $30.5 million increase in commodity gas costs or $0.180/Dth of the $0.316/Dth increase. (Line 4 of the exhibit)

A breakdown of this $17.4 million increase in gas related costs shows that $2.4 million is attributed to Company owned production costs, 77% of which results from increased Wexpro Operator Service fees and the remainder to increased gas royalties. Gas purchases account for $11.8 million of the $17.4 million increase. This is based on a projected average purchase cost $4.73/ Dth compared to $4.59/Dth in Docket # 03-057-10. This filing includes $2,000,000 for gas stabilization costs.

Gathering, transportation and storage costs combined account for $3.2 million of the $17.4 million increase. This filing includes $5.0 million of CO2 plant processing costs.

A reduction in the credits for I-2, I-4, IS-2 and IS-4 schedules from the previous filing account for a $9.6 million increase (Line 5 of the exhibit) while a decrease in the effective rate, from the previous filing, of the Supplier Non-Gas Costs, which are backed out of the commodity rate and recorded as a separate SNG component of the total rate, account for a $4.9 million increase. (Line 6 of the exhibit)

A reduction of $1.4 million ($0.014/dth) is included for the amortization of the current 191-account balance. (Line 7 of the exhibit)

The following exhibit summarizes the commodity gas cost adjustments from the previous filing in Docket #03-057-10.

Line		Increase Costs (millions)	Increase Rate (/Dth)
1	Production	$2.4	$ 0.025
2	Gas Purchases	11.8	0.122
3	Gath,transp and Storage	3.2	0.032
4	Total Gas Related Costs	17.4	0.180
5	Reduced transp credits	9.6	0.099
6	SNG adjustment	4.9	0.051
7	191 amortization	(1.4)	(0.014)
8	Total Commodity	$30.5	$ 0.316
9	I2 & I4 adjustments	0.8	
10	Total Commodity Increase	$31.3	$ 0.316

The company also has requested approval of adding customers on their F-4 schedule, which hasn't had any customers since 1995, due to some customers desiring to switch from interruptible transportation service to firm sales service to take advantage of the Company owned production in their overall gas purchase cost.

The DPU has concerns in allowing transportation customers to switch to firm service because of the adverse impact it could have on existing firm customers. We have reviewed the QGC calculations that indicate that this impact will not be material at this time from the approximate 9,500 Dth/day of volumes that are anticipated to switch to the F-4 rate schedule.

This switch increases the commodity component of the gas rate to the sales customers while reducing the SNG component of the rate. On a total basis, the impact is minimal with the GS-1 customer being slightly better off with the anticipated switch of some transportation customers to the F-4 rate schedule from their current transportation service. (As mentioned at the first of this memo, an average annual increase of $40.54 for the typical GS-1 customer using 115 decatherms annually compared to $40.66 if the switch to the F-4 schedule were not allowed.)

The required two-year commitment in the F-4 service contract helps alleviate some of the concern that customers could jump back and forth depending on market conditions. The DPU supports the QGC request to allow some customers to switch to firm service but will continue to monitor this situation to make sure customers on all rate schedules are treated fairly as market conditions change in the future.

Cc: Questar Gas Company
Committee of Consumer Services
Rea Petersen