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INFRASTRUCTURE TRACKER PILOT PROGRAM REPORT

To: Utah Public Service Commission

From: Utah Division of Public Utilities

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Date: June 17, 2013

Subject: **Report** to review and evaluate the results and impact of the Infrastructure Tracker Pilot Program as outlined in the Evaluation Plan and Commission Order dated March 11, 2013, Docket No. 09-057-16.

INTRODUCTION

On September 10, 2012, in preparation for the 2013 General Rate Case (GRC), the Commission issued an action request to the Utah Division of Public Utilities (Division) requesting the Division to prepare and file by December 15, 2012, its proposed plan (Plan) for evaluating the Infrastructure Tracker (Tracker) pilot program. On December 14, 2012, the Division filed a memorandum responding to the Action Request. On March 11, 2013 the Commission issued its order on the proposed plan. The Commission requested the Division to provide a report to be filed by June 1, 2013, addressing the information as well as the issues related to the Infrastructure Tracker since its inception through the 2013 heating season as outlined in Appendix A of the order. On May 28, 2013 the Division requested a postponement of the due date of its report to

June 17, 2013. On May 29, 2013 the Commission granted the extension. This report is the Division's response to the Commission's Order dated March 11, 2013.

RECOMMENDATION

The Division of Public Utilities (Division) has completed the audit and evaluation of the transactions included in the Infrastructure Tracker and concludes that the program is beneficial to both ratepayers and shareholders. While there are no major accounting issues that need to be addressed the Division notes that all aspects of the program are subject to review during the upcoming General Rate Case.

ISSUE

As part of the settlement stipulation in Docket 09-057-16, Parties[1] agreed to implement an Infrastructure Tracker Pilot Program. The Infrastructure Tracker was designed to allow the Company to track and recover costs that are directly associated with replacement of aging infrastructure through an incremental surcharge to the GS, FS, IS, TS, MT, FT-1 and NGV rate schedules. The surcharge is designed to track and collect costs of replacement infrastructure between general rate cases and may be adjusted semi-annually. The infrastructure replacement budget shall not exceed $55 million (adjusted for inflation) per year and all items included in the Tracker are subject to regulatory audit consistent with the audit procedures in the "Gas Balancing Account," Tariff Section 2.06. When the Company files the next general rate case, all prudently incurred investment and costs associated with the Infrastructure Tracker will be included in general rates. As part of the stipulation agreement, the Company is required to file a general rate case at least every three years while the Infrastructure Tracker is in effect with the first such rate case being filed no later than July 2013.

[1] Questar Gas Company; the Division of Public Utilities (Division); the Office of Consumer Services (Office); the UAE Intervention Group; Nucor Steel, a Division of Nucor Corporation; Salt Lake Community Action Program; AARP; Southwest Energy Efficiency Project; and Utah Clean Energy.

The Division filed an Evaluation Plan for Questar Gas Company's Infrastructure Tracker on December 14, 2012. The Plan included a financial audit of the Tracker and impact of the Tracker on the Company's rate of return. The Commission issued an order in this docket on March 11, 2013 requesting the Division to review additional items to be included in this report. The items for inclusion in the report were itemized in Appendix A of the order and are listed below.

I. Results of the Division's financial audit

II. Review and discussion of the impact of the Infrastructure Tracker on Questar Gas Company's ("Company") rate of return

III. Assessment of whether the Infrastructure Tracker as implemented has been equitable for both the Company and ratepayers

IV. Identification of unintended consequences or adverse affects which have, or could have, occurred as a result of isolating infrastructure investment for rate recovery

V. An evaluation of actual decatherms sold and associated revenues vs. estimated decatherms sold and associated revenues from the Infrastructure Tracker rate adjustment mechanism and whether deviations from estimates have favored ratepayers or shareholders.

VI. For non-transportation rate schedules, an evaluation of whether the Company has used the same natural gas volume estimates in setting the Infrastructure Rate Adjustment as it has used in setting the 191 Gas Balancing Account commodity rate. If it has not, please provide a discussion of the reasonableness of this practice.

VII. A comparison of the efficiency and use of the Infrastructure Tracker surcharge versus a balancing account.

VIII. An evaluation of whether the Infrastructure Tracker budget annual adjustment using the Global Insight Distribution Steel Main Inflation Index is achieving its intent.

IX. Identification of when the prudence of the Company's investments covered under the Infrastructure tracker will be reviewed and evaluated.

X. Recommended clarifications or modification to Section 2.07 of the Company's Tariff.

DISCUSSION

The Division has completed its financial audit of the Tracker; the report is filed as Attachment A to this report. As part of its audit, the Division examined the actual costs compared to the budgeted amounts and a review of any reasons or explanations for deviation from the budget; reviewed the recorded transactions for mathematical accuracy; and reviewed the costs for each feeder line project to verify that the charges were correctly allocated to the specified project. The Division meets with the Company annually to review the accounting procedures for the Tracker and concludes that the procedures are reasonable and Questar staff is complying with those procedures. The result of the audit did not find any issues, but the Division notes that these expenses will be subject to review in the upcoming General Rate Case.

Since the pilot program became effective as of June 2010, the Company has provided information for the 12 month periods ending June 2011, December 2011, June 2012 and December 2012. These results were verified as part of the Infrastructure Tracker audit. Please see the table below:

Tracker impact on QGC's rate of return during the pilot period:

	12 Months Ended Jun 2011	12 Months Ended Dec 2011	12 Months Ended Jun 2012	12 Months Ended Dec 2012
Feederline Tracker Revenue	$1.8 million	$4.3 million	$7.3 million	$10.2 million
Return on Equity with Tracker	10.0%	9.84%	9.24%	8.62%
Return on Equity w/out Tracker	9.73%	9.22%	8.25%	7.35%
Difference in Equity	0.27%	0.62%	0.99%	1.27%

Based on the information provided by the Company, the tracker has worked by allowing the Company to recover capital expenditures without filing a general rate case. By delaying the filing of a general rate case, other portions of the rate structure have not been reexamined and the Company has been allowed to retain the approved Return on Equity (ROE) of 10.35%.[2] Customer's rates have increased slightly as the result of the Tracker; overall rates have not changed substantially since the Tracker was implemented. However, if gas prices rise, this may not necessarily hold for future filings. The Division reviewed all of the Pass-Through, DSM and

[2] Docket 09-057-16, Settlement Stipulation, page 5.

Infrastructure filings from November 2010 through November 2012. A typical GS residential customer using 80 decatherms per year received a cumulative decrease of $22.16, without the Tracker the decrease would have been $36.20. If the Infrastructure Tracker was not in place the Company would have had the option to file rate cases to recover those costs. The Company's ROE has been higher with the Tracker, for the 12 months ending December 2012 ROE with the Tracker was 8.62% versus 7.35% without the Tracker, but has not exceeded the allowed Return on Equity. The Division will continue to monitor the ROE in future periods and will notify the Commission of significant changes.

The Division acknowledges that there is the possibility that the Company could exceed their allowed Return on Equity. As demonstrated above during the pilot period this has not been the case. The Division has not identified other unintended consequences or adverse effects occurring as a result of isolating infrastructure investment for rate recovery. The Division would note that the accounting for the Tracker provides greater transparency to review the costs. A separate account was created to record the Tracker expenses and within that account the costs are recorded by project number and feeder line number.

The Company prepared a comparison of forecasted revenue versus actual revenue collected through the Tracker. It is a bit complicated since each Tracker is in effect for a few months before a new one goes into effect and there has not been a Pass-Through filing every time there has been a Tracker filing. The Division has reviewed the data that the Company prepared and concluded that their approach is reasonable for comparison purposes. From January 2011 through April 2013 total forecasted revenues were $22.3 million and total actual revenues were $22.6 million, which is a variance of $309,800 or 1.4%. With such a small deviation the effect on ratepayers or shareholders has been neutral. The Company data is in the following table:

Forecast Tracker Revenue			
Month	**Forecast**	**Actual Revenue**	**Variance**
1/31/2011	566,207.28	611,561.49	45,354.21
2/28/2011	463,752.67	442,960.00	-20,792.67
3/31/2011	337,515.98	385,917.46	48,401.48
4/30/2011	206,815.84	171,388.48	-35,427.36
5/31/2011	118,046.51	123,192.01	5,145.50
6/30/2011	84,508.60	74,392.06	-10,116.54
7/31/2011	73,648.38	78,559.81	4,911.43
8/31/2011	74,874.02	74,419.24	-454.78
9/30/2011	96,394.01	78,251.62	-18,142.39
10/31/2011	369,977.91	338,204.38	-31,773.53
11/30/2011	690,810.69	728,168.57	37,357.88
12/31/2011	1,052,179.62	1,179,534.33	127,354.71
1/31/2012	1,207,968.84	1,232,697.47	24,728.63
2/29/2012	1,286,151.83	1,424,799.29	138,647.46
3/31/2012	984,196.64	950,510.81	-33,685.83
4/30/2012	630,850.87	618,973.79	-11,877.08
5/31/2012	342,395.06	336,481.95	-5,913.11
6/30/2012	238,187.84	224,791.28	-13,396.56
7/31/2012	233,564.59	226,045.48	-7,519.11
8/31/2012	227,852.39	213,725.95	-14,126.44
9/30/2012	347,114.30	284,460.27	-62,654.03
10/31/2012	597,676.52	552,350.02	-45,326.50
11/30/2012	1,138,019.28	1,268,035.52	130,016.24
12/31/2012	2,630,714.54	2,837,255.95	206,541.41
1/31/2013	3,003,131.49	2,808,424.22	-194,707.27
2/28/2013	2,364,933.56	2,490,326.44	125,392.88
3/31/2013	1,789,025.93	1,823,510.21	34,484.28
4/30/2013	1,183,065.54	1,070,442.48	-112,623.06
Grand Total	**22,339,580.72**	**22,649,380.58**	**309,799.86**

With the Conservation Enabling Tariff (CET) in place and the Tracker collecting only actual costs, the decatherms sold has little effect on the Company's shareholders or ratepayers.

When filing for an Infrastructure Rate Adjustment the natural gas volume estimates are the same volumes used in setting the 191 Gas Balancing Account commodity rate. As noted above a Pass-Through filing has not been filed each time there has been a Tracker filing. The Division has verified that the volumes match, the data is below:

Tracker/Pass Through Dth Comparison

Date	Tracker Filing Dth	Pass-Through Filing	
		Total	No pass through filed in November 2012
		LESS Wyoming	No pass through filed in November 2012
November 2012	106,237,286	Utah	No pass through filed in November 2012
		Total	110,108,310
		LESS Wyoming	(3,963,082)
August 2012	106,145,228	Utah	106,145,228
		Total	No pass through filed in December 2011
		LESS Wyoming	No pass through filed in December 2011
December 2011	105,643,285	Utah	No pass through filed in December 2011
		Total	109,163,172
		LESS Wyoming	(3,694,091)
August 2011	105,469,081	Utah	105,469,081
		Total	109,222,991
		LESS Wyoming	(3,722,190)
November 2010	105,500,801	Utah	105,500,801

The Division continues to support the feeder line tracker mechanism and testified in Docket No 09-057-16 that both ratepayers and shareholders benefit. Ratepayers are protected from forecast errors and pay only actual feeder line replacement costs as they are incurred; shareholders benefit by recovering feeder line costs as incurred rather than through additional rate cases with attendant regulatory lag. The Division supports this tracker mechanism because it believes the feeder line replacement program is both important and necessary. Due to age, some portions of the existing feeder line system may need to be replaced for safety and reliability. The size and incremental in-service dates of feeder line investment, and the unusually large and ongoing level of capital spending, render other forms of cost recovery to be inferior or problematic. The American Gas Association published an infrastructure cost recovery update in June 2012. As of that date 47 utilities are using full or limited special rate mechanisms to recover their replacement infrastructure investment, the majority of which are tracker mechanisms. A copy of that report is included in this report as Attachment B.

When the Tracker was established it included an annual budget that was capped at $55 million and adjusted for inflation using Global Insight Distribution Steel Main Inflation Index. The Division believes that this adjustment is achieving its intent. While the Company has some flexibility in their infrastructure replacement budgets the actual spending has remained below the allowed amount. The Division verified that the stipulated index and index amounts shown in the table below are correct.

Inflation Adjusted Allowance

	Spent		Index	Multiple	Allowed Amount	Difference
Filed Cap			655.8		55,000,000	55,000,000
2011	58,767,529	Actual	734.8	112.0%	61,625,496	2,857,967
2012	58,773,693	Actual	805.6	109.6%	67,563,281	8,789,588
2013	59,000,000	Budget	795.3	98.7%	66,699,451	7,699,451

Review and evaluation of the Infrastructure Tracker Program is an ongoing process. Annually Questar files the Plan and Budget which recaps the previous year activity and their budget for the following year projects. Feeder line progress reports are filed quarterly which include budget by project that was included in the plan, costs incurred to date, and remaining budget and anticipated completion date or actual completion date if the project is in service. The Division meets with the company annually to review accounting costs and procedures and discuss budget variances. The Company also includes Infrastructure Update and Planning presentations as part of the annual IRP process and tours have been offered to see replacement projects in progress. The Infrastructure Rate Adjustment filings are reviewed and audited by the Division and reports are submitted to the Commission. The Division has completed the financial audit and as part of the review during the upcoming General Rate Case may hire an engineer to help conduct a prudence review of the Company's decision process and analysis used in selecting the projects for replacement. The Division believes all aspects of the program are subject to review by all parties during a General Rate Case.

At this time the Division does not have any recommended clarifications of modifications to Section 2.07 of the Company's Tariff. The Division was very involved in developing the tracking mechanism and the accounting for those costs which is outlined in the tariff. The tariff represents the intent of the parties to the stipulation and the Company has fulfilled the reporting requirements as stated in the tariff.

CONCLUSION

The Division has completed their audit and evaluation of the pilot program and concludes that the program is beneficial to both ratepayers and shareholders. There are no major accounting issues that need to be addressed but note that all aspects of the program are subject to review during the upcoming General Rate Case. The Division may hire a consultant as part of the General Rate Case to review the engineering analysis and feeder line replacement priorities that have been used with this program.

CC:
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