Docket No. 10-057-20
Memo on Questar Gas Company's
Infrastructure Rate Adjustment Request

On November 30, 2010, Questar Gas Company (Questar Gas or Company) submitted a request for approval of an Infrastructure Rate Adjustment, consistence with the Report and Order approving the Settlement Stipulation in Docket No. 09-057-16. The requested increase in revenue requirement for the rate adjustment is $3,123,623. In calculating its requested increase in revenue requirements associated with the qualifying infrastructure replacement projects, Questar Gas included $36,067,973 of plant additions associated with Feeder Lines 4, 11 and 19, offset by Feeder Line 19 retirements of $633,150, resulting in total net investment during the period July 2010 through November 2010 of $35,434,823. This amount was reduced by the $10.1 million already factored into base rates, per paragraph 16 of the Settlement Stipulation in Docket 09-057-16. The resulting $25,334,823 of replacement infrastructure to be considered in the Infrastructure Rate Adjustment was then reduced by the accumulated depreciation and calculated accumulated deferred income taxes associated with the $25,334,823 of infrastructure investment to be placed in the tracker, resulting in net rate base of $19,950,666.

In the December 6, 2010 Notice of Hearing and Order issued by the Commission in this docket, it was Ordered that the parties be prepared to address the following question:

> "On September 27, 2010, the Small Business Job Act of 2010 (2010 Jobs Act) was signed into law extending the 50 percent bonus depreciation for tax purposes related to qualifying assets placed into service during the calendar year 2010. Is the revenue requirement for the proposed infrastructure rate adjustment in Docket No. 10-057-20 affected by bonus depreciation implemented in the 2010 Jobs Act? If so, how is this represented in the calculation of revenue requirement included in Exhibit 1.1?"

While the Company did apply the 50% bonus depreciation in calculating the accumulated deferred income taxes on the incremental investment of $25,334,823, there are two separate problems or errors with the Company's calculation. Questar Gas' calculation of the ADIT offset in determining the revenue requirement, which was provided in footnote 4 on its Exhibit 1.1, page 2 of 2, is as follows:

	Net investment		Depr Rate		ADIT Calculation
Calculation of book depreciation	$25,334,823	x	2.1%	=	$532,031
Calculation of bonus tax depreciation	$25,334,823	x	50.0%	=	($12,667,411)
Calculation of remaining tax depreciation	$12,667,411	x	5.00%	=	($633,371)
Temporary difference between book and tax depreciation					($12,768,751)
Tax rate				x	38.0%
Deferred Tax					($4,852,125)

The first error is that the Company has reduced the amount of investment it applies the bonus tax depreciation and the remaining tax depreciation to by the $633,150 of retirements associated with the retirement of Feeder Line 19 pipe. While the retirements will impact the book depreciation, they will not impact the amount of new 2010 investments to which the bonus depreciation and the remaining tax depreciation is applied. The 50% bonus depreciation and the remaining tax depreciation should be applied to all of the infrastructure replacement additions of $36,067,973. The $633,150 being retired has already been fully depreciated for tax purposes on Questar Gas' books and, thus, will not impact the tax depreciation calculations.

The second error is the result of the Company not including the impact of the bonus depreciation on the $10,100,000 of Feeder Line investment currently incorporated in base rates. The accumulated deferred income tax balance effectively incorporated in the Settlement Stipulation approved by the Commission in Docket No. 09-057-16 did not include the 50% bonus depreciation impact. This is because the Small Business Job Act of 2010, which extended the 50% bonus depreciation retroactive to the beginning of 2010, was not signed into law until September 27, 2010. Thus, this change in law impacting income taxes was not known at the time the stipulation was entered into by the parties. Since the Infrastructure Rate Adjustment tracks the difference between the amount incorporated in rates and the actual amounts associated with the qualifying infrastructure replacement projects, the difference in the associated ADIT incorporated in base rates and the actual ADIT amount should also be factored in when determining the resulting revenue requirement.

The calculation of the accumulated deferred income tax offset, corrected for the two above identified errors/problems, is presented below:

	Net investment		Depr Rate		ADIT Calculation
Calculation of book depreciation (includes retirements impact)	$35,434,823	x	2.1%	=	$744,131
Calculation of bonus tax depreciation (retirements impact excluded)	$36,067,973	x	50.0%	=	($18,033,987)
Calculation of remaining tax depreciation	$18,033,987	x	5.00%	=	($901,699)
Temporary difference between book and tax depreciation					($18,191,555)
Temporary difference between book and tax depreciation in rates (Line A.3)					($292,900)
Incremental Temporary Difference Not in Current Rates					($17,898,655)
Tax rate				x	38.0%
Deferred Tax, as corrected					($6,801,489)
A.1 Calculation of book depreciation in rates	$10,100,000	x	2.1%	=	$212,100
A.2 Calculation of tax depreciation in rates	$10,100,000	x	5.00%	=	($505,000)
A.3 Temporary difference between book & tax depreciation in rates					($292,900)

The net rate base presented in Questar Gas Company's calculation of revenue requirement on its Exhibit 1.1, page 2 of 2, should be reduced by $1,949,364. This is calculated as the difference between the accumulated deferred income tax offset presented by Questar of $4,852,125 and the corrected amount of $6,801,489. The final result is a revised revenue requirement of $2,870,401, which is a $253,222 reduction from the $3,123,623 presented on Questar Exhibit 1.1, page 2 of 2. Presented on the next page is a revised version of QGC Exhibit 1.1, page 2 of 2, which corrects the above identified errors/problems.

Calculation of Revenue Requirement

		Revenue Requirement		
1	Total Net Investment	$35,434,823	1/	
2	Less: Amount currently in rates	($10,100,000)	2/	
3	Replacement Infrastructure in Tracker	$25,334,823		
4	Less: Accumulated Depreciation	($532,031)	3/	
5	Accumulated Deferred Income Tax	($6,801,489)	4/	Amount Adjusted by OCS
6	Net Rate Base	$18,001,303		
7	Current Commission-Allowed Pre-Tax Rate of Return	11.79%	5/	
8	Allowed Pre-Tax Return (Line 6 x Line 7)	$2,122,354		
9	Plus: Net Depreciation Expense	$532,031	3/	
10	Net Taxes Other Than Income (1.2% x Line 6)	$216,016		
11	Total Revenue Requirement (Lines 8 through 10)	$2,870,401		
12	Total Revenue Requirement per QGC	$3,123,623		
13	Reduction to QGC proposed revenue requirement	($253,222)		

1/ Net investment calculated in Exhibit 1.1

2/ Per the Settlement Stipulation, paragraph 16 in Docket 09-057-16.

3/ Depreciation expense and accumulated depreciation calculated by multiplying the depreciation rate of 2.1% by the net investment amount on line 3.

4/ Depreciation for tax purposes is calculated as follows: (Revised for Corrections)

		Net investment		Depr Rate		ADIT Calculation
	Calculation of book depreciation	$35,434,823	x	2.1%	=	$744,131
	Calculation of bonus tax depreciation (Retirement impact excluded)	$36,067,973	x	50.0%	=	($18,033,987)
	Calculation of remaining tax depreciation	$18,033,987	x	5.00%	=	($901,699)
	Temporary difference between book and tax depreciation					($18,191,555)
	Temporary difference between book and tax depreciation in rates (Line A.3)					($292,900)
	Incremental Temporary Difference Not in Current Rates					($17,898,655)
	Tax rate				x	38.0%
	Deferred Tax, per OCS					($6,801,489)
A.1	Calculation of book depreciation in rates	$10,100,000	x	2.1%	=	$212,100
A.2	Calculation of tax depreciation in rates	$10,100,000	x	5.00%	=	($505,000)
A.3	Temporary difference between book & tax depreciation in rates					($292,900)

5/ Current Commission allowed pretax return as shown in Section 2.07 of the Company's tariff

Another concern, separate from the infrastructure rate adjustment, is the fact that the Settlement Stipulation approved in Docket No. 09-057-16 did not include the impact of the 50% bonus depreciation on the 2010 investment incorporated in the revenue requirement as the bonus depreciation was unknown at that time. This change in law will result in Questar being able to receive the benefit resulting from the 50% bonus depreciation for the 2010 tax year, and none of this benefit was incorporated in determining the revenue requirement agreed to in the Settlement Stipulation. Paragraph 7 of the Settlement Stipulation indicates that the parties agreed to use an average test year ending December 31, 2010 for purposes of the settlement. Thus, projected 2010 capital additions were included in the revenue requirement on an average test year basis. None of the associated 50% bonus depreciation that will result from those 2010 capital additions is incorporated in accumulated deferred income tax offset to rate base that is in base rates.