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Department of Commerce
Division of Public Utilities

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# ACTION REQUEST RESPONSE

To: Public Service Commission

From: Division of Public Utilities
Chris Parker, Director
Energy Section
Marlin H. Barrow, Technical Consultant
Artie Powell, Manager

Date: May 16, 2011

Subject: Questar Gas, Docket Nos. 11-057-02 (191 Account Pass-Through), 11-057-03 (Conservation Enabling Tariff) and 11-057-04 (Energy Efficiency).

**ISSUE:**

On April 28, 2011, Questar Gas Company (QGC) filed the above three applications with the Public Service Commission (PSC). On May 2, 2011, the Commission issued to the Division of Public Utilities three actions request in the above docketed matters, all with a due date of May 23, 2011 and on May 4, 2011, the Commission set a hearing date of May 25, 2011 for the above matters.

Docket No. 11-057-02 (191 Account Pass-Through) asks for PSC approval to decrease the commodity rate components of the QGC's Utah natural gas rates by $14,200,000 while increasing the supplier non-gas cost by $917,000 which nets to a decrease of $13,283,000. Based on current gas cost rates in the GS Rate class, if approved, a typical GS residential customer will see a $10.33 decrease in their annual bill.

Docket No. 11-057-03 is a request to amortize the March 2011 Conservation Enabling Tariff (CET) credit balance of $5,724,937 (over-collection) in Account 191.9 and adjust the CET component in Block 1 and 2 of the GS class distribution non-gas (DNG) rate. If approved, compared to the current CET amortization rate component in the GS Rate class DNG rate, a typical GS residential customer will see a $2.26 decrease in their annual bill.

Docket No. 11-057-04 is a request to increase the current amortization rate set in Docket No. 10-057-19 for QGC'S Energy Efficiency (EE) programs which were established in Docket No. 05-057-T01. If approved, a typical GS residential customer will see an increase of $5.25 in their annual bill.

If all three applications are approved as filed, a typical GS residential customer will see a net decrease in their annual bill of $7.33. All three applications request an effective date of June 1, 2011.

**RECOMMEND APPROVAL:**

After a preliminary review of all three applications, the Division recommends that all application's rates be approved as filed for Docket Nos. 11-057-02, 03 and 04 with the proposed rates becoming effective June 1, 2011. The Division recommends all rate change approvals are on an interim basis.

**DISCUSSION:**

**DOCKET NO. 11-057-02 COMMODITY AND SUPPLIER NON-GAS COSTS (191 Account)**

This filing is based on projected Utah gas costs of $546,195,981 for the test year of June 1, 2011 through May 31, 2012. The commodity portion represents a decrease of $14,200,000 in rates while the Supplier Non-Gas (SNG) rates increase by $917,000 for a total net decrease of $13,283,000 for firm sales customers.

The base component of the commodity rate increases from $4.15/Dth (rounded) to $4.21/Dth (rounded), resulting in a $6,461,000 increase in the base commodity gas costs for firm sales customers as a result of a projected 7.7% increase in market prices for natural gas. This expected increase is from the previous projection of gas prices in Docket No. 10-057-17. Offsetting the commodity gas cost increase is a decrease in the 191 account amortization rate. This rate decreases from $0.34/ Dth (rounded), which went into effect January 1, 2011[1] to $0.14/Dth (rounded). The amortization rate decrease results in a projected decrease of $20,661,000 for firm sales customers which, when netted with the $6,461,000 increase from market rates, results in the $14,200,000 decrease in commodity gas costs. As will be discussed later, the base Supplier Non-Gas (SNG) rates have increased by 0.9%, resulting in an increase of $917,000 in SNG costs.

The net effect is a decrease in gas costs for firm sales customer's bills. A typical GS residential customer could expect a decrease in their annual bill of $10.33, or 1.48%, from gas costs in current rates.

**Utah Gas Supply**

For the test year from June 2011 through May 2012, QGC expects a total Utah system requirement of 110.8 million decatherms. Of this, 105.4 million decatherms will meet the projected sales requirement and 5.4 million decatherms will be required for gas volume reimbursement due to gathering, transportation and distribution fuel & shrink use. To supply the Utah system requirement, QGC plans on utilizing 67.6 million decatherms of WEXPRO production, (61% of the total requirement), at a net projected cost of $283,195,000[2] while purchasing from third party producers 43.2 million decatherms, (39 % of total requirements) for $181,244,000.[3] Transportation and storage costs are projected to be $81,757,000 for an estimated total cost to Utah customers of $546,196,000.[4]

As noted in the filing, and as provided for in QGC's Tariff for Natural Gas Service in Utah, PSCU 400, §2.10, pp. 2-11 through 2-13, these gas costs represent a direct pass through of costs. These costs do not impact the operating profit or rate of return of QGC except for $3,696,000,[5]

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[1] Docket No. 10-057-17.
[2] QGC Application, Docket No. 11-057-02, Exhibit 1.5, Line 5 Column E.
3 Ibid, Line 6, Column E.
4 QGC Application, Docket No. 11-057-02, Exhibit 1.5, Line 14, Column E.
5 Ibid, Exhibit 1.5, Line 13, Column E.

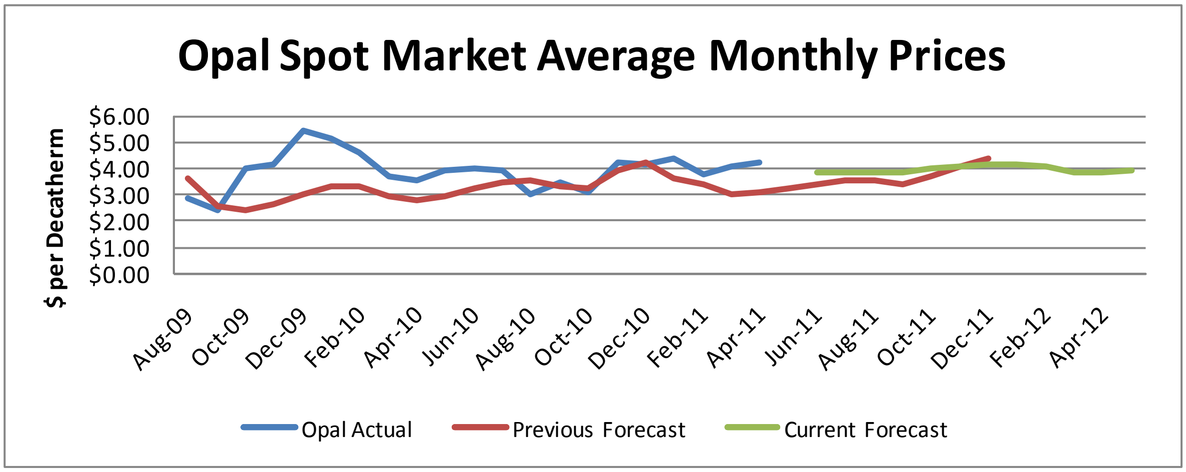
which is the Utah allocation of the pre-tax return on the working storage gas inventory approved by the PSC in Docket No. 93-057-01 and based on the pre-tax rate of return from the weighted cost of capital approved in the Settlement Stipulation in QGC's most recent rate case, Docket No. 09-057-16.

**Natural Gas Spot Prices**

Since the time the PSC approved the last pass-through request, effective January 1, 2011 (Docket No. 10-057-17), actual prices have trended upward from the previously forecasted prices. In this filing, QGC utilizes an average forward looking twelve month forecast spot price of \$3.97/Dth[6] compared to \$3.53/Dth in the previous filing. Figure 1 on the following page shows the actual first of month spot prices for natural gas at Opal, Wyoming from August 2009 through April 2011 compared to the forecasted prices used in the previous pass-through application in Docket No. 10-057-17, as well as the forecast prices for June 2011 through May 2012 used in this application. As shown in Figure 1, from October 2009 through July 2010, actual prices have been higher when compared to the forecast prices that form the basis for setting the rates QGC charges to its firm sales customers. However, since August 2010, when the forecast was last updated in Docket No. 10-057-17, actual prices have tracked close to the forecasted price until the end of 2010 when actual prices started to trend higher than forecast. The current forecast, used as a basis for the gas costs in this application, reflect that trend.

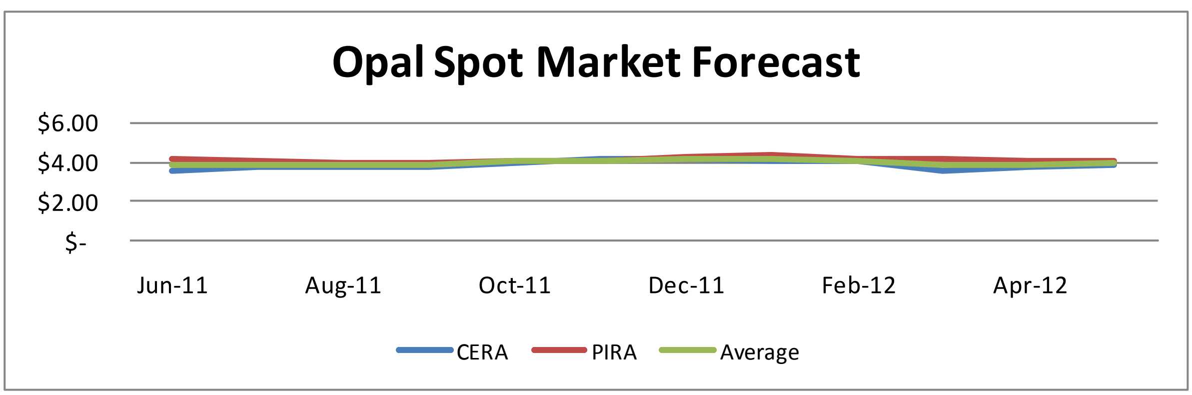
[6] Arithmetic average of PIRA and CERA forecast from June 2011 to May 2012 used in pass-through application Docket No. 11-057-02.

Figure 1




The price forecast in this filing is based on an average of future price projections by two different forecasting entities. Those two entities are Cambridge Energy Research Associates, Inc. (CERA) and PIRA Energy Group (PIRA). The two price forecasts for CERA and PIRA are displayed in Figure 2. Figure 2 shows a relative consensus on a projection of natural gas price stability through May of 2012 by these two forecasting entities.

Figure 2



**Pricing Hedges**

The WEXPRO production and QGC's gas storage practices play an important role in QGC's plan to "hedge" against natural gas price volatility while meeting their overall supply plan. These practices generally allow QGC to keep WEXPRO production flowing during the summer months to meet summer demand and to inject into storage for later use during the winter months. The use of storage gas minimizes the need to purchase gas in the winter. As previously mentioned, the Utah allocated portion of WEXPRO production is 67.6 million decatherms. The weighted cost of this production is $3.82/Dth[7] which is a decrease of $0.07/Dth from the last filing in Docket No. 10-057-17. Currently, with slightly higher projected natural gas spot market prices, the average net[8] cost of the WEXPRO production is equal (rounded) with the projected average cost of purchased gas $4.19/Dth.[9]

QGC further attempts to manage gas price volatility, and thereby "hedge" or mitigate customers' exposure to that volatility, by continuing its planned purchase program. For this filing, in addition to the 67.6 million decatherms of company owned production, QGC has developed a Utah gas supply portfolio of 43.2 million decatherms. This filing includes some planned gas purchases for November 2011 through March 2012. Typically, QGC targets 20% to 30% of the winter purchase requirement as a target for fixed price contracts. These approaches have been developed through a series of meetings with regulators to provide updated information regarding this planned "hedging" program and current expectations in the gas market.

**Supplier Non-Gas Costs (SNG)**

In contrast to the volatility that often is seen in the price of natural gas on the spot market, the SNG costs are relatively stable and predictable since these costs are set by contractual rate agreements and cover the costs associated with gathering the gas from the wells, transporting the

[7] QGC Application, Docket No. 11-057-02, Exhibit 1.4, Line 3, Column D.
[8] Includes the cost of gathering services.
[9] QGC Application, Docket No. 11-057-02, Exhibit 1.4, Lines 5&6, Column D.

gas from market hubs and storing the gas in available gas storage facilities. Because of the stability in these costs, in Docket No. 09-057-03, QGC proposed and the Division supported, setting the SNG amortization rate annually. That annual amortization rate was last set in Docket No. 10-057-17 and it was based on an under collected balance of $2,310,000.[10] QGC projects total SNG costs, in this filing, to be $102,635,000.[11] At current rates, SNG revenues that will be collected are projected to be $104,001,000[12] leaving an over collected balance of $1,366,000.[13] Therefore, in this filing, Exhibit 1.6 is reflecting a 1.32%[14] decrease from the current total SNG rates in order to adjust for this over collection. However, what is not shown in Exhibit 1.6, page 2 on line 2 is the amount of $2,283,000 which is the amount of amortization revenue included in the projected revenue of $104,001,000 shown on line 4 of Exhibit 1.6, page 2. That amount should be entered on line 2 of the exhibit and when entered, an 0.89% rate increase will be calculated on line 7 of the exhibit which will increase the total SNG rates for firm sales customers to cover an additional $917,000 in SNG costs. The Division recommends that in future filings where the SNG balance will not be amortized, the amount of SNG amortization revenue included in current rates should be entered on Line 2 of Exhibit 1.6, page 2 and any minor adjustments to the amortization rate that may occur as a result of that entry should be reflected.

**Effect on a typical GS Customer**

DPU Exhibit 1.1 shows a summary of the SNG and commodity rate changes proposed in this application for the GS Rate Schedule. Netting the changes requested in this docket from the current rates results in a decrease in the GS commodity rates of $0.14[15]/Dth (rounded). The GS

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[10] QGC Application, Docket No. 10-057-17, Exhibit 1.4, Lines 5&6, Column D.
[11] QGC Application, Docket No. 11-057-02, Exhibit 1.6, page 2 of 3, Line 1. This represents a decrease of $199,000 from the SNG costs in Docket No. 10-057-17. This decrease is due decreases in Kern River Transportation offset by increased QPC transportation and QGM gathering expenses associated with the WEXPRO production.
[12] Ibid, line 4.
[13] Ibid, line 5.
[14] Ibid, line 7.
[15] DPU Exhibit 1.1, line 56.

SNG rates increase by $0.01/Dth (rounded) in the summer and $0.01/Dth in the winter.[16] Based on these new rates, a typical GS residential customer will realize a decrease in their annual bill of $10.33 which is a 1.48% decrease in annual gas costs.

## DOCKET NO. 11-057-03 CONSERVATION ENABLING TARIFF (CET)

Unlike the SNG and commodity rate changes in Docket No. 11-057-02 that affect the rates for all firm sales customers, the rate changes requested in Docket No. 11-057-03 affect only the CET component of the distribution natural gas (DNG) rates of the GS rate class. In this docket, the Company is requesting to amortize an over-collected balance of $5,724,937 in the CET deferral account, which is the balance in Account 191.9 as of March 31, 2011. This over collected credit balance is greater than the credit balance approved in Docket No. 10-057-19 by $2,378,000 resulting in an incremental decrease to the amortization rates as shown in DPU Exhibit 1.2, line 58. If approved by the PSC, a typical GS rate class customer will see a decrease in their annual bill of $2.26 due to an increase in the CET amortization credit rate component of the GS DNG rate.

### Rate Details

The CET amortization rates reflected in the GS tariff sheets filed with this application have changed for both blocks 1 and 2 of the summer and winter rates. The incremental decrease in the GS DNG Block 1 rate is $0.02/Dth (rounded) for the summer rate and $0.03/Dth (rounded) for the winter rate as shown in DPU Exhibit 1.2.[17]

## DOCKET 11-057-04 ENERGY EFFICIENCY (EE) AMORTIZATION

This application requests the current EE amortization rate for the GS rate class to increase from $0.38/Dth (rounded) to $0.44/Dth (rounded). The $0.44/Dth rate is set to amortize $10,000,000

[16] Ibid, line 52.
[17] DPU Exhibit 1.2, Line 58, Columns B,D.

a year over the next three year period as well as cover current annual expenditures of $32,000,000. The current balance in the EE FERC Account 182.4, as of March 30, 2011, is $30,003,000. In previous filings, the amortization rate would have been based on the March 30, 2011 balance but, in an effort to not only address the current balance, the Company, after discussions with the Energy Efficiency Advisor Board, has also addressed the current years anticipated expenditures by proposing to amortize $10 million a year over a three year period to reduce the $30 million accumulated balance as well as cover anticipated current year expenditures of $32 million. Of the proposed $0.44/Dth amortization rate, $0.10/Dth amortizes $10 million over the next three years and $0.34/Dth amortizes a current year estimated expenditure of $32 million.

The reason for proposing this amortization rate is to reduce the carry costs that accumulate on balances in Account 182.4. The Division estimates, based on the assumptions used to develop this rate, that over a three year period, $3.8 million will accrue as interest charges.[18] In the filing, the Company also mentioned amortizing the current $30 million balance over a two year period. To do so would require a $0.49/Dth rate, a 32% increase over the current rate of $0.38/Dth while providing a savings of $1.3 million in interest costs. The decision that needs to be made in this instance is whether an additional increase of $0.05/Dth for the next two years justifies a cost savings $1.3 million in carrying costs. In order to reduce the rate impact on GS customers and provide them with more rate relief during this time of economic uncertainty while also supporting the Company in their efforts to reduce the overall costs of the EE programs that benefit the GS rate class, the Division supports the three year amortization rate of $0.44/Dth as proposed in the filing.

[18] Assumes $32 million per year in new expenditures occurring evenly during the year and the sales volumes remain as proposed in the pass-through filing in Docket No. 11-057-02 while amortizing $10 million a year to reduce the $30 million 182.4 account balance. Any changes to these assumptions will alter the calculated results.

**Rate Details**

DPU Exhibit 1.3 shows the rate changes requested in this docket. If approved by the Commission, a typical GS customer will see an annual increase of $5.25 in their gas bill as a result of the increase in the EE amortization rate.

## SUMMARY AND CONCLUSION

DPU Exhibit 1.4 combines the effect of all three applications and shows that a typical GS rate class residential customer whose annual usage is 80/Dth will see a combined net decrease in their annual bill of $7.33 or 1.05% from the implementation of the rate changes requested in these three dockets.

With the current state of the overall economy, it is difficult to predict exactly what effect the current economic conditions will have on the volatility of natural gas prices. It is hoped that prices will remain stable, but, as history has shown, that hope can diminish very rapidly. The Division wishes to emphasize the need for customers to become even more energy efficient. The current Energy Efficiency programs offered by QGC through the ThermWise campaign provide an excellent opportunity for customers to become more aware of ways they can become more energy efficient and thereby realize greater savings in gas costs which comprise 69% of a GS customers volumetric rate structure. Those GS customers that do take advantage of the EE programs will be able to mitigate, to some degree, the effects of price spikes in natural gas. The Division continues to urge QGC to use its customer education and EE funds to educate consumers on how they can reduce their gas usage on an ongoing basis in order to reduce consumption and mitigate the impact of possible future price increases.

As always, the Division will continue to monitor the published monthly index prices[19] and compare them to the prices used in this pass-through filing to see if any trend develops that may warrant an out-of-period filing by QGC.

The Division supports and recommends that the rate changes requested in Docket Nos. 11-057-02, 03 and 04 be approved by the Commission on an interim basis until the Division can complete an audit of the entries into the respective accounts associated with these applications. After the completion of those audits, the Division will issue memos to the Commission with its recommendations on making the revised rates permanent.

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[19] Published monthly in Platts "Inside FERC's Gas Market Report."