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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: September 19, 2011

Subject: Questar Gas, Docket Nos. 11-057-08 (191 Account Pass-Through), 11-057-09 (Conservation Enabling Tariff), 11-057-10 (Low Income Assistance Tariff Change) and 11-057-11 (Infrastructure Rate Adjustment).

ISSUE:

On August 31, 2011, Questar Gas Company (QGC) filed the above four applications with the Public Service Commission (PSC). On September 6, 2011, the Commission issued to the Division of Public Utilities action requests in the above docketed matters. This is the Division's response to those action requests.

Docket No. 11-057-08 (191 Account Pass-Through) asks for PSC approval to decrease the commodity rate components of the QGC's Utah natural gas rates by $6,017,000 and the supplier non-gas cost rate components by $20,164,000 for a total decrease of $26,181,000. Based on current gas cost rates in the GS Rate class, if approved, a typical GS residential customer will see an approximate $18.51 decrease in their annual bill.

Docket No. 11-057-09 is a request to amortize the July 2011 Conservation Enabling Tariff (CET) credit balance of $1,886,290 (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 an approximate $3.62 increase in their annual bill.

Docket No. 11-057-10 is a request to adjust the Low Income Assistance rate component of the DNG rates in their GS, FS, IS, TS, FT-1, MT and NGV rate schedules of their Utah Natural Gas Tariff PSCU 400 and change the annual amount of low income assistance available to qualified GS customers from $37 to $52. A typical GS residential customer, who doesn't qualify for assistance, will see an approximate $0.04 decrease in their annual bill.

Docket No. 11-057-11 requests PSC permission to update the infrastructure rate adjustment mechanism component of the DNG rates in their GS, FS, IS, TS, FT-1, MT and NGV rate schedules of their Utah Natural Gas Tariff PSCU 400. If approved, a typical GS residential customer will see an approximate $3.13 increase in their annual bill with a corrected Exhibit 1.3 replacing Exhibit 1.3 filed with the application.

If all four applications are approved a typical GS residential customer will see a combined net decrease in their annual bill of approximately $11.87. All four applications request that the rate changes become effective on October 1, 2011.

RECOMMEND APPROVAL:

After a preliminary review of the applications, the Division recommends the Commission's approval on all the applications' requested rate changes, effective October 1, 2011, with the approval of the rates in Docket Nos. 11-057-08, 09 and 11 on an interim basis until the appropriate audits can be completed.

DISCUSSION OF APPLICATIONS:

DOCKET NO. 11-057-08 COMMODITY GAS COST AND SUPPLIER NON-GAS COSTS (191 Account Semi Annual Pass-Through)

This filing is based on projected Utah gas costs of $540,357,735 for the test year of October 1, 2011 through September 30, 2012. The commodity portion represents a decrease of $6,017,000 in rates and the Supplier Non-Gas (SNG) rates decrease by $20,164,000 for a total decrease of $26,181,000 for firm sales customers.

The base component of the commodity rate decreases from $4.21/Dth (rounded) to $4.17/Dth (rounded), resulting in a $4,818,000 decrease in the base commodity gas costs for firm sales customers as a result of a projected 3.3% decrease in market prices for natural gas compared to the previous forecast. Coupled with this expected decrease in the commodity gas cost is a decrease in the 191 account amortization rate. This rate decreases from $0.14/ Dth (rounded), which went into effect June 1, 2011[1] to $0.13/Dth (rounded). The amortization rate decrease results in an additional decrease of $1,199,000 for firm sales customers, which totals to the $6,017,000 decrease in commodity gas costs. As will be discussed later, the base Supplier Non-Gas (SNG) rates have decreased resulting in a decrease of $20,164,000 in SNG costs.

Utah Gas Supply

For the test year from October 2011 through September 2012, QGC expects a total Utah system requirement of 111.0 million decatherms. Of this, 105.5 million decatherms will meet the projected sales requirement and 5.5 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 68.8 million decatherms of WEXPRO production, (62% of the total requirement), at a net projected cost of $289,904,000[2] while purchasing from third party producers 41.9 million decatherms, (38 % of total requirements) for $169,814,000.[3] Transportation and storage costs are projected to be $80,639,000 for an estimated total cost to Utah customers of $540,358,000.[4]

[1] Docket No. 11-057-02.
[2] QGC Application, Docket No. 11-057-08, Exhibit 1.5, Line 5 Column E.
3 Ibid, Line 6, Column E.
4 Ibid, Line 14, Column E.

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 $3,643,000,[5] 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.

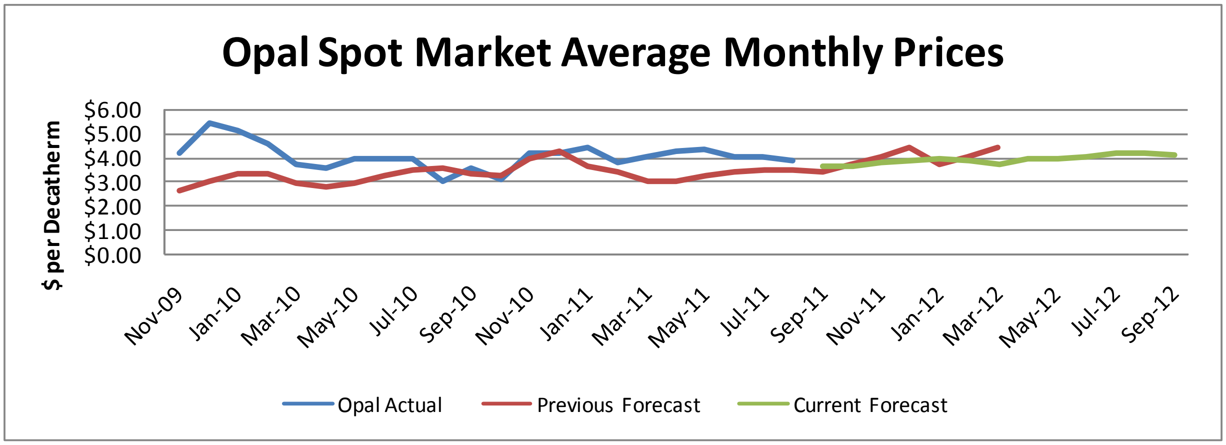
Natural Gas Spot Prices

Since the time the PSC approved the last pass-through request, effective June 1, 2011 (Docket No. 11-057-02), actual prices have trended slightly downward from the previously forecasted prices. In this filing, QGC utilizes an average forward looking thirteen month forecast spot price of $3.89/Dth[6] compared to $3.97/Dth in the previous filing. Figure 1 on the next page compares the actual first of month spot prices for natural gas at Opal, Wyoming from November 2009 through August 2011 to the forecasted prices used in the previous pass-through application in Docket No. 11-057-02, as well as the projected forecast of Rocky Mountain spot market prices for September 2011 through September 2012 used in this application to establish gas cost commodity rates to become effective October 1, 2011. As shown in Figure 1 on the next page, from November 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, 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 current forecasted prices are projected to remain relatively flat with a slight downward trend from the previous forecast.

5 Ibid, Line 13, Column E.

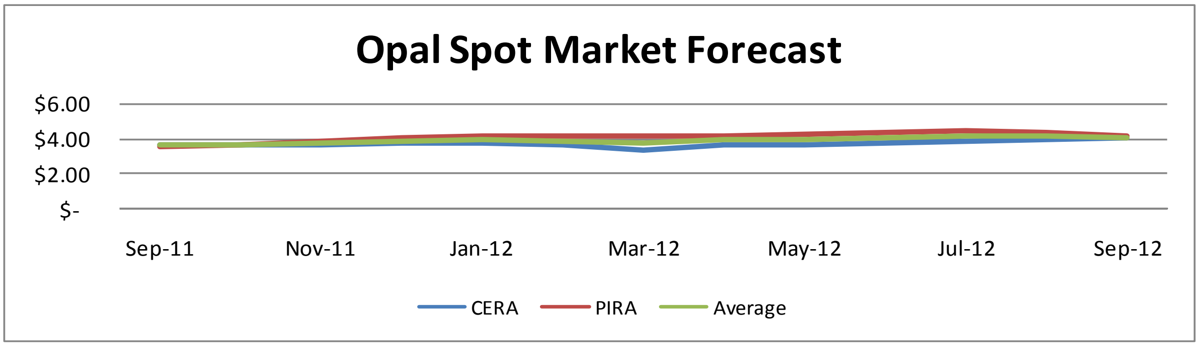
[6] Arithmetic average of PIRA and CERA forecast from September 2011 to September 2012 used in pass-through application, Docket No. 11-057-08.

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. This shows a relative consensus on the stability of natural gas prices through September 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 68.8 million decatherms. The net well head weighted cost of this production is $3.85/Dth[7], which is an increase of $0.03/Dth from the last filing in Docket No. 11-057-02. Currently, with slightly lower projected natural gas spot market prices, the average net[8] cost of the WEXPRO production is $4.22/Dth compared to the projected weighted average cost of purchased gas of $4.05/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 68.8 million decatherms of company owned production, QGC has developed a Utah gas supply purchase portfolio of 41.9 million decatherms. This filing includes some planned gas purchases for November 2011 through March 2012. Currently, QGC gas supply management has contracted at fixed prices for Utah's supply requirement some 25.0 million decatherms at an average price of $4.24/Dth[10] (including peaking requirements). 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.

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[7] QGC Application, Docket No. 11-057-08, Exhibit 1.4, Line 3, Column D.
[8] Includes the cost of gathering services.
[9] QGC Application, Docket No. 11-057-08, Exhibit 1.4, Lines 5&6, Column D. .
[10] QGC Application Docket No. 11-057-08, Exhibit 1.2, Line 3, Column C.

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 and processing the WEXPRO gas from the well heads to market hubs, transporting the gas from market hubs to city gates and storing the gas in available gas storage facilities for later withdrawal during the winter months. 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.[11] QGC projects total SNG costs, in this filing, to be $101,349,000.[12] At current rates, SNG revenues that will be collected are projected to be $104,968,000[13] leaving an over collected balance of $3,619,000.[14] Therefore, as shown in Exhibit 1.6, QGC is reflecting a 3.46%[15] decrease from the current total SNG rates in order to adjust for this over collection. However, in this filing, in order to reduce the range of (over)/under collections that occur in the SNG balancing account, QGC is proposing to delay by two months the implementation of the SNG winter rate differential for the GS and FS rate classes. By doing this QGC forecasts that the swings in the (over)/under collection balances can be reduced from $40,000,000 dollar ranges to $20,000,000 million dollar ranges and in the spring filings, implement an annual amortization rate to begin collection on a smaller (over)/under collected balance. The Division supports this one time delay in implementation of the winter SNG rate until January 2012 at which time the Company will file, through a tariff filing, the winter SNG rates reflected as part of the Company's Exhibit 1.8 in this Docket. The effect of doing this has already been factored into the estimates these changes will have on GS residential customers' gas bills.

[11] QGC Application, Docket No. 10-057-17, Exhibit 1.4, Lines 5&6, Column D.

[12] QGC Application, Docket No. 11-057-08, Exhibit 1.6, page 2 of 3, Line 1. This represents a decrease of $1,285,000 from the SNG costs in Docket No. 11-057-02.

[13] Ibid, line 4.

[14] QGC Application, Docket No. 11-057-08, Exhibit 1.6, page 2 of 3, Line 5.

[15] Ibid, line 7.

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 $0.06[16]/Dth (rounded). The GS SNG rates increase by $0.02/Dth (rounded) in the summer and $0.04/Dth in the winter due to the delay in implementation of the winter differential rate until January 2010.[17] Based on these new rates, a typical GS residential customer will realize a decrease in their annual bill of $18.51 which is a 2.67% decrease in annual gas costs.

DOCKET NO. 11-057-09 CONSERVATION ENABLING TARIFF (CET)

Unlike the SNG and commodity rate changes in Docket No. 11-057-08 that affect the rates for all firm sales customers, the rate changes requested in Docket No. 11-057-09 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 $1,886,290 in the CET deferral account, which is the balance in Account 191.9 as of July 31, 2011. This over collected credit balance is less than the credit balance approved in Docket No. 10-057-02 by $3,838,647 resulting in an incremental increase to the amortization rates.

Rate Details

The CET amortization rates reflected in the GS Rate Class tariff sheets filed with this application have changed for both blocks 1 and 2 of the summer and winter rates. The incremental increase in the GS DNG Block 1 rate is $0.04/Dth (rounded) for the summer rate and $0.05/Dth (rounded) for the winter rate as shown in DPU Exhibit 1.1.[18]

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[16] DPU Exhibit 1.1, line 56.
[17] Ibid, line 52.
[18] DPU Exhibit 1.1, Line 44, Columns B,D.

Effect on a typical GS Customer

If approved by the PSC, a typical GS rate class customer will see an increase in their annual bill of approximately $3.62 due to a reduction in the current credit rate in the CET amortization rate component of the GS DNG rate.

DOCKET NO. 11-057-10 LOW INCOME ASSISTANCE TARIFF RATE

The Division reviewed the attached exhibits contained in the filing including the tariff sheets attached as Exhibit 1.4 and agrees with the methodology used by the Company, as shown in Exhibits 1.1 through Exhibits 1.3 of the filing, to support their request to decrease the current low income assistance rate component of the DNG rates of all rate schedules in their Utah Natural Gas Tariff.

Exhibit 1.1 of the filing details the accounting entries into the 191.8 low income balancing account for the 12 months ending July 2011. Although not shown as a total in the exhibit, the total of column (A) in the exhibit does equal $1.559 million, the same total shown in Exhibit 1.2, line 1.

Exhibit 1.2 details the proposed collections.

Exhibit 1.3 column (F) shows the new low income assistance rate for each rate class. The Division obtained the model used to derive the volumes and rates shown in this exhibit and verified the accuracy of the calculations to ensure that compliance with Utah Code Ann. § 54-7-13.6, which provides, not only the authority for the Commission to approve a low-Income funding program for low-income residential customers, but also the funding guidelines to be used. Those guidelines are as follows:

> (5)(a)(i) Subject to Subsection (5)(a)(ii), low-income assistance program funding from each rate class may be in an amount determined by the commission.
> (ii) Low-income assistance program funding described in Subsection (5)(a)(i) may not exceed 0.5% of the rate class's retail revenues.

(b) (i) Low-income assistance program funding for bill payment assistance shall be provided through a surcharge on the monthly bill of each Utah retail customer of the electrical corporation or gas corporation providing the program.
(ii) The surcharge described in Subsection (5)(b)(i) may not be collected from customers currently participating in the low-income assistance program.
(c) (i) Subject to Subsection (c)(ii), the monthly surcharge described in Subsection (5)(b)(i) shall be calculated as an equal percentage of revenues from all rate schedules.
(c) (ii) The monthly surcharge described in Subsection (5)(b)(i) may not exceed $50 per month for any customer, adjusted periodically as the commission determines appropriate for inflation.

In reviewing the Application, the Division makes the following observations with respect to the statutory requirements, as outlined above, of the Low-Income Assistance Program:

(a) In accordance with (5)(a)(i), the level of funding was determined and approved by the Commission's June 3, 2010 order approving the Settlement Stipulation in Docket No. 09-057-16[19] of an annual amount of $1.5 million. There are administrative costs associated with this program of $50,000 for recurring annual costs from the Department of Community and Culture (DCC) required to certify eligible customers. Although not shown above as part of the quoted statute, the $1.5 million target annual amount may remain in effect until the Company's next general rate case, or some other appropriate time as determined by the Commission. Because of the over collection of $59,000 as shown in Exhibit 1.2, the current application seeks rates to collect only the difference between the allowed amount $1.5 million and the over collection of $59,000 or $1,441,000. This is in accordance with (6)(c) of the statue.
(b) As shown in Exhibit 1.3, column (E) of the Company's Application, the level of funding for each rate class does not exceed 0.161% of that class's retail revenues, well below the 0.5% limit provided in (5)(a)(ii) of the statute.
(c) Exhibit 1.3, column (F) of the Company's Application shows the surcharge per decatherm to be charged each rate class's customers. Each customer's monthly

[19] Commission Report and Order, Docket No. 09-057-16, June 3, 2010, page 23, paragraph #23.

bill, within those rate classes, has the dollar amount of funding that customer is contributing to the Low-Income Assistance Fund noted on their individual bills as required in (5)(b)(i) of the statute. For a typical GS customer whose annual usage is 80 Dth, their total annual contribution to this fund will be approximately $1.16.

(d) As required by (5)(b)(ii) of the statute, eligible low-income customers will not be charged the surcharge rate in arriving at the annual amount of benefit to low-income customers, which is targeted as a one-time credit of $52[20] during the year. The number of customers that received assistance from November 2010 through July 2011 was 35,000. This number is projected to decrease to 30,000 over the course of the next year due to funding cutbacks at the qualifying agencies. These customers' projected usage volumes were removed from the total GS class volumetric projections in order to arrive at the surcharge rate for the remaining GS customers.

(e) Exhibit 1.3, column (E) shows that each rate class's surcharge rate is an equal percentage of revenues as required by (5)(c)(i) of the statute. This percentage is 0.161%.

(f) No individual customer in any rate class will pay more than $50 per month in accordance with (5)(c)(ii) of the statute. In arriving at the surcharge rate per Dth for each rate class, the Company analyzed the billings of each rate class and noted their revenue contribution in column (H) of Exhibit 1.3 in order to calculate the required rate to collect each classes share of the $1.4 million annual funding level.

In summary, the Division supports the Company's filing, believes it is in compliance with Utah Code Ann. § 54-7-13.6, is in the public interest and provides a just and reasonable low-income surcharge rate. The Division recommends the Commission approve the Application as filed with an effective date of October 1, 2011.

[20] See Exhibit 1.2, Line 15 of application.

Effect on a typical GS Customer

The effect of this decrease in the low income assistance rate for a typical GS residential customer is an expected decrease in their annual bill of $0.04.

DOCKET NO. 11-057-11 INFRASTRUCTURE RATE ADJUSMENT

This application requests Commission permission to update the infrastructure rate adjustment component of the DNG rates in their GS, FS, IS, TS, FT-1, MT and NGV rate schedules of their Utah Natural Gas Tariff PSCU 400.

The Division reviewed the tariff sheets attached as exhibit 1.5 as well as the exhibits showing the calculations, filed with the PSC on August 31, 2011, and agrees with the methodology used by the Company, as shown in Exhibits 1.1 through Exhibits 1.4 of the filing, to support their request to increase the current infrastructure rate adjustment component of the DNG rates of all rate schedules in their Utah Natural Gas Tariff.

Exhibit 1.1, page 1, details the cumulative additions in the feeder line replacement projects with a 13 month net average of $58.1 million additions to investment plant. Exhibit 1.1, page 2 details the calculation of the cumulative $6.5 million additional revenue requirement necessary for the increase of $58.1 million in plant additions. The $6.5 million cumulative revenue requirement is an increase of $3.4 million from what is currently being collected in rates.

Exhibit 1.2 details the spread of the $6.5 million in additional revenue requirement to the rate classes based on the same spread of the revenue requirement ordered in QGC last rate case in Docket No. 09-057-16.

Exhibit 1.3 details the new infrastructure rate component calculation of the DNG rates for each rate schedule in order to collect the $6.5 million revenue requirement. However, in reviewing Exhibit 1.3 contained in the filing, the Division noticed that in calculating the infrastructure rate adjustment for the FT-1 schedule, volumes attributed to the Lakeside Power Plant were included when they should have been excluded as well as the reversing of the current GS summer and winter rates used to calculate the effect of this increase on a typical GS customer. After discussing this issue with QGC, they provided a corrected Exhibit 1.3 with the appropriate volumes and infrastructure rate adjustment for the FT-1 rate schedule and current GS rates. That corrected Exhibit 1.3 is attached to this memo. Also the Division has not reviewed the detailed invoices used by the Company in deriving the dollar amounts that qualify for inclusion in this filing and therefore recommends that the rates continue to be approved on an interim basis.

Effect on a typical GS Customer

With corrected Exhibit 1.3, the effect of this increase on a typical GS residential customer's annual gas bill is an increase of $3.13 rather than the $3.28 mentioned in the filing.

SUMMARY AND CONCLUSION

DPU Exhibit 1.1 combines the effect of all four 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 $11.87 or 1.71% 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 67% of a GS customer's 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[21] 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. 11-057-08, 09 and 11 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 requested rate changes in these dockets permanent.

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