State of Utah
Department of Commerce
Division of Public Utilities

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Memorandum

TO: Public Service Commission

FROM: Division of Public Utilities
Chris Parker, Director,
Artie Powell, Energy Manager
Doug Wheelwright, Technical Consultant

DATE: September 8, 2014

RE: Docket No. 14-057-03, Questar Gas Intercompany Loan Activity

RECOMMENDATION – Review the procedures and practices

Based upon the following analysis, the Division finds that Questar Gas is in compliance with the guidelines identified in Docket No. 85-057-09.

As part of the ongoing review of the Intercompany lending practices, the Commission has recently opened Docket No. 14-057-18 with a scheduling conference to be held on September 9, 2014. The new Docket will allow the Commission to review the current short-term lending practices between Questar Gas and Questar Corporation which have changed since the 1985 approval.

ISSUE

On August 6, 2014, Questar Gas Company (QGC) filed two Intercompany loan reports with the Commission. The first report was a summary of the Intercompany loan activity with Questar Corporation through June 30, 2014. The second report was a summary of the Intercompany loan activity through July 31, 2014. Both filings included the daily loan balance and the supporting interest calculations. This memo is in response to both the June and July filing.

ANALYSIS

In Docket No. 85-057-09, Mountain Fuel Supply Company was approved to make short-term loans to its parent, Questar Corporation, under certain limited conditions. Loans to the parent company would provide Mountain Fuel with the opportunity to earn an interest rate on excess cash that was at least as favorable as the interest rate that could be earned using other short-term investments. The interest rate for loans to Questar Corporation would be set by determining a "market borrowing rate" for short-term loans and a "market investment rate" for investments available to Mountain Fuel. These two rates would be summed together and averaged to calculate an "intercompany interest rate". By averaging the borrowing and lending rates, Mountain Fuel would receive interest from loans to Questar Corporation at a rate that is slightly higher than the "market investment rate". Questar Corporation would in turn pay interest on short-term loans at a rate that is slightly lower than the "market borrowing rate".

The December 2013 Form 10-K annual report for Questar Corporation identifies intercompany short-term debt as follows;

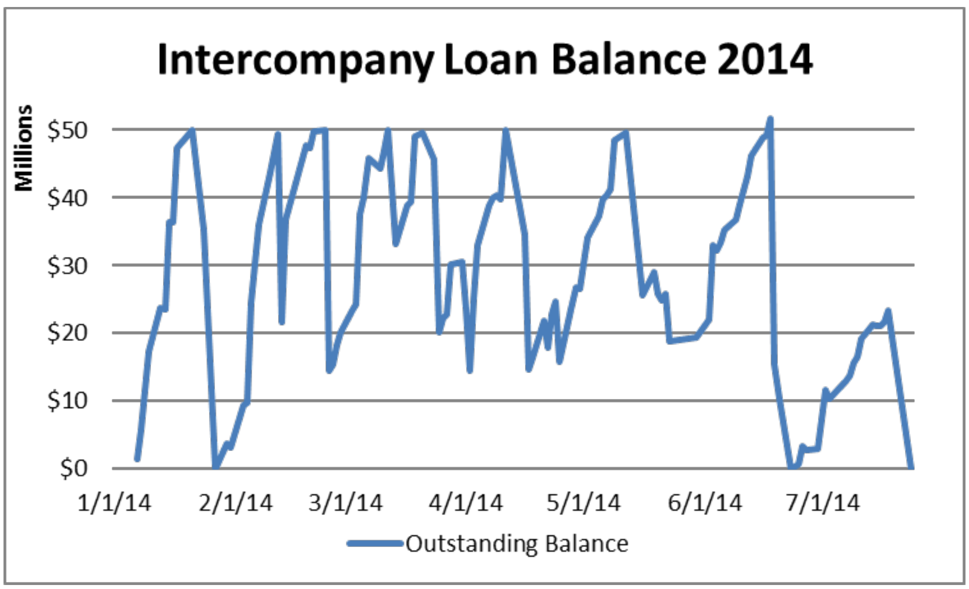
> Questar (Corp) centrally manages cash. Questar makes loans to Questar Gas and Questar Pipeline under a short-term borrowing arrangement. Amounts loaned earn an interest rate that is identical to the interest rate paid on amounts borrowed. The rate is adjusted monthly based on prevailing short-term market interest rates.[1]

In the past it has been more common for Questar Corporation to lend money to Questar Gas on a short term basis however, since January 7, 2014, Questar Gas has provided loans to Questar Corporation due to an excess cash position. Questar Gas is currently in an excess cash position due to the seasonality of the business and the recent issuance of additional long term debt. In December 2013, Questar Gas issued a $90.0 million 30 year bond with an interest rate of 4.78% and a $60.0 million 35 year note with an interest rate of 4.83%. Notes were issued in December to take advantage of the attractive long term interest rates available at that time. Based on the

[1] Questar Corporation, Form 10-K Annual Report, December 31, 2013, p. 77.

1985 Commission order, Questar Gas is required to file a report when the Company is lending funds to the Corporation.

The intercompany lending facility operates and is used like a revolving line of credit as opposed to individual notes with specific repayment terms. The investment log identified as Attachment 4 of the filing shows the outstanding balance of the intercompany loan from January 7, 2014 through July 24, 2014. This report shows the revolving nature of the lending arrangement with the loan balance changing almost on a daily basis. Since the first advance in January, there have been eight times when the loan amount has reached and in one instance exceeded $50.0 million. The chart below provides a visual comparison of how the Intercompany loan balance has fluctuated with both advances and repayment during 2014.



As of June 30, 2014, the loan amount to Questar Corp was $3.0 million which is a reduction from $19.4 million on May 31, 2014. While this is a reduction from the previous month-end amount, the balance during the month of June fluctuated from a high of $51.6 million to a low of $0 and subsequent advances to the $3 million month-end balance. During July, the loan balance increased to $23.4 million and then was paid down to a $0 balance. The advances and subsequent repayment that occurred in June and July are similar to the transactions in the previous months.

As mentioned in the June 18, 2014 memo from the Division, the documentation for the Intercompany loan program has recently changed. On May 12, 2014 the Company executed a new Subordinated Promissory Note and a new Revolving Grid Promissory Note. The new documents increase the total allowed intercompany loan amount from $50.0 million to $150.0 million.

The 1985 order specifies that loans to Questar Corp. will not exceed the greater of $50.0 million or 13% of net utility plant and previous documents identified $50.0 million as the maximum lending amount. As of December 31, 2013 the net plant as reported in the 10K report is $1.458 billion. Based on the 13% calculation approved in the 1985 order, the Company could lend up to $189.5 million to Questar Corp. Copies of the current Revolving Grid Promissory Note and Subordinated Promissory Note reflecting the increased amounts have been included with the previous memo.

The intercompany interest rate is calculated the same for both the borrowing and the lending entities and is shown in detail on Attachment 3 of the filing for each month. The investment rate is calculated by taking the average of four short term (1 month) money market rates and is calculated to be 0.0875% for June and 0.0575% for July. The borrowing rate is calculated by taking the average of four short term (1 month) lending rates and is calculated to be 0.3503% for June and 0.3513% for July. The borrowing rate and the lending rate are then averaged to determine the intercompany lending rate of 0.22% for June and 0.21% for July. The intercompany interest rate is calculated each month and will change based on the current market conditions. The Intercompany rate will change each month with changes in the market interest rates. It appears that the Company is consistent in the way it is calculating the applicable interest rate and is following the guidelines established in the 1985 Commission order.

Since the current lending is functioning as a revolving line as opposed to single individual notes, funds are advanced and repaid on a regular basis. With funds flowing in and out of this account, there are no specific repayment terms. Assuming that each repayment amount is used to retire the most senior advance, the longest period of time that funds are outstanding has been calculated to be 28 days in June and 22 days in July. The Division has also verified that each advance has been approved by the Treasurer as required by the Promissory Note. Electronic approval by the Chief Financial Officer with a date and time stamps are recorded for each advance.

The intercompany lending program has worked well and historically has provided Questar Gas with a source of funds for short term borrowing and short term lending. Prior to the January 2014 filing, the last time the Company was lending to the Corporation was in 2009. When the Company is in a borrowing position, the interest rate paid is lower than the prevailing borrowing rate and when in a lending position, the interest rate earned is higher than the prevailing short-term saving rate. Questar Gas has benefitted by this lending arrangement by borrowing larger amounts than it has loaned to the Corporation. It is anticipated that Questar Gas will begin borrowing from the corporation in the 3rd quarter of 2014.

It has been nearly 30 years since the Commission issued the order on intercompany lending and many things within the Company and within the lending environment have changed since the order was issued. While the Division concludes that the Company is generally in compliance with the broad terms identified in the 1985 order, a revolving line is a different financing structure than what was anticipated.

CONCLUSION

The Division has reviewed the information as filed and finds that Questar Gas is generally in compliance with the guidelines identified in Docket No. 85-057-09. The Division does not have any recommendations to change the current intercompany lending program and concludes that ratepayers are not harmed under the current structure.

A detailed review of the Intercompany lending under Docket No. 14-057-18 will allow the Division to review the short-term lending practices between Questar Gas and Questar Corporation which have changed since the 1985 approval.

cc: Barrie McKay – Questar Gas
Kelly Mendenhall – Questar Gas
Michele Beck – Office of Consumer Services