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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: April 1, 2015

RE: Docket No. 14-057-18, Questar Gas Intercompany Loan Activity

RECOMMENDATION – Acknowledge the criteria changes for intercompany lending procedures as filed.

The Division finds that the most restrictive indenture provision is no longer applicable to the Questar Gas intercompany lending guideline and supports the proposed criteria changes. The Division recommends that the Commission acknowledge the proposed changes in the short term lending criteria as reported by the Company.

ISSUE

The current guidelines for intercompany lending were approved almost 30 years ago in Docket No. 85-057-09. Since that time, the Company's intercompany lending practices have evolved to adapt to internal cash management needs and current lending practices. Lending from Questar Gas to Questar Corporation does occur occasionally, but historically it is more common for the Corporation to lend money to Questar Gas.

On May 8, 2014, Questar Gas Company (Company) filed its report on intercompany loan activity in Docket No. 14-057-03. On May 16, 2014, the Division filed a memorandum recommending the Commission open a new docket to examine and review the intercompany lending practices. On June 19, 2014, the Commission opened the current docket to discuss the lending procedures and practices and on November 12, 2014, a technical conference was held to discuss this issue. In compliance with the discussion, Questar Gas filed a report to the Commission on January 13, 2015 addressing the current procedures and practices.

In its report, the Company proposed three changes or clarifications to the intercompany lending criteria specified in the 1985 order. On March 31, 2015, the Commission issued an action request to the Division and requested additional information concerning the proposed increase in the total loan amount. This memo is the Division's response to the action request.

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 2014 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]

[1] Questar Corporation, Form 10-K Annual Report, December 31, 2014, p. 76.

The intercompany lending facility operates and is used like a revolving line of credit with the balance changing on a daily basis. In the past it has been more common for Questar Corporation to lend money to Questar Gas on a short term basis however, from January through June 2014, Questar Gas provided loans to Questar Corporation due to an excess cash position. Prior to this, the last time the Gas Company was lending to the Corporation was in 2009.

The 1985 order specifies that loans to Questar Corp. will not exceed the greater of $50 million or 13% of net utility plant and internal lending documents had limited the loan to a maximum of $50 million. In 1985 the $50 million cap was greater than 13% of net utility plant and the total dollar amount has not been changed since the original approval. As of December 31, 2013, the net plant as reported in the 10-K report was $1.458 billion. Based on the 13% calculation approved in the 1985 order, the Company could lend up to $189 million to Questar Corp. 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 calculation for 13% of net plant that was approved in 1985 was based on the Company's most restrictive lending provision at that time. Lending documents from third parties limited the total investments to the greater of $50 million or 13% of the net utility plant. Previous lending arrangements between the Gas Company and the Corporation were executed with individual notes and included specific repayment terms.

Over the past 30 years the internal and external lending agreements have changed. The internal lending has changed to a demand note, which, as previously noted, operates like a revolving credit line. The account balance can change on a daily basis as the cash needs of the Corporation change. Advances and repayment amounts flow in and out of the account on a daily basis as opposed to individual notes with specific repayment terms. The outside lending agreements to third parties has also changed and the current agreements do not include restrictions that specify 13% of net plant. The intercompany lending program has worked well and historically and has provided Questar Gas with a source of funds for short term borrowing and short term lending. 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.

From January 2014 through June 2014, Questar Gas had excess cash that was loaned to the Corporation. The excess cash position was due to a short term timing difference between when new debt was issued and when the capital expenditures were to be paid. New long term debt was issued in December 2013 in order to take advantage of attractive interest rates available at that time. Since July 2014 the Corporation has been lending funds to Questar Gas and it is anticipated that the Corporation will continue to act as a “bank” for short term lending in the future. As of December 2014, Questar Gas had an outstanding loan to Questar Corporation of $119.3 million.

When Questar Gas was lending to the Corporation, the maximum loan amount was $51.6 million as of June 30, 2014. While the increase in the allowed lending amount appears to be a large, the increase represents a 3.7% annual growth rate over the past 30 years. It is also difficult to forecast a situation where Questar Gas would have $150 million in excess cash available to lend to the Corporation.

CONCLUSION

The Division has reviewed the information provided in the Company’s report and supports the proposed criteria changes to the intercompany lending guidelines as submitted. The most restrictive indenture provision is no longer applicable to the Questar Gas intercompany lending guideline and the Division recommends that the Commission acknowledge the proposed changes.

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