- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Pass-Through Application of Questar Gas Company for an Adjustment in Rates and Charges for Natural Gas Service in Utah	)	DOCKET NO. 14-057-22
In the Matter of the Application of Questar Gas Company to Amortize the Conservation Enabling Tariff Balancing Account	)	DOCKET NO. 14-057-23
In the Matter of the Application of Questar Gas Company for a Tariff Change and Adjustment to the Low Income Assistance/Energy Assistance Rate	)	DOCKET NO. 14-057-24 ORDER CONFIRMING BENCH RULINGS AND NOTICE OF TECHNICAL CONFERENCE

ISSUED: December 8, 2014

SYNOPSIS

The Commission approves three uncontested rate applications of Questar Gas Company, two on an interim basis pending the completion of audits by the Division of Public Utilities, and one setting final rates. The combined effect of these applications is to decrease the annual bill of a typical GS residential customer using 80 decatherms by approximately $21.07, or 2.75 percent.

INTRODUCTION AND BACKGROUND

The three rate applications in these dockets were filed by Questar Gas Company ("Questar") with the Public Service Commission of Utah ("Commission") on October 1, 2014; each proposed a discreet rate change to be effective November 1, 2014. In response to the Commission's October 7, 2014, scheduling order and notice of hearing, the Division of Public Utilities ("Division") filed an action request response addressing the three dockets on October 17, 2014.

The Division's action request response recommends approval of the three applications, two on an interim basis and one setting final rates. The Division further indicates that if all three applications are approved, a typical General Service ("GS") residential customer will see a combined net annual bill decrease of approximately $21.07, or 2.75 percent.

On October 30, 2014, the Commission's designated Presiding Officer ("Presiding Officer") conducted a hearing to consider the three applications. At the hearing, Questar provided a summary of the applications. In addition, the Division summarized pertinent portions of its action request response and testified that the requested rate changes are just, reasonable and in the public interest. The Division recommended the Commission approve the proposed rate changes filed in Docket Nos. 14-057-22 and 14-047-23, each on an interim basis, and the proposed rate change in Docket No. 14-057-24 as final, effective November 1, 2014. The Office of Consumer Services ("Office") recommended the Commission accept Questar's applications.

At the conclusion of the hearing, the Presiding Officer issued a bench ruling, approved and confirmed by the Commission, approving the rates proposed in the applications in Docket Nos. 14-057-22 and 14-057-23 on an interim basis pending review of the Division's audit and prudence review, and approving the rates proposed in the application in Docket No. 14-057-24 on a final basis. This written order memorializes the bench ruling. The evidence supporting each application is uncontested and is briefly summarized below. On November 17, 2014, in response to an issue raised during the October 30, 2014, hearing, Questar filed supplemental information identifying the correct gas volumes used to calculate the peak day demand allocation factor.

DOCKET NO. 14-057-22, ACCOUNT 191 RATE CHANGES

The application in Docket No. 14-057-22 (“191 Account Application”) is based on projected Utah gas-related costs of $598.234 million for the test year ending October 31, 2015 (“Test Year”),[1] and represents a $29.265 million decrease from the rates set in Docket No. 14-057-09, the last 191 account pass-through proceeding.[2] The proposed decrease consists of a $23.743 million decrease in the net commodity component of rates and a $5.522 million decrease in the supplier non-gas (“SNG”) component[3] of rates during the Test Year.

Specifically, the 191 Account Application proposes a decrease to the commodity rate from $5.27588 to $5.04668 per decatherm, a decrease to the SNG winter rate from $1.05304 to $0.99133 per decatherm, and a decrease to the SNG summer rate from $0.49441 to $0.46544 per decatherm.

Gas Commodity Rate Change

The $23.743 million decrease in the net commodity component of rates referenced above is due to a forecasted decrease in the price of natural gas during the Test Year offset by an increased 191 amortization rate. The 191 Account Application proposes a decrease in the base gas rate from $5.05224 to $4.63135 per decatherm and an increase in the 191 account commodity amortization rate from $0.22364 to $0.41533 per decatherm. The increased

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[1] The $598.234 million of Utah gas-related costs is comprised of $503.037 million associated with the commodity portion of natural gas costs and $95.196 million in Supplier non-gas costs.
[2] Docket No. 14-057-09, “In the Matter of the Pass-Through Application of Questar Gas Company for an Adjustment in Rates and Charges for Natural Gas Service in Utah”
[3] SNG costs are associated with gathering and processing Wexpro gas from the well heads to market hubs, transporting gas from market hubs to city gates, and storing gas in available gas storage facilities for later withdrawal during the winter months.

amortization rate is necessary to address an under-collected commodity balance of $45.111 million.

The 191 Account Application forecasts a total Test Year system gas supply requirement of 119.333 million decatherms. Questar anticipates meeting this requirement with 70.897 million decatherms of Wexpro cost-of-service production (59.4 percent of the total), 18.105 million decatherms of current gas purchase contracts (15.2 percent of the total), and 30.330 decatherms of gas purchased on the spot market and future gas contracts (25.4 percent of the total).

Cost-of-Service Production

For Wexpro cost-of-service production, Questar forecasts a total net cost of $347.171 million ($334.865 million allocated to Utah) at an average price of $4.90 per decatherm. With the addition of the recent Wexpro II Trail acquisition approved in Docket No. 13-057-13 ("Trail Unit Application"),[4] the cost-of-service production is separately reported for the Wexpro I and Wexpro II agreements. According to the Division, this separation will allow Questar and the Division to monitor and compare the cost and production under the separate agreements. Wexpro I production has a projected cost of $320.200 million (on a system-wide basis) at an average price of $4.80 per decatherm, including gathering costs and revenue sharing credits. Wexpro II production has a projected cost of $26.971 million (on a system-wide basis) at

[4] *See* Docket No. 13-057-13, In the Matter of the Application of Questar Gas Company for Approval to Include Property Under the Wexpro II Agreement, (November 5, 2013, Application).

an average price of $6.48 per decatherm including the gathering costs and revenue sharing credits.[5]

The Division observes the price of Wexpro II gas is significantly higher than originally anticipated in the Trail Unit Application and higher than the $5.39 per decatherm identified in Docket No. 14-057-09. The Division summarizes Questar's explanation for the significant increase as presented in Questar's response to the Division's data requests 1.6 and 1.7. First, Questar mistakenly excluded gathering costs in calculating the Wexpro II cost of $5.39 per decatherm presented in Docket No. 14-057-09. This error accounts for $0.42 per decatherm of the increase.

Second, Questar explained to the Division that the original cost projections used in the Wexpro II Trail Unit acquisition analysis assumed the installation of compression in the Trail Unit from the date of the Trail Unit acquisition. However, Questar explained to the Division that compression facilities were not installed at the time of the acquisition but are scheduled to be operational by mid-2015. Questar further explained that once compression is implemented, Questar anticipates the cost of the Wexpro II gas will be equal to or lower than calculated in the Trail Unit Application. The Division states it was unaware compression was included in the Trail Unit Application cost projections.[6]

[5] The cost-of-service gas production includes the operator service fee ("OSF") paid to Wexpro. The Division states as part of its audit and review of the 191 account, the Division is reviewing the calculations and costs associated with the increase in the OSF in recent years. The Division states it will continue to monitor the OSF as well as other costs and will present its findings to the Commission.

[6] On December 5, 2014, the Division filed a memorandum stating that upon further examination, it determined that assumptions relating to field compression were not the cause of the Wexpro II price variation. Further, the Division suggests the Commission schedule a technical conference to address this issue with all parties.

At hearing, Questar confirmed the foregoing explanations. Questar further explained that while the Trail Unit Application assumed compression associated with the volumes presented in the Trail Unit Acquisition Model, i.e., Exhibit P of the Trail Unit Application, as the docket progressed parties agreed to place a 65 percent cap on Wexpro production. To avoid exceedance of the 65 percent level of Wexpro production, Questar states Wexpro decided to postpone installation of compression because, if installed, production from Wexpro I and Wexpro II combined would exceed the cap of 65 percent.[7] Questar states that without compression, the unit cost of Wexpro II gas volumes forecast to be delivered to customers is higher.

Questar also clarified that the responses to the Division's data requests were provided by Wexpro; Questar then transmitted Wexpro's responses to the Division.[8] Questar added that, pursuant to the Commission-approved Trail Unit Stipulation, it will provide a report in June 2015 supporting its decisions to either sell or shut in cost-of-service production for the time period between the approval date of the acquisition through May 31, 2015.[9]

Regarding a possible discrepancy between the number of wells in the Trail Unit Application (80 wells indicated in Exhibit C of the Trail Unit Application) and that presented in the 191 Account Application, Exhibit 1.1 (*i.e.*, approximately 75 wells) Questar indicated at

[7] October 30, 2014, Tr. 21: 2-10.
[8] October 30, 2014, Tr. 24: 12-17.
[9] See Docket No. 13-057-13, "In the Matter of the Application of Questar Gas Company for Approval to Include Property Under the Wexpro II Agreement," (Report and Order, January 17, 2014, Trail Unit Stipulation, Paragraph 14.

hearing that it would look into the issue. Questar, however, stated that the discrepancy probably would not affect calculation of the royalty rate in this case.[10]

Purchased Gas

The Division reports that purchased gas from third parties has a projected cost of $189.271 million ($182.535 million allocated to Utah) at an average cost of $3.91 per decatherm. When compared with the Wexpro cost-of-service production cost of $4.90 per decatherm, Questar forecasts a difference of $0.99 per decatherm between Wexpro-produced gas and third party purchased gas. The Division states the difference in price between purchased gas and Wexpro-produced gas in the previous 191 account application in Docket No. 14-057-09 was $0.10.

The Division observes Questar's forecast of natural gas prices is lower than presented in the last pass-through request in Docket No. 14-057-09. Questar calculates an average forward-looking thirteen-month forecast spot price of $3.68 per decatherm as compared to $4.68 per decatherm in the previous filing. The Division indicates the forecast used in this application anticipates natural gas prices under $4.00 per decatherm through the heating season followed by a drop in price to approximately $3.50 during the warmer months of 2015.

SNG Costs

On page 2 of the 191 Account Application, Questar proposes a $5.522 million decrease in the SNG component of rates during the Test Year. To achieve this decrease, in columns D and E of Exhibit 1.6 page 3 of the 191 Account Application, Questar proposes a

[10] October 30, 2014, Tr. 38: 2-4.

decrease to the SNG winter rate from $1.05304 to $0.99133 per decatherm and the SNG summer rate from $0.49441 to $0.46544 per decatherm. Questar proposes no change to the 191 account SNG amortization rates. The requested rates in the 191 Account Application reflect this decrease.

Questar provides the following description of the SNG rate change in paragraph 13 beginning on page 7 of the 191 Account Application. This explanation suggests an increase rather than a decrease in revenue is required. Questar projects Utah-allocated SNG costs to be $95.196 million. At current rates, the SNG revenue that will be collected is projected to be $94.707 million, leaving an under-collected balance of $0.490 million. In paragraph 13(a) Questar describes the need for a 0.52 percent increase in the SNG rates to collect the projected under-collected balance. However, Questar's detailed calculation of the SNG rates, produces lower, rather than higher proposed SNG rates, producing the $5.5 million rate reduction noted above. In its comments on Questar's requested changes to the SNG rates, the Division restates the foregoing without further discussion.

As of August 2014, Questar reports the SNG amortization account shows an under-collected balance of $0.876 million. The Division indicates the 191 Account Application does not include an adjustment to the amortization amount set in Docket No. 14-057-09.[11] The Division explains the over- or under-collection of the SNG balance is calculated and adjusted once per year in the spring 191 account filing. The Division also provides an update of the legal

[11] See Division's October 17, 2014, action request response, p. 7.

proceeding between Questar and QEP Field Services Company relating to the cost of gathering services for gas produced by Wexpro.[12]

Parties' Positions

The Division and the Office testify that the rates proposed in the 191 Account Application are just, reasonable, and in the public interest and recommend their approval on an interim basis subject to audit and review. Based on the information presented in the 191 Account Application, the Division calculates a typical GS residential customer will realize an annual bill decrease of $22.48, or 2.93 percent.

DOCKET NO. 14-057-23, CONSERVATION ENABLING TARIFF BALANCING ACCOUNT

The application in Docket No. 14-057-23 ("CET Application") affects only the Conservation Enabling Tariff ("CET") component of the distribution non-gas ("DNG") rates of the GS rate class. According to Questar, as of August 31, 2014, the CET deferral account (Account No. 191.9) has an over-collected balance of $11.559 million. The current CET rates approved in Docket No. 14-057-10[13] were based upon an over-collected balance of $12.947 million. The Division explains that amortizing a smaller amount reduces the calculated credit for each customer thus increasing the CET rate. The resulting increase for the GS DNG Block 1 rate

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[12] The Division explains that on May 1, 2012, Questar filed a lawsuit against QEP Field Services Company ("QEP"). Questar believes certain QEP charges for gathering services exceed the amounts to which QEP is entitled under the System Wide Gathering Agreement ("SWGA"), effective September 1, 1993, pertaining to certain gas produced by Wexpro. Questar alleges breach of contract by QEP and is seeking an accounting and a declaratory judgment relating to SWGA charges. QEP's SWGA charges are included in Questar's rates as part of its purchased gas costs in the 191 account. Those costs are recovered through the SNG rate. Consistent with its litigation position, Questar's calculation of the SNG rate in this case is based on a lower gathering charge than the amount claimed by QEP. Questar has been paying a reduced gathering charge to QEP since June 2012. The current cumulative difference between QEP's billings and Questar's payments is approximately $12 million.

[13] See Docket No. 14-057-10, In the Matter of the Application of Questar Gas Company to Amortize the Conservation Enabling Tariff Balancing Account (Questar Application, May 5, 2014).

is $0.01379 per decatherm for the summer rate and $0.01943 per decatherm for the winter rate. As a result of these changes, a typical GS residential customer using 80 decatherms per year will see an annual bill increase of approximately $1.49, or 0.19 percent.

Parties' Positions

The Division testifies that these rates are just and reasonable and in the public interest and recommends the Commission adopt them on an interim basis subject to audit and review. The Office testifies that it reviewed the CET Application, states that the CET mechanism is working as designed, and recommends approval of the CET Application.

DOCKET NO. 14-057-24, ENERGY ASSISTANCE RATE ADJUSTMENT

The application in Docket No. 14-057-24 ("Energy Assistance Application") affects only the energy assistance component of the DNG rates of the GS rate class. According to Questar, as of July 31, 2014, the energy assistance deferral account (Account No. 191.8) had an over-collected balance of $.022 million and an unpaid-out balance of $0.228 million. The effect of amortizing the Account No. 191.8 balance is a decrease of $0.01 for a typical GS customer. The combination of the unpaid-out balance and projected collections during the rate effective period will result in $1,706,248 available for credit to qualifying customers. Assuming 27,744 participants, Questar proposes to maintain the credit available for qualified low income customers at $61.50 per year.

Parties' Positions

The Division testifies it reviewed and supports the Energy Assistance Application and the calculations as submitted by Questar and that the proposed rates are just and reasonable and in the public interest. The Division recommends the Commission approve the energy assistance rates as final because it does not need to complete a substantial audit of the energy assistance deferral account. The Office states it reviewed the Energy Assistance Application, recommends its approval, and testifies that the rates are just and reasonable.

DISCUSSION, FINDINGS, AND CONCLUSIONS

Based on the Questar applications, the recommendations of the Division and the Office, and the testimony presented at the hearing, we approve the 191 Account and CET Applications on an interim basis, pending final audit and prudence review, and the Energy Assistance Application on a final basis, all effective November 1, 2014. At hearing, Questar, the Division, and the Office all concurred that the interim rates set in Docket Nos. 14-057-22 and 14-057-23, and Questar's actions in managing its gas supply to the benefit of its customers, will be the subject of a future audit and prudence review by the Commission. This review is consistent with the provisions of the Wexpro Agreements and the Trail Unit Stipulation.

We recognize that with the introduction of the volumes and cost of gas associated with the Trail Unit covered under the Wexpro II agreement, the preparation and evaluation of the periodic 191 account pass-through applications are more complex. Perhaps as a result of this added complexity, the record in this docket presents several inconsistencies and issues for additional examination during the Division's audit. We provide the following discussion to aid in the preparation of future applications and in the Division's audit and prudence review of the interim rates approved here.

First, we note Questar's inadvertent omission of gathering rates in Docket No. 14-057-09 on the balance of the 191 account. We direct the Division to ensure that no unnecessary interest payments are charged to customers as a result of this error, particularly in light of the significantly under-collected balance of this account.

Second, we observe differences in the understanding among parties as to whether incremental volumes and costs associated with compression were included in the Trail Unit Application. Questar and the Division both imply in this proceeding that one reason the Wexpro II costs are significantly higher than expected is that compression was assumed in the Trail Unit Application to be installed by the date of acquisition, but in fact it was not. We point to the testimony of the Division and the Division-retained hydrocarbon monitor, regarding certain assumptions used in the Trail Unit Application. The hydrocarbon monitor's report in that case (Docket No. 13-057-13) clearly states: "Wexpro has also not included any increase in operating costs for compression (nor any production or recovery increases that would occur), but it will be needed in the future, particularly for the Canyon Creek and Trail intervals."[14]

Based on the comments and testimony presented in this case we observe that the provisions of and assumptions underlying the Trail Unit Application and the Trail Unit Stipulation are complex and that the current understanding of these documents is inconsistent among parties. Therefore, we find it appropriate to conduct one or more technical conferences to ensure that all parties have a common base of understanding upon which to evaluate and respond to upcoming audits and reviews of the 191 account interim rates.

Third, we note the parties' questions and apparent misunderstandings regarding the absence of compression at the Trail Unit property, and related Wexpro II cost projections at

[14] *See* November 14, 2013, Report of Hydrocarbon Monitor filed in Docket No. 13-057-13.

significantly higher levels than previously estimated. We expect the Division's audit and prudence review will include a detailed examination of these projections and Questar's actions with respect to its rights and duties under the Wexpro II Agreement.

Fourth, at hearing, a possible discrepancy between the number of wells in the Trail Unit Application and the number of Wexpro II wells identified in Exhibit 1.1 of the 191 Account Application was discussed. While unaware of the discrepancy, Questar stated it would look into the issue. We find the examination and explanation of this discrepancy should be addressed formally as part of the Division's upcoming audit and prudence review of the interim rates approved herein.

Fifth, we observe a possible inconsistency in Questar's 191 Account Application (and the Division's testimony) pertaining to the $5.5 million dollar decrease in SNG rates.[15] In paragraph 13(a) of the 191 Account Application Questar proposes "applying a uniform percentage increase of 0.52 [percent] to the supplier non-gas component of firm sales."[16] Further, paragraph 13(b) proposes to maintain the rate for amortizing the SNG balance set in Docket No. 14-057-09. Based on these paragraphs, one would expect a slight increase in the 191 Account Application for SNG rates rather than the proposed $5.5 million reduction.[17] We request Questar

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[15] *See* Division's October 17, 2014, action request response, p. 7.

[16] *See* 191 Account Application, p. 7.

[17] It appears Questar first applied the 0.52 percent increase to the current *total* SNG rates for each block, rather than to the current *base* SNG rates. For example, the current GS winter total SNG rate is $1.05304 per decatherm and this rate consists of a base rate of $1.12022 per decatherm plus the amortization rate of -$0.06718 per decatherm. After applying the 0.52 percent increase to the *total* winter first block SNG rate of $1.05304 per decatherm, not the base SNG rate, Questar again adds the -$0.06718 per decatherm amortization rate resulting in a proposed total SNG rate of $0.99133 per decatherm. This rate is a decrease from the current SNG rate rather than an increase as discussed by Questar.

explain its SNG rate computations and rationale for the rate decrease during the technical conference discussed below.

NOTICE OF TECHNICAL CONFERENCE

A technical conference will be held on **Monday, December 15, 2014, beginning at 1:30 p.m.** The technical conference will be held in **Room 401 of the Heber M. Wells Building, 160 East 300 South, Salt Lake City, Utah**. The purpose of the technical conference is to further clarify assumptions underlying the Trail Unit Application, discuss the Trail Unit information presented in Questar's 2014 IRP and IRP variance reports, and other matters identified by parties or herein. Parties having questions for Questar they would like addressed at the technical conference may email such questions to Commission staff at crevelt@utah.gov, no later than **4:00 p.m. (MDT) Wednesday, December 10, 2014**.

Individuals wishing to participate in the technical conference by telephone should contact the Public Service Commission two days in advance by calling (801) 530-6716 or (toll-free) 1-866-PSC-UTAH (1-866-772-8824). Participants attending by telephone should then call the Public Service Commission at the same number listed above five minutes prior to the technical conference to ensure participation.

In accordance with the Americans with Disabilities Act, individuals needing special accommodations (including auxiliary communicative aids and services) during this technical conference should notify the Commission at 160 East 300 South, Salt Lake City, Utah 84111, (801) 530-6716, at least three working days prior to the technical conference.

ORDER

Based on the Questar applications, the recommendations of the Division and the testimony presented at the hearing:

1) The 191 Account and CET Applications are approved on an interim basis, effective November 1, 2014, pending the final review of the Division's audits and prudence reviews.
2) The Energy Assistance Application is approved effective November 1, 2014.
3) The comprehensive tariff sheets accompanying the 191 Application filed on October 1, 2014, with an effective date of November 1, 2014, are approved. We direct Questar to file the finalized copies of these sheets in Docket No. 14-057-22, with the correct page numbers, Advice Nos. and Section Revision Nos., with the Commission contemporaneous with its distribution of the tariff sheets to tariff book holders.

DATED at Salt Lake City, Utah, this 8th day of December, 2014.

/s/ Jordan A. White
Presiding Officer

Approved and Confirmed this 8th day of December, 2014, as the Order of the Public Service Commission of Utah.

/s/ Ron Allen, Chairman

/s/ David R. Clark, Commissioner

/s/ Thad LeVar, Commissioner

Attest:

/s/ Gary L. Widerburg
Commission Secretary
DW#262441

Notice of Opportunity for Agency Review or Rehearing

Pursuant to Utah Code Ann. §§ 63G-4-301 and 54-7-15, a party may seek agency review or rehearing of this written order by filing a request for review or rehearing with the Commission within 30 days after the issuance of the order. Responses to a request for agency review or rehearing must be filed within 15 days of the filing of the request for review or rehearing. If the Commission fails to grant a request for review or rehearing within 20 days after the filing of a request for review or rehearing, it is deemed denied. Judicial review of the Commission's final agency action may be obtained by filing a Petition for Review with the Utah Supreme Court within 30 days after final agency action. Any Petition for Review must comply with the requirements of Utah Code Ann. §§ 63G-4-401, 63G-4-403, and the Utah Rules of Appellate Procedure.

CERTIFICATE OF SERVICE

I CERTIFY that on the 8th day of December, 2014, a true and correct copy of the foregoing was served upon the following as indicated below:

By Electronic-Mail:

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