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State of Utah
DEPARTMENT OF COMMERCE
Office of Consumer Services

MICHELE BECK
Director

To: The Public Service Commission

From: The Office of Consumer Services
Michele Beck, Director
Gavin Mangelson, Utility Analyst
Danny A.C. Martinez, Utility Analyst

Date: March 5, 2015

Subject: Docket 14-057-32

Request for Agency Action to Review the Carrying Charges Applied to Various Questar Gas Company Balances

Background

On December 31, 2014 the Division of Public Utilities, (Division) made a Request for Agency Action to review the carrying charges applied to various Questar Gas Company (Company) account balances. On January 13, 2015 the Public Service Commission (Commission) held a scheduling conference setting February 24, 2015 as the date for the Division's initial recommendation in this docket. The Commission also scheduled a technical conference that was held on January 26, 2015. The Company made a presentation discussing the history of each account's carrying charge. The Division subsequently filed its initial recommendation (Recommendation) to the Commission.

Discussion

Prior to the Division's Request and Recommendation, the Office also conducted internal analysis on the issue of carrying charges. In reviewing the Division's recommendation, the Office found the arguments and recommendation to be in line with the Office's own conclusions. First, the Office asserts that the carrying charge should be consistent with the underlying risk the Company or ratepayers incur resulting from over-collection or under-collection in the accounts outlined in the Division's Recommendation. Second, the Office would like to ensure that carrying charges are set appropriately to provide an incentive for the Company to maintain zero or near zero balances when feasible.

The Carrying Charge and Investment Risk

The Company uses the carrying charge for the following accounts:

Account	Description
182.3	Demand Side Management
182.4	Pipeline & Distribution Integrity
191	Pass Through Costs
235.1	Customer Deposits
191	CET
191.8	Energy Assistance Balancing Account
	Extension Area Charge (EAC)

As carrying charges are essentially a form of interest, they should therefore follow similar principles as those used by markets to determine interest rates. Appropriate carrying charges should be commensurate with a realistic determination of the risk of default of a debt. The Division's recommendation for using an average of Aaa and Baa corporate rates for the preceding calendar year is reasonable. This composite rate reflects the blending of varying risk factors within the Company's different accounts. Adjusting these rates annually approximates market conditions for similar borrowing conditions. While it could be argued that these accounts have different risk features and one carrying charge may not fit each account exactly, keeping the carrying charge consistent across these accounts maintains stability and ease of calculation and administration.

Opportunities to "Game" the Carrying Charge

An incorrectly determined carrying charge serves as an incentive for the Company to run a balance on accounts that should otherwise be at or near zero. Conversely, upward pressure on account balances does not provide proper incentives for utility companies to adjust rates to maintain near zero balances in a timely manner. The DPU's recommended carrying charge proposal allows the carrying charge to remain in line with current market rates for like assets and removes potential incentive to "game the system."

Recommendation

The Office recommends that the Commission approves the Division's Recommendation to set the carrying charge at the average of the Aaa and Baa corporate rate, adjusted annually.

Copies To: Questar Gas Company
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