State of Utah
Department of Commerce
Division of Public Utilities

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ACTION REQUEST RESPONSE

To: Utah Public Service Commission

From: Division of Public Utilities

Chris Parker, Director
Artie Powell, Manager, Energy Section
Doug Wheelwright, Technical Consultant
Carolyn Roll, Technical Consultant

Date: August 31, 2015

Subject: Docket No. 15-057-06. Action Request from the Commission to review and make recommendations. Questar Gas Company's Results of Operations Report for the Twelve Months Ended December 31, 2014. In the Matter of Questar Gas Company Financial Documents Filed in 2015. Division's Review and Recommendation – No Action.

RECOMMENDATION (NO ACTION)

After a review of the above mentioned report, the Division of Public Utilities (Division) recommends that the Public Service Commission of Utah (Commission) take no action.

ISSUE

On April 30, 2015, Questar Gas Company (Company) filed its December 2014 Results of Operations as called for in the Commission's Order in Docket No. 93-057-01. On May 14, 2015, the Commission issued an Action Request to the Division to review the Report and make recommendations. The Commission asked the Division to report back by June 1, 2015.

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Upon initial review of the filing, the Division determined that the review would require additional time. Therefore, on May 15, 2015, the Division requested that the Commission extend the due date of the Division's response to the Action Request to August 31, 2015. On May 20, 2015, the Commission granted the Division's request for an extension of time to August 31, 2015. This memorandum is the Division's response to that Action Request.

DISCUSSION

The Results of Operations submitted by the Company is in the same format and uses the same model as previous Results of Operations submitted to the Commission annually and in prior rate cases, the most recent being Questar Gas Company General Rate Case Docket No. 13-057-05. The filing includes both unadjusted and adjusted results on a system average and a Utah average jurisdictional basis. The fully adjusted results include the normalization and annualized adjustments that are consistent with previous Results of Operation and General Rate Cases. A description of each adjustment is included in the filing. The descriptions reference the docket or dockets numbers where the Commission Order resulted in an adjustment to earnings.

On July 20, 2012 a technical conference was held to discuss the 2011 Results of Operations Reports. At that technical conference many of the adjustments were discussed in detail, and as a result of the discussion there was a change made to the Labor Adjustment. That change was incorporated in subsequent reports and in the 2013 General Rate Case. All other adjustments have remained consistent and the State Tax Adjustment has been eliminated since Questar Corporation no longer allocates a portion of state income tax to the affiliates. The details of the adjustments are included in the model that was filed with the report, the Division finds the model to be accurate and consistent.

The Division's review of the Annual Report under this Action Request was done using two review procedures. The first procedure was comparing information given and adjustments made for the year ended December 31, 2013 Annual filing to the same information given and adjustments made for the December 31, 2014 Annual filing. The second procedure was to review and reconcile the year ended December 31, 2014 Annual filing to the Company's SEC 10K filing for the same period. The Division staff also requested that the Company prepare a comparison of the 2014 actual results to the 2014 forecast using the Commission's authorized capital structure and costs approved in Docket No. 13-057-05. That report is included in this memorandum as Attachment A.

Tab 3 of the Annual filing is called Results of Operations 12/31/2014 Adjusted. This tab starts with actual results for Total Company, then shows the adjustments and imputed tax adjustment for Total Company to arrive at Adjusted System Total and the Utah Jurisdiction DNG Related results. The following table provides summary information for comparative purposes. The table also includes the forecasted summary information using the Commission's authorized capital structure and costs approved in Questar's most recent rate case in Docket No. 13-057-05. All numbers are the Utah Jurisdiction DNG Related results amounts ($000,000).

	Dec 2014	**Dec 2013**	**Forecast Dec 2014**[1]
Total Operating Revenues	$ 306	$ 294	$ 299
Total O&M Expenses	$ 130	$ 130	$ 128
Depreciation and Amortization	$ 52	$ 48	$ 52
Taxes Other Than Income	$ 17	$ 17	$ 18
Income Taxes	$ 31	$ 30	$ 29
Net Utility Plant	$1,355	$1,214	$1,353

[1] Summary of Attachment A of this memorandum.

Other Rate Base Accounts	$ (346)	$ (316)	$ (366)
Total Net Rate Base	$ 1,009	$ 898	$ 987
Earned Return on Rate Base	7.54%	7.77%	7.24%
Earned Return on Equity	9.53%	9.59%	9.08%

In the Company's last general rate case, the Commission authorized an Earned Return on Equity amount of 9.85% and an Earned Return on Rate Base amount of 7.64%[2]. The Division notes that per the 2014 Annual filing the Company is earning less than its authorized Return on Equity of 9.85%.

For the last General Rate Case the Overall Cost of Capital was as follows:

Component	Percent of Total	Cost	Weighted Average
Long-term Debt	47.93%	5.25%	2.52%
Common Stock Equity	52.07%	9.85%	5.12%
TOTAL	100.00%		7.64%

In this Report the average Capital Structure for the 12 Months ending December 31, 2014 is:

Component	Percent of Total	Cost	Weighted Average
Long-term Debt	47.15%	5.30%	2.50%
Common Stock Equity	52.85%	9.85%	5.21%
TOTAL	100.00%		7.71%

[2] In the Matter of the Application of Questar Gas Company to Increase Distribution Rates and Charges and Make Tariff Modifications, Docket No. 13-057-05, pg. 34.

As noted above the second review procedure was to reconcile the Annual results to the Company's SEC Form 10K. Through the reconciliation of the Annual filing, the Division can get assurance that if the 10-K results can be reconciled to the Annual Report then the Division can take into account the external auditor's 10K audit opinion on the results shown in the Company's year-end filing. The Division can look to this audit to obtain assurance as to accounting correctness and accuracy for Annual Results of Operations based unadjusted historical information under this review.

Another review procedure was to compare the adjustments made to the Results of Operations for the year ended December 31, 2014 to the adjustments to the Results of Operations for the year ended December 31, 2013. In the 2013 and 2014 filings, the adjustments are summarized and explained in detail by various categories which are broken out by Tab Sections in the filing. The adjustment Tabs in the filing are numbered and are as follows: Tab 5.1 – Rate Base; Tab 5.2 – Energy Efficiency; Tab 5.3 – Underground Storage; Tab 5.4 – Wexpro Plant; Tab 5.5 – Bad Debt; Tab 5.6 – Incentive Plans; Tab 5.7 – Event Tickets; Tab 5.8 – Advertising; Tab 5.9 – Donations and Memberships; Tab 5.10 – Reserve Accrual; and Tab 5.11 – Labor.

One purpose of the comparison was to note material differences between the years and to determine if the differences were proper. Another purpose was to have the Division look at the 2014 adjustments to determine if the presentation, explanations, and balances were consistent and, accurate and that the assumptions and the computation of the adjustments seemed to be proper and accurate. Questar Gas Company no longer has a Phantom Stock Incentive Plan so that tab has been removed from the filing. The Division noted that the adjustments in the various tabs were consistent with adjustments that the Company makes to results of operations in its General Rate Case filings.

Based on the Division's comparison analysis and it review of the adjustments, it would like to note the following.

- Bad Debt Expense adjustment for 2014 was $(1,125,467), while the adjustment for 2013 was $332,887. Only the DNG portion of bad debt is included in the calculations of the Results of Operations. This adjustment annualizes the DNG potion of bad debt experienced during the year to a 3-year average rate of bad debt. The bad debt ratio (net write-offs to total revenue) average for 2014 was 0.16% and the average for 2013 was 0.19%. The bad debt expense related to SNG and Commodity increased significantly from 2013 resulting in an addition to bad debt expense for the DNG portion in 2014 results. In the copies of the report that the company distributed the summary page for the Bad Debt Expense calculation was not included in the report, that page has been included as Attachment B to this memo. The summary page was included in the model that was included in the Company's filing.
- The Incentive Plan adjustment removes incentive compensation expenses related to financial goals that were either paid directly by Questar Gas Company or allocated from Questar Corporation. Because the incentive plan payouts vary, a three year average of payouts related to operation goals has been used in the calculation of normalized incentive plan expenses. The adjustment for 2014 was $(3,203,729), while the adjustment for 2013 was $(5,143,832). The decrease is due to an increase of the percentage of incentive payments that were based on operating goals. For Questar Corporation management incentive plan the bonus related to operating goals increased to 45.17% in 2014 from 28.03% in 2013%. The employee incentive plans for both Questar Corporation and Questar Gas Company based the bonus paid in 2014 on 100.00% of operating goals, in 2013 the percentage was 26.21% and 65.27% respectively.
- The Reserve Accrual includes legal liabilities associated with the Company's self-insurance program and is based on a five year average of actual payments made. The adjustment for 2014 was $388,350, while the adjustment for 2013 was $(111,650). The five year average was $388,350 in 2013 and 2014, the Company accrual for legal expense in 2014 was zero resulting in the adjustment of $388,350 for 2014.
- The Labor Adjustment calculation includes a capitalization ratio, which is a measure of the portion of labor and overhead costs that are capitalized and not currently expensed.

The Company uses a five-year average of this ratio for ratemaking and for stating results of operations. This adjustment decreased from $5,932,858 in 2013 to $3,108,418 in 2014. This increase was due to the difference in the capitalization ratio of the five-year average compared to the current year. In 2014 the five-year average was 59.74% versus 56.63% for the twelve months ending December 2014, in 2013 the five-year average was 72.82% versus 66.88% for the twelve months ending December 2013.

CONCLUSION

After performing the above procedures and after reviewing the results obtained from those procedures, nothing came to the Division attention during its review that was of a material significance to indicate any need for modification of the filing or for action to change the Results of Operations as filed.

cc: Michele Beck, Office of Consumer Services
Barrie McKay, Questar Gas Company