State of Utah
Department of Commerce
Division of Public Utilities

FRANCINE GIANI
Executive Director

THOMAS BRADY
Deputy Director

CHRIS PARKER
Director, Division of Public Utilities

GARY HERBERT.
Governor
SPENCER J. COX
Lieutenant Governor

ACTION REQUEST RESPONSE

To: Public Service Commission

From: Division of Public Utilities
Chris Parker, Director
Energy Section
Artie Powell, Manager
Doug Wheelwright, Technical Consultant
Eric Orton, Utility Analyst

Date: September 21, 2015

Subject: Questar Gas, Docket Nos.
15-057-11 – 191 Pass-Through Application
15-057-12 - Conservation Enabling Tariff
15-057-14 – Low Income Energy Assistance

RECOMMENDATION:

After a preliminary review of the applications, the Division recommends the Commission approve on an interim basis the requested rate changes in Docket Nos. 15-057-11 and 15-057-12 with an effective date of October 1, 2015. These requested rate changes should be approved on an interim basis in order to allow additional time for the Division to complete an audit of the individual entries in the respective accounts. The Division also recommends the Commission approve the requested rate change in Docket No. 15-057-14; this docket does not require an audit and the Division does not request interim approval.

ISSUE:

On September 2, 2015, Questar Gas Company (Company) filed the applications identified above with the Public Service Commission (Commission) and the Commission issued Action Requests to the Division of Public Utilities. This memo is the Division's response to the Action Requests.

Docket No. 15-057-11 – The 191 Account Pass-Through asks for Commission approval to decrease the commodity rate components of Questar's Utah natural gas rates by $18.148 million and increase the supplier non-gas cost rate components by $0.524 million for a net decrease of $17.625 million. Based on current rates, if approved individually, a typical GS residential customer will see a decrease of $12.94[1] in their annual bill.

Docket No. 14-057-12 – The Conservation Enabling Tariff (CET) is a request to amortize the July 2015 (under collected) balance of $6,521,745 in Account 191.9 and adjust the CET component of the GS class distribution non-gas (DNG) rate. If approved individually, a typical GS residential customer will see an increase of $3.27 in their annual bill.

Docket No. 14-057-14 – The Low Income Energy Assistance is a request to adjust the collection rate in order to collect the approved $1.5 million plus an under collected amount of $231,250. The test year participation is projected to be similar to the historical levels and the customer credit will remain unchanged at $61.50.

DOCKET NO. 15-057-11 COMMODITY GAS COST AND SUPPLIER NON-GAS COSTS (191 Account Semi Annual Pass-Through)

This filing is based on projected Utah gas costs of $546.054[2] million for the forecast test year ending September 30, 2016. The commodity portion of the gas cost represents a decrease of $18.148 million while the supplier non-gas cost portion represents an increase of $0.524 million for a net decrease of $17.625[3] million. The details of the increase in the SNG rate will be discussed below. The decrease in the commodity cost is due to the lower forecast price for natural gas in the test period. The current forecast from CIRA and PIRA used in this Docket anticipate an average market price between $2.56 and $2.92 per Dth during the test year. The combination of the decrease in gas cost and the increase in SNG results in a decrease in the commodity rate from $4.27/Dth in the previous filing to $4.10/Dth.[4]

[1] Exhibit 1.7, Column F, Line 13.
[2] Exhibit 1.6, Page 1, Line 1.
[3] 15-057-11 Pass-Through Model, Utah Summary-by Class, Line 24.
[4] Exhibit 1.6, Page 1, Column D, Line 9.

Gas Supply

For the test year, October 2015 through September 2016, the Company expects a total system requirement of 120.108[5] million Dths. Of the total amount, 113.145[6] million Dths will meet the projected sales requirement, 0.867[7] million Dths will be placed into storage and 6.096 million Dths will be used for gas volume reimbursement due to gathering, transportation and distribution fuel and shrinkage. Of the total gas requirement, 53.7%[8] will be satisfied from the Wexpro cost-of-service production, 20.8%[9] will be satisfied under current purchase contracts and 25.5%[10] will be purchased with future contracts and spot market transactions. The total expected fuel cost for the test period is $566.159 million.[11]

The cost-of-service gas production from Wexpro calculates to a total cost of $327.199 million at an average cost of $5.07 per Dth.[12] With the addition of the Trail acquisition, the cost-of-service production is being separated as Wexpro I and Wexpro II. The separation of the cost allows the Company and the Division to monitor and compare the cost and production under the separate agreements. The Wexpro I production has a projected cost of $299.148 million at an average cost of $4.97/Dth[13] including gathering cost. The Wexpro II production has a projected cost of $28.051 million at an average cost of $6.42/Dth[14] including gathering cost. The Wexpro II costs are higher than originally anticipated but are down slightly from the previous 191 filing. While the price for Wexpro II gas is higher than originally anticipated, the relatively small volume does not have a large impact on the total price for cost-of-service gas. Natural gas from Wexpro II represents only 6.8% of the total cost-of-service volume and adds $0.10 to the total cost per decatherm. ($4.97 for Wexpro I compared to $5.07 for Total Cost-of-Service Gas) The original analysis for Wexpro II did not include gathering, G & A costs and additional wells were

[5] Exhibit 1.4, Page 2, Column B, Line 3.
[6] Exhibit 1.6, Page 1, Column E, Line 4.
[7] Exhibit 1.4, Page 2, Column B, Line 4 + Line 5.
[8] Exhibit 1.4, Page 2, Column B, (Line 1 / Line 3).
[9] Exhibit 1.2, Column B, Line 3 / Exhibit 1.4, Page 2, Column B, Line 3.
[10] Exhibit 1.2, Column B, Line 4 & 5 / Exhibit 1.4, Page 2, Column B, Line 3.
[11] Exhibit 1.4, Page 1, Column B, Line 17.
[12] Exhibit 1.4, Page 1, Column D, Line 12.
[13] Exhibit 1.4, Page 1, Column D, Line 5.
[14] Exhibit 1.4, Page 1, Column D, Line 10.

projected to be drilled. With the reduction in the market price of natural gas, additional drilling has been postponed in both Wexpro I and II.

The cost-of-service gas production includes the operator service fee (OSF) paid to Wexpro of $297.115 million[15] which is a decrease of $16.235 million from the previous filing. The reduction in the OSF is due to a combination of lower production volumes and lower market prices. As part of its audit and review of the 191 account, the Division is reviewing the calculations and costs associated with the OSF in the current and previous filings. Wexpro and the Company have provided additional information and have responded to numerous data requests. The Division is continuing to review the OSF as well as other costs and will present any findings to the Commission in the future.

The purchased gas from third parties has a projected cost of $152.189 million at an average cost of $2.74/Dth[16] which is $2.33/Dth lower than the Wexpro cost-of-service gas. The price of purchased gas has been lower than the cost-of-service gas for the past several years and long range price forecasts indicate that the market price could remain low for many years into the future.

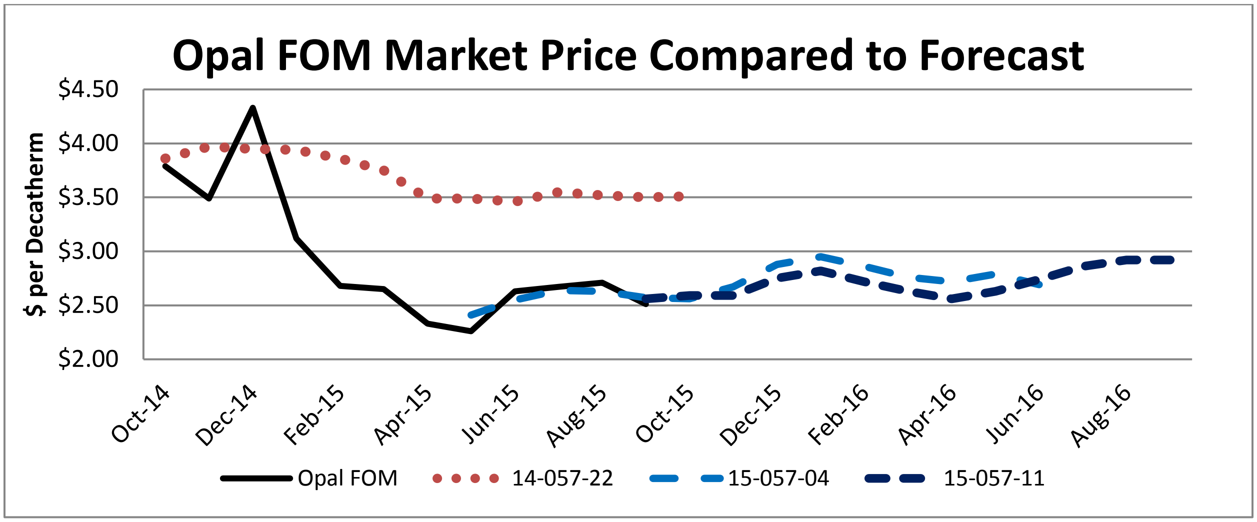
Natural Gas Prices

The forecast price for natural gas in the test period has seen little change from the forecast used in the last pass-through request. (Docket No. 15-057-04) In the current filing, the Company utilizes an average forward looking thirteen month forecast price of $2.71/Dth[17] compared to $2.69/Dth in the previous filing. Chart 1 below, provides a comparison of the forecast prices used in the current and the two previous pass-through applications. (Docket Nos. 14-057-22 and 15-057-04) The two previous filings have been included to show how the forecast price has changed over the past 12 months. The solid line is the historical first of month spot price for natural gas at Opal, Wyoming. (Opal FOM) The historical price has been included to show the

[15] Exhibit 1.1, Page 20, Line 1479.
[16] Exhibit 1.4, Page 1, Column D, Line 13.
[17] Arithmetic average of PIRA and CERA forecast from September 2015 through September 2016 used in pass-through application Exhibit 1.10.

fluctuation in the market price and to provide a comparison of the forecast price used in the previous filings to the actual market price. The historical prices for May 2015 through September 2015 are close to the forecast price used in the previous docket.

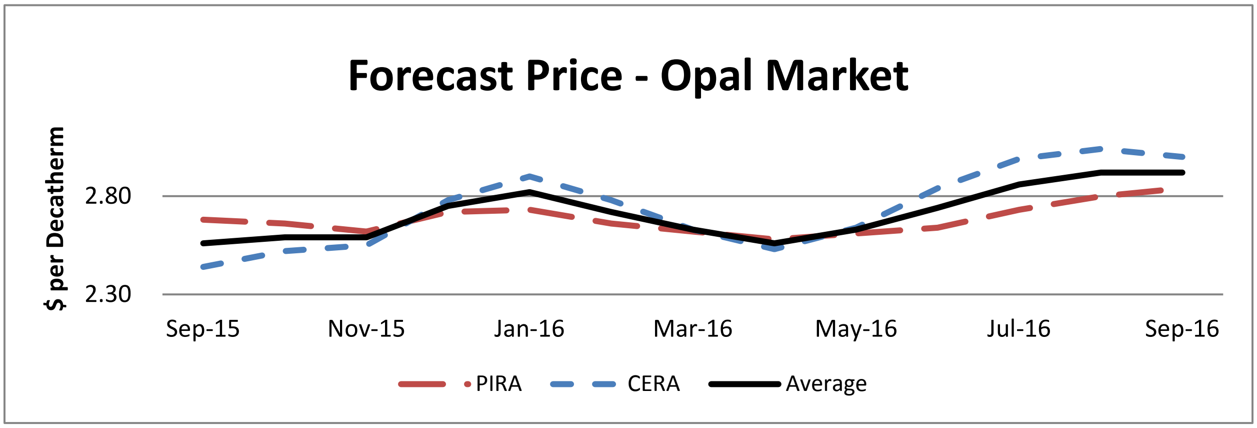
Chart 1



The forecast used in this application anticipate a stable natural gas prices of approximately $2.69/Dth during the summer months and $2.70/Dth in the winter months.

The price forecast is based on an average of future price projections from two different forecasting entities, Cambridge Energy Research Associates, Inc. (CERA) and PIRA Energy Group (PIRA). The two price forecasts along with the average are displayed in Chart 2 below. Both forecasts indicate a relative consensus on the stability of natural gas prices through May 2016. The two forecasts have an average difference of only $0.06/Dth through the forecast period.

Chart 2



Pricing Hedges

The Wexpro production and the Company's gas storage facilities play an important role in the Company's plan to "hedge" against natural gas price volatility while meeting its total supply requirement. The current practices generally allow the Wexpro production to flow during the summer months to satisfy the summer demand in addition to allowing the Company to inject gas into storage for later use. In this filing, the Company has added storage capacity at the Ryckman[18] facility which is scheduled to be in operation during the test period.

The use of storage gas reduces but does not eliminate the need to purchase gas in the high demand winter months. The Company's gas supply management has secured contracts for 24.930 million Dth or approximately 44.8% of the purchased gas requirement at an average price of \$2.88.[19] The balance of the purchase gas requirement will be satisfied with future contracts arrangements and spot market purchase transactions.

Supplier Non-Gas Costs (SNG)

In contrast to the price volatility that can occur with the market price of natural gas, the SNG costs are relatively stable and predictable since these costs are set by contractual transportation and storage agreements and tariffs. These costs are associated with gathering and processing the

[18] Exhibit 1.3, Page 2, Line 2.
[19] Exhibit 1.2, Column C, Line 3.

Wexpro gas from the well-heads to market hubs, transporting market and Wexpro gas from market hubs to city gates and storing the gas in available facilities for later withdrawal during the winter months. While the contract amounts are relatively stable, the collection of these costs are estimated and come through volumetric rates which are set based on normal weather conditions. Variations in the volumetric sales due to changing weather conditions will impact the collection of these costs and will result in the over or under collection of SNG costs. The forecast rates are structured so that the SNG balance is intended to have an over-collected balance of $20.0 million in the spring and a $20.0 million under-collected balance in the fall. The process of under and over collection during the year is intended to minimize the amount of interest paid or collected by the Company on the 191 balance. The amortization of the over or under collection is established annually in the spring pass-through filing and was set in the previous docket.

The Company is projecting total SNG costs for the test period of $99.479[20] million for the forecast test-year plus the $15.358 million amortization of the under collected amount from the previous filing for a total of $114.837[21] million. If the current rates are not adjusted, the SNG revenue collected is projected to be $114.313[22] million, leaving an under collected balance of $0.524[23] million. In this filing, the Company is requesting a 0.46%[24] increase in the total SNG rates in order to collect the projected SNG cost.

Comparison to Previous Filing

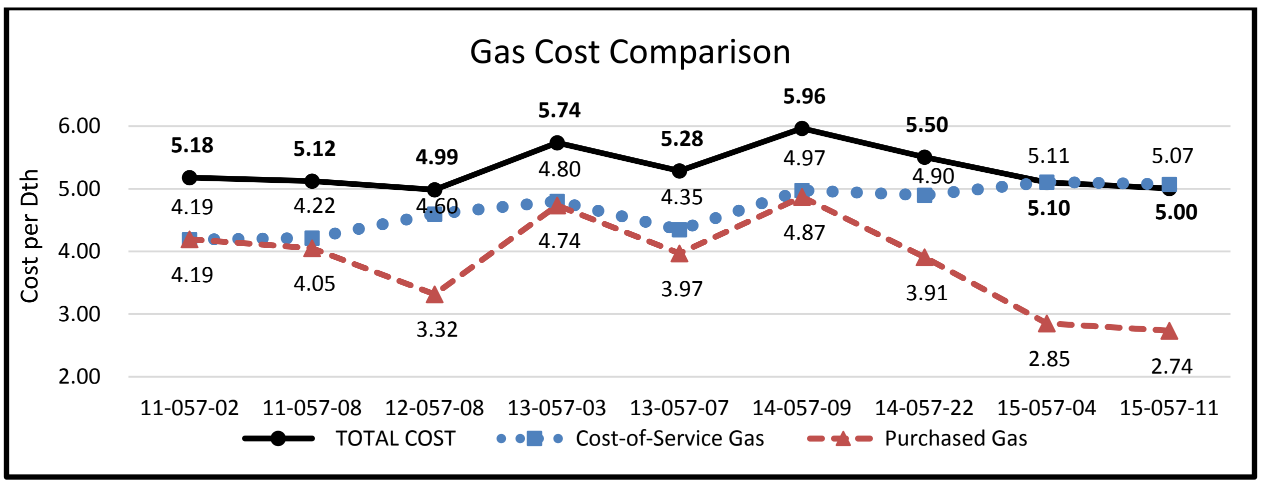
QGC Exhibit 1.1 provides a detailed review of the actual natural gas production for each of the Wexpro I and Wexpro II wells for the last 12 months. This historical production information is used to forecast the royalty payments that will be paid during the test period. The volumes identified in Exhibit 1.1, column E, reflect the historical well-head production. The price identified in column D, represents the forecast price used in the test period. The volume and price are used to forecast the royalty payment for the test year. Well-head volumes do not

[20] Exhibit 1.6, page 2, Column D, Line 1.
[21] Exhibit 1.6, page 2, Column D, Line 3.
[22] Exhibit 1.6, page 2, Column D, Line 4.
[23] Exhibit 1.6, page 2, Column D, Line 5.
[24] Exhibit 1.6, page 2, Column D, Line 7.

include fuel gas, processing and lost and unaccounted for gas and represent the lowest price per Dth prior to losses and processing.

QGC Exhibit 1.4, page 1 provides a summary of the test year related costs and revenue. In order to provide a comparison of the projected costs in the current filing with the estimated cost in previous pass-through filings the Division has included Chart 3 below. This chart provides a comparison of projected gas cost per Dth in each pass-through filing from 2011 – 2015. The solid line indicates the total gas cost for each filing and includes Wexpro production, purchases, gathering, transportation and storage. The dotted line indicates the cost-of-service price per Dth for the combined Wexpro I and Wexpro II production. The dashed line indicates the purchased gas price in each filing.

Chart 3



While the cost-of-service gas has decreased from $5.11 in the previous filing to $5.07 in the current filing, the purchased gas has decreased from $2.85 to $2.74. The total cost per Dth has decreased from $5.10 in the last pass-through to $5.00 and is noticeably lower than the $5.96 in the spring 2014 pass-through filing. As noted previously, the price for purchased gas is projected to be $2.33 per Dth lower than the Wexpro cost-of-service gas.

Effect on a typical GS Customer

Based on the proposed rates in Docket No. 15-057-11, if approved individually, a typical GS residential customer would see a decrease of $12.94 in their annual bill or a decrease of 1.83%. The Division recommends the Commission approve the Application on an interim basis, with an effective date of October 1, 2015.

Legal Action with QEP

On May 1, 2012, Questar Gas Company filed a legal action against QEP Field Services Company, a subsidiary of QEP Resources, Inc. Questar Gas believes certain charges of QEP Field Services for gathering services exceed the amounts contemplated under a System Wide Gathering Agreement (SWGA), effective September 1, 1993, pertaining to certain gas produced by Wexpro Company under the Wexpro Agreement. Questar Gas is alleging breach of contract by QEP Field Services and is seeking an accounting and a declaratory judgment relating to the charges under the SWGA. The charges under the SWGA are included in Questar Gas's rates as part of its purchased gas costs in the 191 Account and the collection of those costs are included as part of the SNG rate. The calculation of the SNG rate for this case is based on a lower gathering charge than the amount claimed by QEP in the SWGA. Questar Gas has been paying a reduced gathering charge to QEP since June 2012.

On October 19, 2014, QEP Field Service and Tesoro Logistics LP (Tesoro) entered into a purchase agreement to transfer the related assets and liabilities of QEP Field Services to Tesoro. The purchase transaction was closed on December 2, 2014. On December 2, 2014, the court issued a memorandum decision granting two motions for partial summary judgement for breach of contract filed by Questar Gas. The court found that QEP breached the Gas Gathering Agreement by overcharging Questar Gas in its gathering rates. The court also denied two motions for partial summary judgement filed by QEP and denied cross-motions related to another claim. Due to the extended court proceeding, these issues may not be resolved for some time. Through July 2015, the cumulative difference between what has been billed by QEP and what has been paid by Questar Gas is reported to be $16.6 million;[25] however the total impact of a decision is unknown at this time and no trial date has been set.

In a separate legal issue, on February 13, 2015, a jury reached a verdict in the case of Rocky Mountain Resources and Robert N. Floyd v. QEP Energy Company and Wexpro.[26] Plaintiffs allege they are entitled to a 4% overriding royalty interest (ORRI) in state oil and gas leases assigned to Wexpro and QEP in the Pinedale Field. The jury awarded the Plaintiffs $14.1 million from Wexpro and $16.2 million from QEP. Wexpro and QEP plan to file an appeal of the case to the Wyoming Supreme Court. Additional royalty payments from this case could potentially be expected to be recovered from Questar Gas customers.

DOCKET NO. 15-057-12 - CONSERVATION ENABLING TARIFF (CET)

The rate changes requested in Docket No. 15-057-12 affect only the CET component of the distribution natural gas (DNG) rates of the GS rate class. The Company is requesting to amortize the July 2015 under-collected balance of $6.522[27] million in the CET deferral account. In the previous filing under Docket No. 15-057-05, the Company was amortizing an under collected balance of $2.668[28] million. Amortizing the under-collected amount represents an increase in the CET rate. QGC Exhibit 1.2, include in the filing, provides a summary of the changes in the winter and summer usage blocks.

Rate Details

In Docket No. 09-057-16, the Commission authorized the Company to establish and utilize a Conservation Enabling Tariff (CET) balancing account 191.9. The tariff sets forth procedures for recovering the allowed distribution non-gas (DNG) revenue per customer by means of periodic adjustments to rates. The CET amortization rates reflected in the GS Rate Class tariff sheets filed with this application will change for both blocks 1 and 2 of the summer and winter

---

[25] Application, page 5.
[26] Ninth Judicial District, County of Sublette, State of Wyoming, Case No. 2011-7816.
[27] 15-057-12, Exhibit 1.1, Column F, Line 5.
[28] 15-057-12, Exhibit 1.1, Column F, Line 1.

rates. The incremental increase in the GS Block 1 summer rate is $0.03301/Dth[29] and $0.04488/Dth[30] for the winter rate.

Effect on a typical GS Customer

If approved individually, a typical GS rate class customer would see an increase in their annual bill of approximately $3.27 or 0.46%. The Division recommends the Commission approve the Application on an interim basis, with an effective date of October 1, 2015.

<u>DOCKET NO. 15-057-14 – LOW INCOME ASSISTANCE TARIFF RATE</u>

The Division has reviewed the filing and exhibits and agrees with the calculations used to estimate the number of participants and the credit per customer. Based on the available balance, the forecast collection amounts in the test period and the number of estimated participants, the $61.50 per customer is appropriate.

Rate Details

In Docket No. 10-057-08, the Commission authorized the Company to establish an Energy Assistance Program with a target funding level of $1.5 million per year. As of July 2015, the Company had under-collected $231,250 from ratepayers and has an unpaid balance of $78,622[31] in the 191.8 account. QGC Exhibit 1.1 of this filing provides a summary of the annual account balance in the 191.8 account for year 1 through year 4. The monthly accounting entries have been provided for year 5. (August 2014 – July 2015) The combination of the unpaid balance and projected collections during the rate effective period will result in $1,652,628[32] available for credit to qualifying accounts.

The number of participants in this program has been decreasing each year from 35,000 in year 1, to 25,000 in year 5. It is unclear if the improving economic conditions, recent changes in the

[29] 15-057-12, Exhibit 1.2, Column C, Line 1.
[30] 15-057-12, Exhibit 1.2, Column C, Line 3.
[31] Exhibit 1.1, Column F, Line 16.
[32] Exhibit 1.1, Column F, Line 25.

HEAT administration program or the mild winter temperatures have caused the reduced participation. The proposed credit assumes a slight increase to 26,872 participants during the next 12 months and leaves the credit available to qualifying customers unchanged at $61.50. QGC Exhibit 1.2 column (F) shows the new low income assistance rate per Dth for each customer class.

Effect on a typical GS Customer

The effect of this change in the low income assistance rate for a typical GS residential customer is an increase of $0.14 or 0.02% in their annual bill.

The Division supports the Company's filing, believes it is in compliance with Utah Code Ann. § 54-7-13.6, is in the public interest. The Division recommends the Commission approve the Application with an effective date of October 1, 2015.

SUMMARY AND CONCLUSION

The Company is required to file a pass-through application at least twice per year with the Commission. This semi-annual filing provides a regular review of the current market conditions and allows the Company to adjustments rates on a regular basis. The primary reason for the decrease in rates with this filing is due to lower projected natural gas cost in the test period. The Division will continue to monitor the published natural gas prices and compare them to the prices used in this pass-through filing to see if any trend develops that may warrant an out-of-period filing by the Company.

The Division supports and recommends the rate changes requested in Docket Nos. 15-057-11 and 15-057-12 be approved by the Commission on an interim basis with an effective date of October 1, 2015 until the Division can complete an audit of the entries into the respective accounts. The Division also supports and recommends the rate changes requested in Docket No. 15-057-14 be approved by the Commission with an effective date of October 1, 2015. This docket does not require an audit and does not need interim approval.

In addition to the three dockets identified in this memo, the Division recommends approval of Docket No 15-057-13 as outlined under a separate memo. If all four applications are approved, a typical GS residential customer will see a combined net decrease of approximately $9.02 or a 1.28% decrease in their annual bill.

Cc: Barrie McKay, Questar Gas Company
Kelly Mendenhall, Questar Gas Company
Austin Summers, Questar Gas Company
Michele Beck, Office of Consumer Services
Maria Martinez, Division of Public Utilities
Francine Giani, Department of Commerce