May 24, 2018

To whom it may concern,

The following Comments from the Division of Public Utilities are to replace the filing the Public Service Commission received from the Division of Public Utilities on May 21, 2018 which inadvertently included proprietary information.

State of Utah
Department of Commerce
Division of Public Utilities

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Executive Director

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GARY HERBERT.
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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, Technical Consultant

Date: May 21, 2018

Subject: Questar Gas, Docket Nos.
18-057-04 – 191 Pass-Through Application
18-057-05 – Adjustment to the Daily Transportation Imbalance Charge

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. 18-057-04 and 18-057-05, with an effective date of June 1, 2018. 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.

ISSUE:
On May 1, 2018, Questar Gas Company dba Dominion Energy Utah (Dominion or Company) filed the applications identified above with the Public Service Commission (Commission) and the Commission issued an Action Request to the Division of Public Utilities. This memo is the Division's response to the Action Request.

Docket No. 18-057-04 – The 191 Account Pass-Through filing asks for Commission approval to decrease the commodity rate components of the Company's Utah natural gas rates by $83.812 million and increase the supplier non-gas cost rate components by $1.043 million for a net decrease of $82.770 million. Based on current rates, if approved, a typical GS residential customer using 80 Dth per year will see a decrease of $59.61[1] in their annual bill which represents an 8.51% decrease.

Docket No. 18-057-05 – The Daily Transportation Imbalance Charge filing is a request to adjust the imbalance charge calculation approved in Docket No. 14-057-31. The transportation imbalance charge began in February 2016 and is required to be recalculated twice each year as part of the 191 pass-through filing. The revised calculation is based on updated volumes through March 2018. If approved, the proposed rate would decrease from $0.07919 to the proposed rate of $0.07645. This rate applies to transportation customers with daily imbalance volumes outside the ± 5% tolerance level.

DOCKET NO. 18-057-04 COMMODITY GAS COST AND SUPPLIER NON-GAS COSTS (191 Account Semi-Annual Pass-Through)

This filing is based on projected Utah gas costs of $483.842[2] million for the forecast test year ending May 31, 2019. The commodity portion of the gas cost represents a decrease of $83.812 million and the supplier non-gas cost portion (SNG) represents an increase of $1.043 million for a net decrease of $82.770[3] million. The details of the increase in the SNG rate will be discussed below. The projected decrease in the commodity cost is due primarily to the projected lower price for cost-of-service gas from Wexpro as well as the lower forecast price for market purchase gas.

The test-year cost of gas consists of cost-of-service gas from Wexpro, contract and market purchases and storage and transportation cost. The forecast price for cost-of-service production is $4.23 per Dth[4] compared to $4.81 per Dth in the previous filing. One of the primary reasons

[1] Exhibit 1.7, Column F, Line 13.
[2] Exhibit 1.5, Page 1, Line 15, Column E.
[3] Application, page 2.
[4] Exhibit 1.4, Page 1, Column D, Line 12.

for the reduction in the cost-of-service price is due to the reduction in the Federal income tax rate. Market and contract purchases for natural gas have also decreased and are projected to cost $2.41 per Dth[5] compared to $3.23 in the previous filing. Due to the large volume of cost of service gas from Wexpro, market purchases are planned only during the winter months. Transportation costs have also decreased from $0.58 per Dth in the previous case to $0.53 per Dth[6] in the current filing. The reduction in transportation costs is due to a lower rate for Kern River Gas Transmission Company (Kern River) with contracts moving to 'tier 2' rates. In total, the proposed base gas cost for customer rates will decrease from $4.08676 per Dth to $3.33262 per Dth or a decrease of $0.75414 per Dth.

In the previous filing, the 191 balancing account was $15.0 million under collected and the commission approved a $0.13552 per Dth amortization to be added to the commodity cost. The Company is proposing to leave the current debit amortization in place and will make any necessary adjustments in the fall pass-through filing. Based on the low volume of gas consumed by customers during the summer months and in order to provide rate stability, the Division supports leaving the amortization in place until the fall filing. The Division will continue to monitor the balance in the 191 account on a monthly basis.

Gas Supply

For the test year, June 2018 through May 2019, the Company is projecting a total system requirement of 119.825[7] million Dths. From the total requirement amount, 115.360[8] million Dths will be used to meet the projected sales requirement, 1.012[9] million Dths will be placed into storage and 3.453 million Dths will be used for gas volume reimbursement due to gathering, transportation and distribution fuel and shrinkage. Of the total gas requirement, 56.5%[10] will be satisfied from the Wexpro cost-of-service production, 16.5%[11] will be satisfied under current

[5] Exhibit 1.4, Page 1, Column D, Line 13.
[6] Exhibit 1.4, Page 1, Column D, Line 15.
[7] Exhibit 1.4, Page 2, Column B, Line 3.
[8] Exhibit 1.6, Page 1, Column E, Line 4.
[9] Exhibit 1.4, Page 2, Column B, Line 4 + Line 5.
[10] Exhibit 1.4, Page 2, Column B, (Line 1 / Line 3).
[11] Exhibit 1.2, Column B, Line 3 / Exhibit 1.4, Page 2, Column B, Line 3.

purchase contracts and 27.0%[12] will be purchased with future contracts and spot market transactions. The total expected fuel cost for the test period is $501.360 million.[13]

The cost-of-service gas from all Wexpro production indicates a total cost of $286.212 million at an average cost of $4.23 per Dth.[14] With the addition of the Wexpro II properties, the cost-of-service production has been separated and is provided 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 $227.560 million at an average cost of $4.85 per Dth[15] including gathering cost. The Wexpro II production has a projected cost of $58.652 million at an average cost of $2.83 per Dth[16] including gathering cost. A large portion of the reduction in the Cost-of-Service gas can be directly attributed to the reduction in the federal tax rates. The Company has estimated that the reduced tax obligation results in a $0.33 per Dth reduction in the price of Wexpro Gas.

While the price of Cost-of-Service gas from Wexpro has come down, the price of gas produced by Wexpro remains significantly higher than the current and projected market price. Wexpro has reported that the new drilling in the Wexpro II properties is producing gas at below market prices; however these small volumes do not have a significant impact on the total cost-of-service price.

The cost-of-service gas production includes the operator service fee (OSF) payable to Wexpro of $245.880 million,[17] which is a decrease of $51.348 million from the previous filing. As part of its audit and review of the 191 account, the Division is reviewing the calculations and costs associated with the OSF in this filing as well as previous pass-through filings. Once the audit of the prior periods is complete, the Division will recommend that some of the prior Pass-Through filings that were approved with interim rates be made permanent.

[12] Exhibit 1.2, Column B, Line 4 & 5 / Exhibit 1.4, Page 2, Column B, Line 3.
[13] Exhibit 1.4, Page 1, Column B, Line 17.
[14] Exhibit 1.4, Page 1, Column D, Line 12.
[15] Exhibit 1.4, Page 1, Column D, Line 5.
[16] Exhibit 1.4, Page 1, Column D, Line 10.
[17] Exhibit 1.1, Page 21, Line 1602.

Natural Gas Prices

The market price forecast anticipates natural gas prices of approximately $2.20 per Dth during the summer months and $2.33 per Dth in the winter months and is based on an average of future price projections from two different forecasting entities, CERA and PIRA. The two price forecasts along with the average are displayed in Chart 1 below.

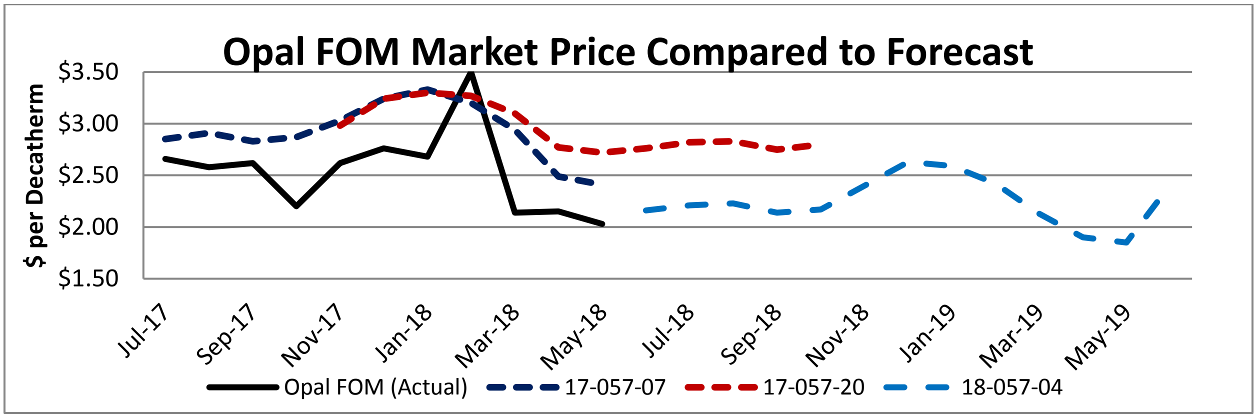
Chart 1 - CONFIDENTIAL

[redacted]

The forecast price for natural gas in the test period is significantly lower than the previous forecast. Since market purchases are anticipated only during the winter months, the Company model uses the price for spot purchases during only the winter months. In the current filing, the Company utilizes an average forecast winter price of $2.33 per Dth[18] for spot purchases compared to $3.18 per Dth in the previous filing. Chart 2 below, provides a comparison of the forecast market prices used in the current and the two previous pass-through applications. (Docket Nos. 17-057-20 and 17-057-07) and has been included to show how the forecast price has changed over the past 12 months. The solid line included in the graph 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 fluctuation in the market price and to provide a comparison of the forecast price used to establish rates in the previous filings compared to the actual FOM market price.

[18] Questar Pass-Through Model, Monthly Inputs Tab.

Chart 2



A comparison of the forecast price used to set rates compared to the actual first of the month price is also helpful to understand the reasons for the over and under collection of gas costs in the 191 balancing account.

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. Gas that has been injected into storage is withdrawn during the high demand winter heating season.

The use of storage gas reduces but does not eliminate the need to purchase gas during the high demand winter months. The Company's gas supply management has secured contracts for 19.810 million Dth or approximately 38.0% of the purchased gas requirement at an average price of $2.60 per Dth.[19] The remaining 32.323 million Dth of the purchase gas requirement will be satisfied with future contract arrangements and spot market purchase transactions at an estimated average price of $2.29 per Dth.[20]

[19] Exhibit 1.2, Column C, Line 3.
[20] Exhibit 1.2, Column D, Line 4 & 5 / Column B, Line 4 & 5.

Supplier Non-Gas Costs (SNG)

In contrast to the price volatility that can occur with the market price of natural gas, the SNG costs have historically been 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 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 are collected through volumetric rates, which are set assuming normal weather conditions. Variations in the actual 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 SNG costs included in the 191 balance. The amortization of the over or under collection is established annually in the spring pass-through filing.

While SNG costs have historically been more stable, over the past 2 1/2 years SNG costs have increased by $14.0 million[21] or an average annual increase of 5.6%. During this same time, total Dth sales volume has increased by only 0.8%.[22] The majority of the increase in SNG cost is due to increased transportation and gathering cost. The Division is working with the Company to determine the reason for the increase in gathering cost for both Wexpro I and Wexpro II and will report any findings to the Commission. The Company is projecting total SNG costs for the test period of $113.468 million[23] for the forecast test-year plus the $8.079 million amortization of the under collected amount from the previous period for a total of $121.548 million.[24] If the current

[21] Exhibit 1.6, Column F, Line 5 minus Docket No. 15-057-11 Exhibit 1.6, Column F, Line 5.
[22] Exhibit 1.6, Column F, Line 4 minus Docket No. 15-057-11 Exhibit 1.6, Column F, Line 4.
[23] Exhibit 1.6, page 2, Column D, Line 1.
[24] Exhibit 1.6, page 2, Column D, Line 3.

rates are not adjusted, the SNG revenue is projected to collect $120.505[25] million resulting in an estimated under collected balance of $1.043[26] million. In this filing, the Company is requesting a 0.87%[27] increase in the total SNG rates in order to collect the forecast SNG cost.

SNG costs for transportation services have also increased due to new and renegotiated contracts and the recent addition of peak hour contracts. The concept of a peak hour requirement and the associated transportation contracts with Kern River Gas Transportation Company (Kern River) and Dominion Energy Questar Pipeline (DEQP) have been the subject of ongoing discussion. The Division has met with Company representatives on a number of occasions to better understand the peak hour issue and how the peak hour contracts are used. The current filing includes a $0.874 million peak hour contract with Kern River and $1.488 million peak hour service contract with DEQP. The Kern River contract has been executed and the Company plans to execute a contract with DEQP.

In the last pass-through filing,[28] the requested change included both of the peak hour contracts and the proposed rates were approved on an interim basis. As part of the review and audit of the pass-through filing, a separate schedule was established to review the details relating to the peak hour contracts. Testimony from different parties has been provided with a hearing scheduled for June 12, 2018. Since the outcome of this issue will not be determined until after these rates are to go into effect, the Division supports approval of the costs identified in this filing on an interim basis, subject to refund and true-up if necessary. If some or all of the peak hour costs are found to be imprudent, adjustments can be made in the 191 account. The 191 balancing account also includes interest charges so ratepayers would not be adversely impacted.

Comparison to Previous Filing

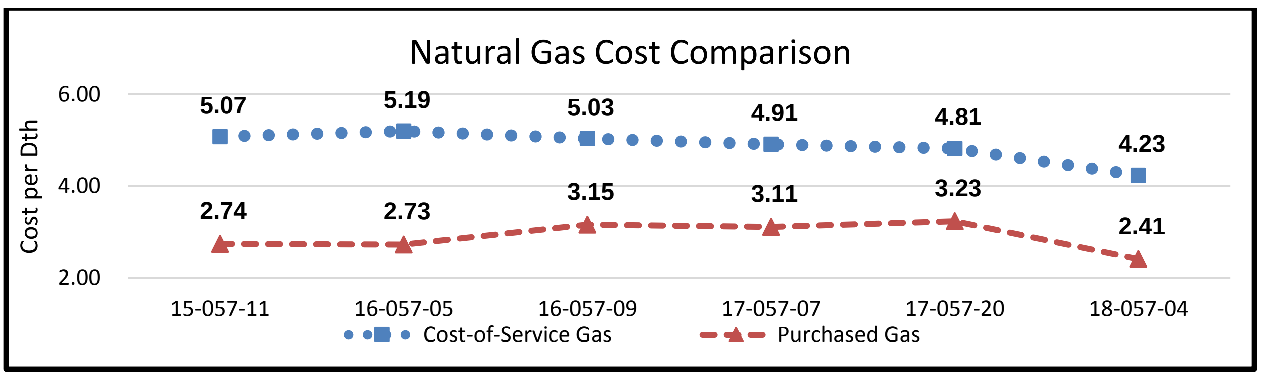
QGC Exhibit 1.1 provides a detailed review of the actual natural gas production for each of the Wexpro I and Wexpro II wells for the last 12 months. This historical production information is

[25] Exhibit 1.6, page 2, Column D, Line 4.
[26] Exhibit 1.6, page 2, Column D, Line 5.
[27] Exhibit 1.6, page 2, Column D, Line 7.
[28] Docket No. 17-057-20

used to forecast the royalty payments that are anticipated to be paid during the test period. The volumes identified in Exhibit 1.1, column E, reflect the historical well-head production; however, the price identified in column D represents the forecast price used in the test period. The historical volume and forecast price are used only to estimate the royalty payment for the test period. Well-head volumes do not include fuel gas, processing, and lost and unaccounted for gas and represent the lowest price per Dth prior to losses and processing.

The Company's application provides a forecast of anticipated costs and revenue for the test period as Exhibit 1.4. In order to compare the projected costs in the current filing with previous pass-through filings, the Division has prepared Chart 3 below. This chart provides a comparison of projected price per Dth for cost-of-service and purchased gas compared to the previous 5 pass-through filings. The dotted line indicates the cost-of-service price per Dth for COS gas production and includes both Wexpro I and Wexpro II. The dashed line indicates the price of purchased gas included in each filing.

Chart 3



In the current filing, the cost-of-service gas has decreased to $4.23 compared to $4.81 per Dth in the previous filing and purchased gas has decreased to $2.41 compared to $3.23 per Dth. While the price of cost-of-service production has come down, the market price continues to be significantly lower than the Wexpro production. The Company has not indicated when it anticipates the cost-of-service price to be comparable with market purchases.

Effect on a typical GS Customer

If the proposed rates are approved, a typical GS residential customer would see a decrease of $59.61 in their annual bill or a decrease of 8.51%.[29] The Division recommends the Commission approve the Application on an interim basis, with an effective date of June 1, 2018.

DOCKET NO. 18-057-05 - ADJUSTMENT TO THE DAILY TRANSPORTATION IMBALANCE CHARGE

In Docket No. 14-057-31, the Commission approved a supplier non-gas charge to transportation customers for daily nomination imbalance volumes that were outside of a 5% daily tolerance threshold. This rate applies to transportation customers that were taking service under MT, TS and FT-1 rate schedules and any amount collected under the rate is credited to GS customers through the 191 account. The rate is intended to charge transportation customers for SNG services that are being used and was implemented in part to improve the daily accuracy of the gas nomination process. The Commission order specifies that this rate must be reviewed with each pass-through docket and in the next general rate case.

The Company began to assess the imbalance charge as of February 1, 2016. It should be noted that this rate applies to transportation customers only if their individual daily gas nomination amount is outside the ±5% daily tolerance limit. Only the customer nominations that are outside the tolerance limit are assessed the charge and the dollar amount collected is credited to GS customers through the 191 account. The specific dollar amount that has been paid by all transportation customers is identified as a separate line item in the monthly 191 financial information.

The proposed new rate of $0.007645 per Dth is a decrease from the current $0.07919 per Dth and is calculated based on the historical imbalance volumes for the previous 12 months ended March 31, 2018. The Division is continuing to review Exhibit 1.1, which includes over 235,000 lines of daily nomination information for all transportation customers. While it does appear that the nominations have become more accurate since this rate was imposed, there are still a number

[29] Exhibit 1.7, Line 14, Column F.

of individual customers with gas nominations that fall outside the acceptable range. The Division will continue to analyze the historical nominations and will make recommendations if necessary. The nomination process and the impact of transportation customers on the Company's distribution system continue to be a concern in this as well as other Dockets.

The Division has reviewed the calculation and the information provided by the Company but has not completed an audit of the individual entries and the credits to the 191 account. Since these credits flow through the 191 account, the Division recommends approving the change to this rate on an interim basis until an audit of the 191 account has been completed.

Effect on TS Customers

There is a potential impact to TS customers but the impact will not be the same for each customer. As mentioned above, this rate applies to TS customers only when their individual daily gas nominations are outside the ±5% tolerance limits. This rate may apply to some customers on a daily basis while others may not be impacted, depending on the accuracy of the customer's nomination process. This rate has a related impact on GS customers as the imbalance charge collected from TS customers is credited to the 191 account. All amounts that are collected under this rate are credited to the SNG collection and would likely have a minor impact on the balance of the over or under collection in the 191 account for GS customers.

The Division recommends the Commission approve the Application on an interim basis, with an effective date of June 1, 2018.

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 adjust rates on a semi-annual basis. The primary reason for the decrease in rates with this filing is due to a reduction in the price of the cost-of-service gas from Wexpro and projected lower market prices for purchased gas. 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. 18-057-04 and 18-057-05 be approved by the Commission on an interim basis with an effective date of June 1, 2017, after which the Division will complete an audit of the entries into the respective accounts. If the applications are approved, a typical GS residential customer will see a net decrease of approximately $59.61 or an 8.51% decrease in their annual bill.

Cc: Kelly Mendenhall, Dominion Energy Utah
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Maria Wright, Division of Public Utilities