State of Utah

DEPARTMENT OF COMMERCE

Michael O. Leavitt
Governor

Ted Boyer
Executive Director

Lowell E. Alt Jr.
Division Director

DIVISION OF PUBLIC UTILITIES
www.publicutilities.utah.gov
Heber M. Wells Building 4th Floor
160 East 300 South / S.M. Box 146751
Salt Lake City, Utah 84114-6751
Telephone: (801) 530-6651
Fax (801) 530-6512 or (801) 530-6650

Memorandum

To: Public Service Commission

From: Division of Public Utilities
Lowell Alt, Director
Energy Section
Judith Johnson, Manager
Darrell S. Hanson, Technical Consultant
Marlin H. Barrow, Utility Analyst

Date: June 16, 2003

Subject: Approval of 03-057-05, Application of Questar Gas Company to adjust rates for natural gas service in Utah.

ISSUE:

Questar Gas Company (QGC) filed on May 30, 2003 with the Public Service Commission, an application to increase the commodity portion of its Utah natural gas rates by $142,191,000 and its supplier non-gas portion of rates by $4,166,000 for a total increase of $146,357,000 in revenues. This will increase the typical residential customer's annual bill, assuming usage of 115 decatherms per year, by $170.94 ($14.25 a month) or 24.57%.

RECOMMENDATION:

After a preliminary review of this application and also recognizing the magnitude of this increase, the Division of Public Utilities (Division) recommends that on an interim basis, the application be approved as filed with the proposed rates becoming effective on July 1, 2003.

DISCUSSION:

This filing is based on a 12-month July 2003 through June 2004 test year and represents QGC's expected sales volumes and the associated pass through gas costs of the company's purchases, transportation, production royalties, gathering and storage expenses necessary to meet those sales volume projections.

A Brief History:

In June 2002, QGC filed a pass through filing (Docket 02-057-04) requesting an increase of $26,645,000 in revenues for expected increases in gas costs. The average expected price of purchase gas in that filing was $3.32 / Dth. At the same time the actual June price in the Rocky Mountain Region was $1.15 / Dth. Given the current low prices and the apparent lack of any upward pressure on future prices at that time, QGC, in a memo to the Utah PSC dated June 26, 2002, withdrew their request for that pass through filing to become effective July 1, 2002.

Their next filing was in December 2002, (Docket 02-057-13) with an effective date of January 1, 2003. The net effect of this filing was a decrease in revenues of $6,468,000. This decrease was due in large part to a reduction in the Supplier Non Gas cost (SNG) component of QGC's rates with the commodity portion showing a small increase of $2,660,000. The weighted average purchase cost in this filing was $2.99 / Dth. The overall GS-1 rate class commodity cost component increased from $2.69 / Dth to $2.78 / Dth. The net effect of this filing to a typical residential customer's bill, assuming 115 decatherms per year usage, was an expected decrease of 1% to his annual bill.

Current Status:

Since QGC's last pass through filing in December 2002, the Inside FERC first of the month price of natural gas in the Rocky Mountain region, which QGC pays for most of its purchased gas, has seen a dramatic 54% increase from $3.09/ Dth in January 2003 to $4.78 / Dth in June 2003 and seems to be holding above $4.00 / Dth. From May 2002 through April 2003, the average price of natural gas in the Rocky Mountain region (Opal, Wyoming) has been below the average national price of natural gas (Henry Hub, Louisiana) by an average $1.86 / Dth. In May 2003, Kern River Gas Company completed a major expansion of its pipeline capacity allowing more Rocky Mountain gas to reach the California border. The average price differential in May 2003 between the Henry Hub price and Opal Wyoming price fell to $1.13 / Dth with Opal's daily spot price averaging $4.73 / Dth.

Although it's still too early to tell if this is a trend due to the Kern River expansion, the price of natural gas in the Rockies is expected to remain above $4.00 / Dth through out the summer and continue on into the winter heating season. This trend towards higher natural gas prices is expected to continue across the nation due to a tight balance between the supply and demand of natural gas. This demand is being driven by concerns of a hot summer and the required use of natural gas for peak electric generation to meet the air conditioning loads as well as the need to build storage inventories for next winters heating season.

Nationally, drilling activity is up 44 percent from April 2002 due to the increased prices but many industry experts agree the increased drilling activity is expected to only maintain current production levels and is limited in the long run without access to government-restricted gas reserves and installation of LNG storage facilities. These factors all have a bearing on the price of natural gas in the Rocky Mountain region and will continue to keep upward pressure on the price of gas. This upward pressure is reflected in this filing.

When compared to the December 2002 filing, Questar's WEXPRO production has increased from an average of $2.34/ Dth to $2.86 / Dth, a $0.52 / Dth or 20% increase. $0.37 / Dth of this increase is due entirely to increased wellhead prices that directly affect the royalties that WEXPRO pays to the royalty owners while the other $0.15 / Dth is an increase in the operator service fees.

The average price of purchased gas in this filing is $5.41 / Dth compared to $2.99 / Dth in Docket 02-057-13 and includes $1,800,000 for gas stabilization cost compared to $1,102,000 in the last filing. Transportation and gathering costs have increased $8,265,000 from the last filing. This increase is mainly due to an additional capacity contract of 52,000 Dth / Day with Questar Pipeline ($2,200,000) to help meet peak day demand needs and the inclusion of $4,736,000 of CO2 processing costs which were moved to the 191 pass through account in Docket 02-057-02.

In an effort to be more in balance in the 191 account by the end of the 2003 year, QGC has requested that the current commodity amortization credit of $0.01458 / Dth now in effect be removed from rates. This will make the effective GS-1 commodity gas cost component of rates equal to $4.22 / Dth, an increase of $1.44 / Dth. This increase, along with a comparison of national and regional prices, is shown on the attached graph. A typical residential customers average annual bill, assuming an average annual usage of 115 decatherms per year, will increase approximately $170.94 ($14.25 a month), a 24.57% increase over current rates.

This is the second single largest increase in QGC's pass through history and the Division recognizes the impact this will have on customers, noting that most customers will not realize the effect of this increase (that is those who may not be on the equal pay plan) until November or December when colder weather is upon us. The Division notes QGC's concern over these high prices and their effort to communicate the possible impact of these increased prices to their customers through the Gaslight News (bill inserts) as well as the impact this may have on the problem of declining customer usage.

The Division will continue to review this application along with supporting work papers as well as monitor wellhead prices and will report to the Commission if any significant information is discovered or any changes occur in prices between now the start of the winter heating season.

Cc: Questar Gas Company
Committee of Consumer Services
Rea Petersen