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Department of Commerce
Division of Public Utilities

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To: Public Service Commission

From: Division of Public Utilities
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Date: September 27, 2004

Subject: Action Request Questar Gas, Docket # 04-057-11, Account 191 Pass Through.

ISSUE:

Questar Gas Company (QGC) filed on September 17, 2004 with the Public Service Commission, an application to increase the commodity portion of its Utah natural gas rates by \$71,071,000 and its supplier non-gas portion of rates by \$6,141,000 for a total increase of \$77,212,000 in revenues. This will increase the typical residential customer's annual bill, assuming usage of 115 decatherms per year, by \$88.48 (\$7.37 a month) or 10.4%.

RECOMMEND APPROVAL:

After a preliminary review of this application, 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 October 1, 2004. This out-of-period filing is the result of increased gas costs in the Rocky Mountain region which are not covered in current rates as well as the need to begin amortizing the under collected balance that currently exists in the 191 Account.

DISCUSSION:

This filing is based on a 12-month October 2004 through September 2005 test year and represents QGC's expected sales volumes and the forecasted 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 comparison of this pass through filing to the filing in Docket # 04-057-04, as amended by the Company on August 10, 2004 for the removal of CO2 processing charges ordered by the Utah Public Service Commission, shows the commodity gas cost component of the rate increases from \$4.038/Dth to \$4.746/Dth, a \$0.708/Dth rate increase. This \$0.708/Dth rate increase, when applied against the projected firm sales volumes of 98.2 million decatherms, collects \$69.5 million of the requested \$71.1 million increase in commodity gas costs. (Line 8 of Summary Table)

Gas related costs, which consist of company owned production, gas purchases and gathering, transportation and storage costs, total \$33.1 million of the \$69.5 million increase in commodity gas costs or \$0.337/Dth of the \$0.708/Dth increase. (Line 4 of Summary Table). This filing includes \$2,000,000 for gas stabilization costs.

A reduction in the credits for the I-2, IS-2, I-4 and IS-4 schedules from the previous filing account for a \$8.0 million increase (Line 5 of the Summary Table) while an increase, from the previous filing, in the effective rate of the Supplier Non-Gas Costs, which are backed out of the commodity rate and recorded as a separate SNG component of the total rate, account for a \$1.0 million decrease. (Line 6 of Summary Table)

An increase of \$29.4 million in costs (\$0.299/dth) is due to the amortization of the \$34.4 million under collected balance in the 191-Account Balance. (Line 7 of Summary Table)

SUMMARY TABLE

Line		Increase Costs (millions)	Increase Rate (/Dth)
	GS-1 Current filed gas commodity rate		<u>\$4.038</u>
1	Production	\$4.6	\$0.047
2	Gas Purchases	30.7	\$0.313
3	Gath,transp and Storage	<u>(2.2)</u>	<u>(\$0.022)</u>
4	Total Gas Related Costs	33.1	\$0.337
5	Reduced credits	8.0	\$0.081
6	SNG adjustment	<u>(1.0)</u>	<u>(\$0.011)</u>
7	191 amortization	<u>29.4</u>	<u>\$0.299</u>
8	Total Commodity	69.5	\$0.708
9	IS-4,I-4 est commodity adj.	<u>1.6</u>	
10	Total Commodity Increase	\$71.1	<u>\$0.708</u>
	GS-1 Proposed gas commodity rate		<u><u>\$4.746</u></u>

A detail reconciliation of the above table is attached at the end of this memo.

The increases shown above do not reflect the impact of the Commission ordered return to customers of \$29 million in CO₂ gas processing charges collected through previous QGC 191 pass through filings. For most customers, this refund will show as a single line-item credit on customer bills over the next 12 months. Transportation customers who were charged for CO₂ processing costs and customers under the F-4 schedule will receive a one-time credit on their bills. The total amount for all those customers receiving the one-time credit is \$1,464,000. This leaves a balance of \$27,536,000 to be refunded over 12 months to customers whose estimated sales volumes are 96.4 million decatherms, resulting in a single line-item credit of \$0.286 / Dth.

This single line-item credit will mitigate, to some extent, the impact of this gas cost increase. When applied against the \$0.708 / Dth increase in this filing, this single line-item CO₂ processing credit will reduce the typical residential customer's annual bill, assuming usage of 115 decatherms per year, from \$88.48 to \$55.63. This reduces the typical monthly increase from \$7.37 to \$4.64 a month, for a 6.5% increase instead of the filed 10.4% increase.

The Division recognizes that this proposed increase is a major increase in gas costs, the effect of which will soon begin to be realized by customers as we head into the winter heating season. This is a concern to the Division, not only because of the price impact that will be felt by all Utah customers but also because of the impact it may have on QGC's declining usage per customer issue. Because of this, the Division will continue to monitor the price of Rocky Mountain natural gas as compared to the prices in this filing and will make appropriate recommendations to adjust rates if necessary.

Cc: Questar Gas Company
Committee of Consumer Services
Rea Petersen

	UTAH		Difference	Comp %.
	04-057-11	04-57-04		
Questar gas production	\$ 159,559,132	\$ 150,110,138		
Other Revenues credit	\$ (13,959,730)	\$ (11,550,065)		
Net QGC Production costs	\$ 145,599,401	\$ 138,560,073		
Gathering	\$ 2,438,112	\$ 2,428,244		
Total Cost of Questar Production	\$ 148,037,513	\$ 140,988,317	\$ 7,049,196	
Questar Gas Contract Gas	\$ 301,080,550	\$ 265,704,612	\$ 35,375,938	
Storage adjustment	\$ 770,225	\$ 3,626,182	\$ (2,855,957)	
Transportation	\$ 62,502,609	\$ 60,559,044	\$ 1,943,565	
Storage & Working Gas	\$ 16,821,808	\$ 16,694,980	\$ 126,828	
Utah Allocation of Questar Gas-Related Gas Costs	\$ 529,212,705	\$ 487,573,136	\$ 41,639,570	
Less:				
F-3 Demand Commod Credit	\$ (46,428)	\$ (46,428)	\$ -	
I-2, IS-2 & t-1 Class Commod Credit	\$ -	\$ (8,704,708)	\$ 8,704,708	
I-4 IS-4 Class Commod Credit	\$ (12,923,862)	\$ (11,852,294)	\$ (1,071,568)	
Net Utah Gas Costs (For Firm Sales)	\$ 516,242,415	\$ 466,969,706	\$ 49,272,710	
Supplier Non-Gas Costs	\$ (78,276,999)	\$ (75,914,348)	\$ (2,362,652)	
Commodity Portion of Test-Year Gas Costs	\$ 437,965,416	\$ 391,055,358	\$ 46,910,058	
191 Account Amortization	\$ 28,023,676	\$ (1,354,084)	\$ 29,377,760	
Test Year Sales				Inc (dec)
Utah (Firm)	98,186,656	96,501,701		Cost Comp
				(000)
				(a)
Questar gas production	\$ 1.625	\$ 1.556		
Other Revenues credit	\$ (0.142)	\$ (0.120)		
Net QGC Production costs	\$ 1.483	\$ 1.436		
Gathering	\$ 0.025	\$ 0.025		
Total Cost of Questar Production	\$ 1.508	\$ 1.461	\$ 0.047	\$4,587
Questar Gas Contract Gas	\$ 3.066	\$ 2.753	\$ 0.313	\$30,737
Storage adjustment	\$ 0.008	\$ 0.038	\$ (0.030)	-\$2,919
Transportation	\$ 0.637	\$ 0.628	\$ 0.009	\$886
Storage & Working Gas	\$ 0.171	\$ 0.173	\$ (0.002)	-\$165
Utah Allocation of Questar Gas-Related Gas Costs	\$ 5.390	\$ 5.052	\$ 0.337	\$33,126
Less:				
F-3 Demand Commod Credit	\$ (0.000)	\$ (0.000)	\$ 0.000	\$1
I-2, IS2 & t-1 Class Commod Credit	\$ -	\$ (0.090)	\$ 0.090	\$8,857
I-4 IS-4 Class Commod Credit	\$ (0.132)	\$ (0.123)	\$ (0.009)	-\$865
Net Utah Gas Costs (For Firm Sales)	\$ 5.258	\$ 4.839	\$ 0.419	\$41,119
Supplier Non-Gas Costs	\$ (0.797)	\$ (0.787)	\$ (0.011)	-\$1,037
Commodity Portion of Test-Year Gas Costs	\$ 4.461	\$ 4.052	\$ 0.408	\$40,082
191 Account	\$ 0.28541	\$ (0.01403)	\$ 0.299	\$29,401
I-4 Adjustments				\$1,588
				\$71,071

(a) Rate difference times current firm sales volumes

