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Division of Public Utilities

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MEMORANDUM

To: Public Service Commission of Utah

From: Division of Public Utilities
Chris Parker, Director
Artie Powell, Manager, Energy Section
Carolyn Roll, Technical Consultant
Jeff Einfeldt, Utility Analyst
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Date: February 16, 2018

Re: Division of Public Utilities Audit of Questar Gas Company's (now Dominion Energy Utah) 191 Account for Calendar Years, 2009 and 2010 - Docket Nos. 08-057-23; 09-057-03; 09-057-12; and 10-057-09.

SCOPE & OBJECTIVE

The Division of Public Utilities (Division) conducts an annual audit[1] of Questar Gas Company's (Questar Gas or the Company) Account 191 of the Uniform System of Accounts. Our audit includes a detailed review of the various cost elements included in the 191 Account with the exception of those costs incurred under The Wexpro Stipulation and Agreement (Wexpro Agreement) which are currently examined and reported upon by an independent certified public accountant appointed as a "Monitor". The objective of our audit is to determine if the costs the Company has included for

[1] In using the term "Audit" the Division notes that it did not conduct an independent audit as defined and conducted under Generally Accepted Auditing Standards as promulgated under the Auditing Standards Board of the American Institute of Certified Public Accountants. In this instance "Audit" means compliance review.

recovery in the 191 Account, are accurate, appropriate and in compliance with previous orders regarding the 191 Account issued by the Public Service Commission of Utah (Commission). The Summary of 191 Account Audit Procedures and Results for CY 2009 is attached to this memorandum as Exhibit 1 and Summary of 191 Account Audit Procedures and Results for CY 2010 is attached to this memorandum as Exhibit 2.

RECOMMENDATION (APPROVAL)

The Divisions finds the 191 Account to be stated fairly and in conformance with prior Commission orders. Our findings are in conjunction with the Independent Accountants' 2009 and 2010 Performance Review of Wexpro, which has been issued, as well as review of the reports received from the hydrocarbon monitor. The Division has completed its review and recommends that the rates become permanent in Docket Nos. 08-057-23; 09-057-03; 09-057-12; and 10-057-09 and these items be closed.

BACKGROUND

In Case No. 78-057-13, the Commission authorized Mountain Fuel Supply Company (now Questar Gas) to implement a purchase gas balancing account through Account 191 of the Uniform System of Accounts. The 191 Account provides for pass-through recovery of costs in which the risk of changes in costs is borne by ratepayers.

In Docket No. 80-057-10, the Commission required that certain other revenues be included in the 191 Account as direct credits to gas costs.

On October 14, 1981, the Wexpro Agreement was executed governing certain productive oil reserves, productive gas reserves and unexplored properties that had been previously conveyed to Wexpro or were conveyed to Wexpro under the Wexpro Agreement. The Wexpro Agreement specifies the terms and conditions under which the Company and Wexpro will own and Wexpro will operate the properties. Per the

Agreement the Company owns natural gas produced from productive gas reserves and is entitled to purchase natural gas produced from productive oil reserves and exploratory properties, to share in certain oil income and to otherwise share in the benefits of the properties. Per Article 7.4 of the Wexpro Agreement Stipulation, “all royalties or income received from Wexpro under the Agreement as well as costs associated with natural gas delivered to the Company by Wexpro will be accounted for under the Account 191 balancing account adjustment provisions on file and approved by the Commission in the same manner as natural gas costs incurred by the Company in the purchase of natural gas from third parties.”

Subsequently on May 29, 1984, in Docket No. CP80-274-000, the Federal Energy Regulatory Commission (FERC) approved the transfer of Mountain Fuel Supply’s transmission activities, including transportation, gathering and storage, to Mountain Fuel Resources (now Questar Pipeline). As a result certain costs and revenues previously included in Mountain Fuel Supply’s general rates were included in Mountain Fuel Resources’ FERC approved rates effective July 1, 1984, and reflected as purchase gas costs to Mountain Fuel Supply.

As a result, the 191 Account consists of two components, a Net Unit Commodity Cost and a Supplier Non-Gas Cost. The Net Unit Commodity Cost includes purchase gas costs offset by other revenues and Wexpro related costs and revenues associated with Company-owned gas. Supplier Non-Gas Costs include transportation, gathering and storage.

In addition, the 191 Account also contains other gas-related expenses as ordered by the Commission. Other gas-related expenses currently allowed recovery through the 191 Account include gas supply litigation costs (Docket No. 95-057-21), the carrying cost of working storage gas (Docket Nos. 93-057-01 and 01-057-14), hedging costs (Docket Nos. 00-57-08 and 00-057-10), and bad debts related to commodity and supplier non-gas costs (Docket No. 01-057-14).

Through August, 2004, the 191 Account also included the recording of CO_2 processing costs in accordance with the Commission order in Docket No. 02-057-02. However, on September 20, 2004, the Commission issued its order in Docket No. 04-057-09, directing the Company to return to customers those CO_2 processing costs collected from May, 1999 through August, 2004, plus interest. It was subsequently determined that CO_2 processing costs would be returned to customers over a one year period, October 1, 2004 to September 30, 2005, through a $.29 per Dth credit to the 191 Account. The events leading up to the September 20, 2004, Commission order in Docket No. 04-057-09, are described in the Other Issues Section of this report.

On January 6, 2006 the PSC issued its order in Docket Nos. 04-057-04, 09, 11, 13 and 05-057-01 dealing with the stipulation between the parties concerning costs associated with the processing of CO_2 in the QGC supply stream. The order approving the stipulation allows for the recovery, in the pass-through filings, of 90% of the non-gas costs QGC incurs for the processing or management of CO_2 in the gas supply, beginning in February 2005. The order also provides for the full recovery of the actual fuel used in the plant up to a limit of 360,000 Dth per year priced at QGC's weighted average cost of gas. Annual credits of revenue above $400,000 that are received from third party processors are also to be shared on a 50/50 basis with customers of QGC. The order also directed that these costs be allocated to the various rate classes based on the same percentages as those used in the general rate case Docket 02-057-02. QGC will not be charged CO_2 gas processing costs after February 1, 2008.

The Division audit results with respect to each of these components are detailed below.

FINDINGS & OBSERVATIONS

NET UNIT COMMODITY COSTS:

Purchase Gas:

- During calendar year 2009, purchased gas comprised 39% of the total gas supply at an average cost of $ 3.92 per Dth. During calendar year 2010, purchased gas comprised 41% or total gas supply at an average cost of $4.33 per Dth.

- On May 1, 2001, a stipulation implementing a gas cost stabilization plan was filed with the Utah Public Service Commission. The plan provides for cost recovery through the 191 Account for hedging a portion of the heating season base load purchases. Each year's plan as well as the hedging activities are presented to and reviewed by the Commission and regulatory agencies. The Company's gas purchasing activities for the four heating seasons contained within calendar years 2009 and 2010 were in compliance with the plan. The results of the gas stabilization plan are reviewed annually in conjunction with Questar Gas Company's Annual Integrated Resource Plan issued in June.

Wexpro:

- During calendar years 2009 and 2010, Company-owned gas comprised 41% and 44% of the total gas volume receipts respectively. The average cost of company-owned production based on the reported volumes transported and exchanged, royalty costs and operator service fees charged to the 191 account during 2009 was $4.59 per Dth. Gathering costs were $ 0.42 per Dth, for a total cost of $5.01 per Dth. For 2010 Wexpro fees charged to the 191 account were $4.74 per Dth, gathering charges were $0.41 per Dth, for a total cost of $5.15 per Dth. In September 2007 the monthly demand fee for the system-wide gathering agreement increased 41% and the commodity charge increased to $.19 per Dth from the prior year rate of $.14 per Dth. As a result of these increases, the Division opened an investigation to review the system-wide gathering agreement. Prior company wells as well as gathering costs are now included in Supplier Non-Gas rates effective November 1, 2005 as ordered in Docket 05-057-11. This results in a revenue neutral transfer between rate schedules but now places all costs associated with the gathering of the Wexpro production into the 191 account, which is the way these costs were treated prior to 1996.

<u>SUPPLIER NON-GAS COSTS:</u>

<u>Gathering:</u>

- On March 29, 1999, the Commission issued an Order approving the December 18, 1997, Letter Agreement, having not done so in its December 31, 1998, Order in Dockets Nos. 95-057-30, 96-057-12, and 97-057-11. The Letter Agreement, "Resolution of Gathering Issues and Agreed Upon Terms and Conditions for Amended Gathering Agreement" states that in the then current pass-through case, the treatment of gathering costs should be moved from the pass-through to general rates by transferring gathering costs from supplier non-gas to distribution non-gas in rates. Subsequently, on June 7, 1999, Questar Gas filed Advice Letter, 99-057-T02, implementing the Commission's March 29, 1999, Order, effective January 1, 1999, as if it had been approved in the Commission's December 31, 1998 Order.

  The Commission's Orders and Letter Agreement apply only to the Amended Gathering Agreement. This is the system wide agreement, G0600, which was transferred from Questar Pipeline to Questar Gas Marketing and subsequently amended on February 6, 1998. Two other gathering contracts, 683 and 685, were also transferred from Questar Pipeline to Questar Gas Management in FERC Docket Nos. CP95-650 and CP95-658, on February 28, 1996 and March 26, 1996, respectively. Unlike the system wide agreement, the gathering costs associated with these two other gathering contracts continue to receive pass-through treatment.

- On August 25, 1999, Questar Gas entered into an additional Gas Gathering Agreement with its affiliate Questar Gas Management. This Agreement replaces, at a lower rate, services previously provided by a non-affiliate and receives pass-through treatment.

- During 1999, Questar Gas entered into gathering contracts with two of its affiliates, Questar Energy Trading and Wexpro, wherein Questar Gas would act as an agent on behalf of the two affiliates nominating their gas as well as its own to be gathered under its contract with a non-affiliated entity. The costs and revenues associated with these two contracts are being recorded in the 191 Account. The Division examined these contracts and found them to be fully compensatory.

- On September 8, 2005, Questar Gas Company submitted a pass-through Application, Docket No. 05-057-11, wherein it proposed to once again recover gathering costs for the system wide agreement, G0600, in the 191 Account. This proposal had previously been agreed to by both the Division and Committee of Consumer Services based on discussions with the Company during the monthly gas market update meetings on July 12 and August 9, 2005. The change was authorized by the Commission in its order dated October 28, 2005, to be effective November 1, 2005. Thus, beginning November 1, 2005, all gathering costs are once again recovered in the 191 Account.

- The DPU hired Williams Consulting, Inc. (WCI) to review the costs included in System Wide Gathering agreement (Agreement) after the gathering rate increased 41% in September, 2007. WCI began its review in May, 2009, and filed a final report with the DPU in November, 2009. A copy of their final report was submitted to the Commission as an attachment to the DPU comments on Docket No. 10-057-06, QGC 2010-11 IPR Report. In its investigation WCI found that the costs charged to QGC under the Agreement are following the terms of the contract and voiced no major concerns with the agreement or the pricing under the agreement.

OTHER GAS RELATED COSTS:

Bad Debt Expense:

- All bad debt costs have historically been recovered in the non-gas portion of rates although approximately 60% of the Company's bad debt expense has historically been related to the SNG and Commodity portion of rates. Historically this has not posed a problem as the portion of the Company's bad debt expense attributable to the SNG and Commodity portion of rates has not varied significantly. However, the unprecedented increase in gas costs experienced during the 2000/2001 heating season revealed the flaw inherent in this practice. The Company's bad debt increased significantly beyond the level established in its last general rate case, Docket No. 99-057-20, when gas costs were significantly lower. As a result the Company requested, in Docket 01-057-14, to record an allowance for the gas cost portion of bad debts as a reduction in the commodity revenues included in the

191 Account balance on a prospective basis, effective January 2002.

The stipulation entered into by the parties in Docket Nos. 01-057-14 and 98-057-12, provided for the recovery of the bad debt portion of SNG and Commodity rates in the 191 Account. On August 14, 2002, the Commission issued its order approving the stipulation with respect to recovery of bad debts. In its approval, the Commission stated, "Since the 191 Account is not governed by the pass-through statute, we expect that the Division will continue to analyze the reasonableness of bad debt and propose normalization or other regulatory adjustments if necessary." The Division has reviewed the reasonableness of the bad debt and does not propose any adjustments to 2009 or 2010.

CO_2 Plant Expenses:

- In Docket 98-057-12, Questar Gas sought to recover, through the 191 Account, costs attributable to a contract with an affiliated company to remove CO_2 from natural gas supplies delivered to its distribution system. On December 3, 1999, the Commission issued its Order denying recovery of these expenses in the 191 Account. Questar appealed the Commission's order to the Utah Supreme Court.

Pending its appeal to the Utah Supreme Court, Questar Gas filed a general rate case, Docket No. 99-057-20, seeking a revenue increase, that included recovery of the CO_2 processing costs. On August 11, 2000, the Commission issued its Order in Docket No. 99-057-20, accepting the Division and Company's joint stipulation on CO_2 processing costs, allowing annual recovery of $5 million.

On October 23, 2001, the Utah Supreme Court set aside the Commission's decision in Docket No. 98-057-12, and remanded the case concluding that the Commission had erred in denying CO_2 gas processing cost recovery through the 191 Account process. The Court concluded that the 191 Account process and procedures were not constrained by the Utah pass-through statutory provisions, but represented “a separate rate-changing mechanism through which the Commission can set rates that are just, reasonable and sufficient.”

Questar Gas subsequently filed a pass-through application, Docket No. 01-057-14, seeking recovery of $5.8 million in processing costs for the period June 1999 through August 10, 2001. In its Order in Docket Nos. 01-057-14 and 98-057-12, issued August 14, 2002, the Commission allowed Questar Gas to recover an additional $3.76 million of CO_2 gas processing costs for the period June 1999 through August 10, 2001, from the same classes of customers and in the same proportion as the rate design set in the general rate case Docket No. 99-057-20. For the classes of customers currently affected by the 191 Account process (GS, F1 and NGV rate schedules), the Commission permitted recovery of their proportionate share through the 191 Account.

Concurrently, the Utah Committee of Consumer Services was appealing the Commission’s original order in Docket No. 99-057-20, allowing recovery of CO_2 gas processing costs, before the Utah State Supreme Court. On August 1, 2003, the Utah Supreme Court issued its decision in The Committee of Consumer Services, Department of Commerce, State of Utah v. Public Service Commission of Utah, Questar Gas Company, and Magnesium Corporation of America, Nos. 20000893 & 20020810, reversing the Commission’s order in Docket No. 99-057-20 and rejecting the Commission’s acceptance of the rate increase proposed by the CO_2 Stipulation filed by the Division of Public Utilities and Questar Gas that resolved between them the issues of cost recovery and ratemaking treatment of gas processing costs and agreed that annual CO_2 removal costs in the amount of $5 million should be passed on to ratepayers. Subsequently on August 30, 2004, the Commission issued its order in Docket Nos. 98-057-12, 99-057-20, 01-057-14 and 03-057-05, rejecting the CO_2 Stipulation and denying recovery of CO_2 removal costs. Additionally, the Commission opened a separate proceeding, Docket No. 04-057-09, to address the means by which previously collected CO_2 processing costs would be returned to customers.

On September 20, 2004, the Commission issued its order in Docket No. 04-057-09, ordering the refund of previously collected CO_2 processing costs on a $.29 per Dth basis over a twelve-month period beginning October 1, 2004. Customers received a monthly allocation of the refund through the 191 Account.

On October 1, 2004, per the Commission's order in Docket No. 04-057-09, Questar removed all CO_2 processing costs collected in the 191 Account from May 1999 through August 2004, plus interest, and began refunding CO_2 processing costs by crediting $.29 per Dth through the 191 Account. As of December 2005, all CO_2 processing costs had been refunded to customers through the 191 Account as ordered in Docket 04-057-09.

On January 6, 2006, the PSC issued its order in Docket No. 05-057-01 dealing with the stipulation between the parties concerning costs associated with the processing of CO_2 in the QGC supply stream. The order approving the stipulation allowed for the recovery, in the pass-through filings, of 90% of the non-gas costs QGC incurred for the processing or management of CO_2 in the gas supply, beginning in February 2005. The order also provided for the full recovery of the actual fuel used in the plant up to a limit of 360,000 Dth per year, priced at QGC's weighted average cost of gas. Annual credits of revenue above $400,000 received from third party processors were also to be shared on a 50/50 basis with QGC customers. The order also directed that these costs be allocated to the various rate classes based on the same percentages as those used in the general rate case Docket 02-057-02. The Division has reviewed the methodology QGC used in calculating and spreading the gas management costs and believes it complies with the Commission order. The Division also verified that the CO_2 gas processing costs were not charged to QGC after February 1, 2008. It should be unnecessary to include this item in future audit reports.

FOLLOW-UP ITEMS

The Division will continue to monitor and review the following items to ensure that Commission orders are implemented as instructed.

- Continue to analyze Questar's bad debt to ensure its reasonableness and propose normalization or any other regulatory adjustments, as necessary to ensure that rates are just and reasonable as ordered by the Commission in Docket Nos. 01-057-14 and 98-057-12.

- QGC books estimates every month. These estimates are reversed in subsequent months. The Utah allocated reversals may not match the booked estimates because of the commodity percentage change that occurs between the time estimates are booked and then subsequently reversed. This has been discussed with QGC and Division recommends that a true-up at the end of the year would be acceptable.

- Review and monitor the system-wide gathering agreement with Questar Gas Management Company. QGC will continue to review the cost-of-service rates that are appropriate under the system-wide gathering agreement. The Division will verify that the review is ongoing.

- Continue to monitor changes in commodity rates and supplier non-gas rate changes as authorized by Commission orders for the year 2011.

cc: Kelly Mendenhall, Dominion Energy Utah
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