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To: Public Service Commission

From: Division of Public Utilities
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Date: September 21, 2009

Subject: Questar Gas, Docket Nos. 09-057-12, 09-057-13, 09-057-14.

ISSUE:

On September 1, 2009, Questar Gas Company (QGC) filed three applications with the Public Service Commission (PSC).

In Docket No. 09-057-12, QGC asks for approval to decrease both the supplier non-gas cost and the commodity rate components of the Company's Utah natural gas rates in order to pass-through an expected total decrease in gas costs of $32,762,000. If approved, a typical GS customer, whose annual usage is 80 decatherms (Dth), will see a $24.59 decrease in their annual bill.

Docket No. 09-057-13 is a request to amortize the CET balance in Account 191.9 of $1,857,014 and adjust the CET component in Block 1 and 2 of the GS DNG rate class. If approved, a typical GS customer, whose annual usage is 80 decatherms, will see a $1.33 increase in their annual bill.

Docket No. 09-057-14 is a request to amortize a balance of $42,927,605 in the Demand Side Management deferred account 182.4 and adjust the DSM rate component of the DNG rate for the GS rate class. If approved, a typical GS customer, whose annual usage is 80 decatherms, will see a $19.79 increase in their annual bill.

If all three applications are approved, a typical GS customer, whose annual usage is 80 decatherms, will see a $3.47 decrease in their annual bill. All three applications request an effective date of October 1, 2009.

On September 1, 2009, the Commission issued the Division separate Action Requests for each of the dockets with a November 2, 2009 due date. On September 8, 2009, the Division filed a memo with the Commission requesting that a hearing be scheduled sometime during the week of September 21st to accommodate Questar's requested implementation date of October 1, 2009. On September 15, 2009, the Commission issued an order scheduling a hearing for September 24, 2009 for all three dockets. This memo constitutes the Division's response to the Commission's three Action Requests in these dockets.

RECOMMEND APPROVAL:

After a preliminary review of all three applications, the Division recommends that all three applications be approved on an interim basis, as filed, with the proposed rates becoming effective October 1, 2009.

DISCUSSION:

Docket No. 09-057-12 (191 Account, Commodity and SNG Costs)

This filing is based on projected Utah gas costs of $531,675,430. The commodity portion represents a net decrease of $28,472,000 while the Supplier Non-Gas (SNG) costs decrease is $4,290,000[1]. These results are based on projected gas costs from October 2009 through September 2010.

[1] Pass-through Application of Questar Gas Company for an Adjustment in the Rates and Charges for Natural Gas Service in Utah, Docket No. 09-057-12, September 1, 2009, p.2.

In this application, QGC is requesting to lower the commodity rate from $4.81/Dth to $4.17/Dth (DPU Exhibit 1, lines 10 & 29), resulting in a $66,342,000 decrease in the base commodity gas costs for firm sales customers as a result of the projected decrease in market prices for natural gas expected during October 2009 through September 2010. Interruptible sales customers can also expect a decrease of $1,045,000. The Supplier Non-Gas (SNG) costs also have decreased, resulting in 4.3% reduction to the firm sales customers SNG rates, further reducing costs by $4,290,000. Off-setting the commodity gas cost decreases is a reduction in the 191 account amortization credit rate. This rate is reduced from ($0.61811) to ($0.24106) (DPU Exhibit1, lines 11& 30). The effect of this reduction will be discussed in more detail in the 191 amortization section.

The net effect to a typical customer, assuming an annual usage of 80 decatherms per year, is an average decrease in their annual bill of $24.59, a decline of 3.72% from gas costs in current rates.

Gas Supply

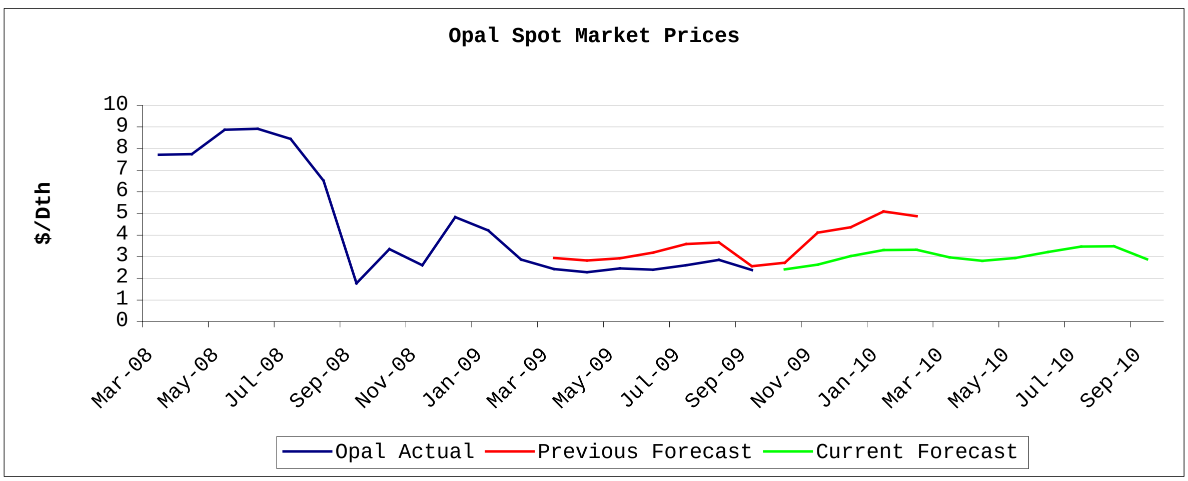
QGC expects a total Utah system requirement of 114.3 million decatherms. Of this, 104.9 million decatherms will meet the projected sales requirement, 6.6 million decatherms is required for gas volume reimbursement for gathering, transportation and distribution fuel use, while 2.7 million decatherms is planned to increase gas storage inventory levels. To supply the system requirement, QGC plans on utilizing 47.7 million decatherms of WEXPRO production, (41.7% of total requirements), at a projected cost of $238.2 million while purchasing from third party producers another 66.5 million decatherms, (58.3 % of total requirements), for $219.8 million. Gathering & transportation costs are projected to be $65.5 million (net of revenue credits for oil and liquid product revenues) with an additional $8.2 million for storage costs for an estimated total cost to Utah customers of $531.7 million.

As noted in the filing, and as provided for in QGC's Tariff for Natural Gas Service in Utah, PSCU 400, §2.10, pp. 2-11-2-13, these gas costs represent a direct pass through of costs. These costs do not impact the operating profit or rate of return of QGC except for $4.8 million as noted on line 13, column (E) of Exhibit 1.5, which is the Utah allocation of the pre-tax return on the working storage gas inventory approved by the PSC in Docket No. 93-057-01 based on the cost of capital approved in QGC's most recent rate case, Docket No. 07-057-13.

Natural Gas Spot Prices

Since the Commission approved the last pass-through request, effective March 1, 2009 (Docket No. 09-057-03), actual prices have trended below the previously forecast prices. This low price trend for natural gas is forecasted to continue through September 2010. In this filing, QGC utilizes an average forecast spot price of $3.04/Dth compared to $3.57/Dth in the previous filing. Figure 1 below shows the actual first of month spot prices for natural gas at Opal, Wyoming from March 2008 through September 2009 compared to the forecasted prices used in the previous pass-through application in Docket No. 09-057-03 and the forecast prices for the October 2009 through September 2010[2] time period used in this application.

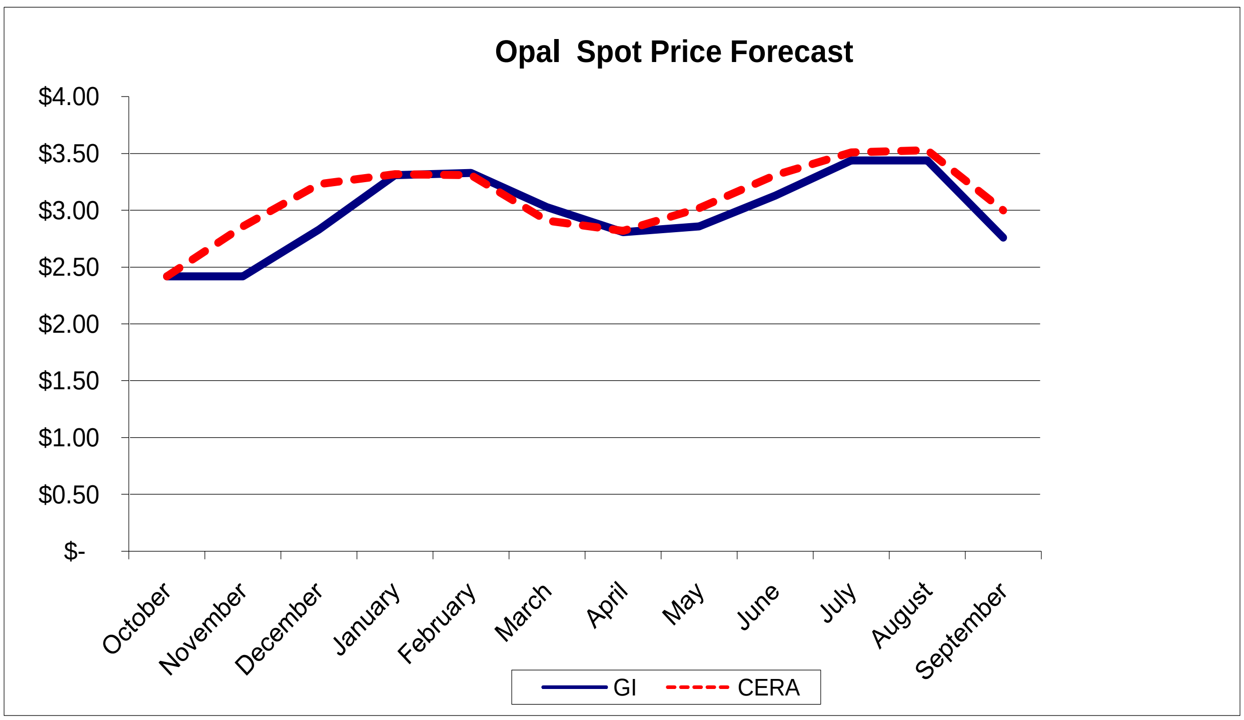
Figure 1



[2] Arithmetic average of GI and CERA forecast from October 2009 to September 2010 used in pass-through application Docket No. 09-057-12.

Unlike the previous pass-through filing, the price forecast in this filing is based on an average of future price projections by two different forecasting entities rather than three. Those two entities are Global Insight (GI) and Cambridge Energy Research Associates, Inc. (CERA). The PIRA Energy Group's (PIRA) contract, as explained in the filing is currently being renegotiated by QGC and therefore was not utilized in this price forecast. The two price forecasts for GI and CERA are displayed in Figure 2. As shown in the chart in Figure 2, the two forecasting entities price projections are less divergent than in previous forecasts, which may be more indicative of a consensus on future price expectations in the Rocky Mountain region for the next twelve months.

Figure 2



Pricing Hedges

The WEXPRO production and QGC's gas storage practices play an important role in QGC's plan to "hedge" against natural gas price volatility while meeting their overall supply plan. These practices generally allow QGC to keep WEXPRO production flowing during the summer months to meet summer demand and to inject into storage for later use during the winter months. The use of storage gas minimizes the need to purchase gas in the winter.

In this filing, on a Utah allocated basis, WEXPRO production accounts for 41.7% of the gas supply mix at a weighted cost of $5.00/Dth, an increase of 9.4% from the previous filing. In addition to the cost of WEXPRO production, there is a cost for the gathering of the WEXPRO volumes with credits for revenues derived from the sale of liquid products extracted from the WEXPRO production. The net weighted cost of the WEXPRO production has increased $0.42/Dth since the last filing. Based on current spot market prices, the average net cost of the WEXPRO production is $1.70 /Dth more than the average cost of purchased gas. Because of the lower market purchase prices, QGC has increased it purchase gas supply mix by 5.5% from the previous filing, and reduced the WEXPRO production the same percentage.

QGC further attempts to manage gas price volatility, and thereby "hedge" or mitigate customers' exposure to that volatility, by continuing its planned purchase program. For this filing, as previously mentioned, QGC has developed a gas supply portfolio of 66.5 million decatherms of purchased gas and 47.7 million decatherms of company owned production. Of the 66.5 million decatherms of purchased gas, 16.9 million decatherms are for winter peaking gas. The remaining 49.6 million decatherms of purchase gas consists of spot market purchases and fixed price contracts. Currently, depending on future movements in the price of natural gas, the fixed price contracts have a target goal ranging from 25% to 33% of the winter base load requirement. An additional $2,000,000 is included in this filing to allow QGC to purchase price-capped supply contracts. However, the price of such caps is currently too high to be cost-effective. The extra $2,000,000 provides the company with the option to act if and when capped contracts prices move downward. These approaches were developed through continued meetings with regulators to provide updated information regarding this planned "hedging" program and current expectations in the gas market.

Amortization of Existing 191 Account Balance

Experience has shown that the natural gas commodity price forecast used by QGC will not exactly match the actual prices as they unfold with time, especially with the market volatility in energy prices that has existed in the past. This fact is demonstrated by following the monthly commodity balances of the 191 account. At the time of QGC's November 2008 filing, the forecasted commodity balance was set to zero and the amortization rate was reduced to zero. Since that time, gas prices continued to decrease more than forecasted and the over collected balance grew to$60.9 million by January 2009. Therefore, in the previous pass-through application (Docket No. 09-057-03), QGC requested an amortization credit rate of $(0.61811)/Dth to begin amortizing this over-collected balance. However, spot market prices continued to be lower than forecasted resulting in the over-collected balance continuing to grow rather than decline. QGC, in an effort to mitigate the effect of this continued growth in the over-collected balance filed, in April 2009, an application asking for Commission permission to give to its customers, a one-time refund of $50 million[3]. In the September forecast, this over-collected balance was reduced to $24.9 million and as a result of this, QGC has reduced the 191 amortization credit rate by $0.37705/Dth from $(0.61811)/Dth to $(0.24106)/Dth. This change in the 191 amortization rate off-sets the benefit of the reduction of $66,342,000 in lower gas cost provided by the lower gas market prices by $38,915,000, resulting in the net commodity decrease of $28,472,000.

Supplier Non-Gas Costs (SNG):

In contrast to the volatility seen in the price of natural gas, the SNG costs are relatively stable and predictable since those costs are set by contractual rate agreements. Therefore, in Docket

[3] Docket No 09-057-09

No. 09-057-03, QGC proposed and the Division supported, setting the SNG amortization rate annually beginning in the fall pass-through. The September 2009 actual SNG balance is an over-collection of $0.2 million. QGC projects total SNG costs, from October 2009 through September 2010, to be $96.0 million. At current rates, SNG revenues that would be collected are $100.1 million. The $0.2 million over collection plus the projected costs of $96.0 million against the $100.1 million in revenues results in a $4.3 million reduction in costs. The effect of this reduction in SNG costs is a 4.3% reduction to the SNG summer and winter rates as shown in DPU Exhibit 1, line 48.

191 Account Rate Details:

Lines 42 through 52 of DPU Exhibit 1 shows a summary of the SNG and commodity rate changes proposed in this application for the GS Rate Schedule. As shown in the attached Exhibit, the commodity rates decrease by $(0.26574)/Dth for both the summer and winter GS rates and the GS SNG rates decrease by $(0.02334)/Dth in the summer and $(0.04971)/Dth in the winter. Based on these new rates, a typical customer, whose annual usage is 80 decatherms, will see a reduction in their annual bill of $24.58 for a 3.72% decrease in annual gas costs.

DISCUSSION:

Docket No. 09-057-13: (Conservation Enabling Tariff Amortization CET)

Unlike the SNG and commodity rate changes in Docket No. 09-057-12, the rate changes requested in this docket affect only a component of the distribution natural gas (DNG) rates of the GS rate class. Docket No. 09-057-13 requests the Commission approve the request for QGC to begin amortizing a balance of $1,857,014 in the CET deferral account, which is the balance in Account 191.9 as of July 31, 2009. This request is an increase of $1,410,014 over the previous amount of $446,884 requested in Docket No. 09-057-04. If approved by the PSC, a typical GS rate class customer, assuming an annual usage of 80 decatherms per year, will see an increase in their annual bill of $1.33 or a 0.2% change.

The Division has verified the amount of $1,857,014 as the balance showing in Account 191.9 as of July 31, 2009 from QGC's financial statements. The sales volumes used to calculate the CET amortization rate are the same sales volumes used in the 191 pass-through application in Docket No. 09-057-12.

Rate Details: The CET amortization rates reflected in the GS tariff sheets filed with this application have changed for both blocks 1 and 2 of the summer and winter rates. The incremental increase in the GS DNG Block 1 rate is $0.01470/Dth for the summer rate and $0.01746/Dth for the winter rate (DPU Exhibit 1, columns (B,C,D,E), line 42).

CET Stipulation Cap Review: The Commission's order in Docket No. 05-057-T01 changed the measure of the CET accrual and cap limits from total GS revenues to GS DNG revenues. The rolling 12-month Utah Jurisdictional GS DNG revenue, through July 2009 is $225,993,741. The 12 month rolling CET accrual limit is 5% of this amount which is $11,549,687. Total actual 12 month rolling CET accruals through July 2009, is $1,547,772. The rolling 12-month amortization limit is 2.5% which is $5,774,844 through July 2009. The amount to be amortized, per this request, is $1,857,014. The amounts deferred into the CET account and the amount requested for amortization all fall well within these limits.

DISCUSSION:

Docket No. 09-057-14 (Demand Side Management Amortization DSM)

This application requests an increase in the DSM amortization rate to amortize the July 2009 DSM balance of $42.9 million to all customers in the GS rate class. If approved by the PSC, a GS customer, assuming an annual usage of 80 decatherms per year, will see an average increase in their annual bill of $19.79 or a 2.99% increase from those rates currently in effect.

The Division has verified the amount of $42,927,605 as the balance showing in Account 182.4 as of July 31, 2009 from QGC's financial statements. The sales volumes used to calculate the DSM amortization rate are the same sales volumes used in the 191 pass-through application in Docket No. 09-057-12.

Figure 1 shows a history of the DSM 182.4 account through July 2009. 58% of the total costs have occurred during 2009. The Weatherization program accounts for 54% of the total $60.1 million spent in all of the DSM programs. The main driver of these 2009 costs has been the insulation rebate measures contained in the Weatherization and Multi-family Programs. The insulation market conditions changed dramatically during the latter part of 2008 and first part of 2009 so much so that QGC sought and received approval from the Commission to reduce the rebate amounts allowed in these measures.[4]

FIGURE 1
DSM 182.4 Account History
(000)

	Beg Bal	Costs	Int	Amort	End Bal
2007	$ (1,300)	$ 7,413	$ 87	$ (620)	$ 5,580
2008	$ 5,580	$ 18,076	$ 714	$ (6,620)	$ 17,750
2009 (1)	$ 17,750	$ 34,581	$ 1,020	$ (10,423)	$ 42,928
2010	$ 42,928				$ 42,928
Total	$ (1,300)	$ 60,070	$ 1,821	$ (17,663)	$ 42,928

(1) Through July 2009

The Division recognizes that a rate increase of this magnitude to fund DSM programs is unusual and we have not recommended its approval without giving the issue careful consideration. However, as has been discussed in this memo and in other proceedings involving QGC and Rocky Mountain Power, two factors have contributed to this unusual increase:

1) The unexpected decrease in insulation prices and the resulting run-up in insulation installation. The Division feels confident that this effect is temporary and has been largely solved through the reduction in rebate rates for both utilities. QGC has provided the DSM Advisory Board with a preliminary 2010 budget of $30.0 million, substantially less than the 2009 estimate of $40.6 million provided to the Commission by QGC, in a June 30th letter. Nevertheless, as was discussed in Docket 09-057-T04, the insulation rebates provided with the higher rebate levels were cost-effective and their costs remain fully justifiable.

[4] See Docket No. 09-057-T04

2) Popularity and increasing use of the Thermwise programs. Increased funding for DSM has become necessary because of the increasing rate at which Questar customers are using DSM incentives to improve the efficiency of their homes and businesses. In short, a significant component of this DSM amortization rate increase is due to the success of the DSM programs themselves. As a result, natural gas commodity costs to ratepayers should decrease in the future. It should be noted, however, that decreasing usage could also produce the need for continuing increases in the CET amortization rate. These increases to GS customers, however, will be significantly off-set to those customers who participate in the DSM programs by the savings realized which are attributable to reduced commodity purchase costs.

Rate Details: This is an increase of $24.7 million from the previous request in Docket No. 09-057-05 which will increase the total DSM amortization rate to $0.44996/Dth. As shown in DPU Exhibit 1 Line 43, the incremental rate increase is $0.24737/Dth for both the winter and summer rates GS DNG rates.

SUMMARY AND CONCLUSION:

DPU Exhibit 1, Line 54 shows the net decrease of all three applications on the rates of the GS rate class. DPU Exhibit 2 combines the effect of all three applications and shows that a typical GS rate class customer whose annual usage is 80/Dth will see a net decrease in their annual bill of $3.47 or 0.52%. This is the net result of the $24.59 reduction to a customer's annual bill as a result of the reduced gas costs being off-set by the increase of $19.79 from the DSM amortization rate increase and the $1.33 increase caused by the CET amortization.

Even though current spot market price projections show the price of natural gas remaining relatively low over the next twelve months, circumstances beyond QGC's control can and do cause spikes in these prices. With the current state of the overall economy it is difficult to predict exactly what effect the current economic conditions will have on the volatility of natural gas prices. It is hoped that prices will remain stable, but, as history has shown, that hope can diminish very rapidly. The Division wishes to emphasize the need for customers to become even more energy efficient. The current DSM programs offered by QGC through the ThermWise campaign provide an excellent opportunity for customers to become more aware of ways they can become more energy efficient. Those GS customers that do take advantage of the DSM programs will be able to mitigate, to some degree, the effects of price spikes in natural gas. The Division continues to urge QGC to use its customer education and DSM funds to educate consumers on how they can reduce their gas usage on an ongoing basis in order to reduce consumption and mitigate the impact of possible future price increases.

As always, the Division will continue to monitor the published monthly index prices[5] and compare them to the prices used in this pass-through filing to see if any trend develops which may warrant an out-of-period filing by QGC.

The Division supports and recommends that the rate changes requested in these three applications be approved by the Commission on an interim basis until the Division can complete an audit of the entries into the respective accounts associated with these applications. After the completion of those audits, the Division will issue memos to the Commission with its recommendation on making the revised rates permanent.

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[5] Published monthly in Platts "Inside FERC's Gas Market Report."