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Department of Commerce
Division of Public Utilities

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ACTION REQUEST RESPONSE

To: Public Service Commission

From: Division of Public Utilities
Chris Parker, Director
Artie Powell, Manager
Marlin Barrow, Technical Consultant
Carolyn Roll, Utility Analyst
Doug Wheelwright, Utility Analyst

Date: December 14, 2012

Re: **Docket No. 09-057-16**, Evaluation Plan for Questar Gas Company's
Infrastructure Tracker

On September 10, 2012 the Commission issued an action request to the Division with a response due date of December 14, 2012. This memorandum is the Division's response to the Commission's action request.

RECOMMENDATION

The Division of Public Utilities (Division) will complete a full audit of the transactions included in the infrastructure tracker by March 31, 2012. As part of the audit process, the Division will include a preliminary evaluation of the pilot program.

ISSUE

As part of the settlement stipulation in Docket 09-057-16, Parties agreed to implement an Infrastructure Tracker Pilot Program. The Infrastructure Tracker was designed to allow the

Company to track and recover costs that are directly associated with replacement of aging infrastructure through an incremental surcharge to the GS, FS, IS, TS, MT, FT-1 and NGV rate schedules. The surcharge is designed to track and collect costs of replacement infrastructure between general rate cases and may be adjusted semi-annually. The infrastructure replacement budget shall not exceed \$55 million (adjusted for inflation) per year and all items included in the Tracker are subject to regulatory audit consistent with the audit procedures in the “Gas Balancing Account,” Tariff Section 2.06. When the Company files the next general rate case, all prudently incurred investment and costs associated with the Infrastructure Tracker will be included in general rates. As part of the stipulation agreement, the Company is required to file a general rate case at least every three years while the Infrastructure Tracker is in effect with the first such rate case being filed no later than July 2013.

DISCUSSION

The Division has reviewed the issues identified in the Action Request, the settlement stipulation and the audit procedures in the “Gas Balancing Account” Tariff Section 2.06. The audit procedures indicate that all items recorded by the Company are subject to regulatory audit. Adjustments to the account may be proposed on a retroactive basis for items that are not in compliance with account standards and procedures, not in compliance with prior orders of the Commission, or imprudently incurred. Proposed adjustments shall be designated no later than one year after the end of the fiscal year being audited and may be adopted by the Company without Commission review. If a proposed adjustment is not adopted by the Company, the proponent may seek Commission resolution. A complete audit of the tracker will be completed by the Division by March 31, 2013

As part of the financial audit, the Division’s review will include the following items;

1. Examine the actual costs compared to the budgeted amounts and a review of any reasons or explanations for deviation from the budget.
2. Review the recorded transactions for mathematical accuracy

- 3 Review the costs for each feeder line project to see that the charges have been correctly allocated to the specified project.

In addition to the completing an audit of the individual line items, the Division will complete a review of the impact the tracker has had on the Company's rate of return. Since the pilot program became effective as of June 2010, the Company has provided information for the 12 month period ending June 2011 and for 24 month period ending June 2012. These results are preliminary and will be finalized at completion of the Infrastructure Tracker audit.

	12 Months Ended <u>June 2011</u>	12 Months Ended <u>June 2012</u>
Feederline Tracker Revenue	\$1.8 Million	\$7.3 Million
Return on Equity with Tracker	10.00%	9.24%
Return on Equity w/o Tracker	9.73%	8.25%
Difference in Return on Equity	.27%	.99%

Based on the information provided by the Company, the tracker has worked by allowing the Company to recover capital expenditures without filing a general rate case. By delaying the filing of a general rate case, other portions of the rate structure have not been reexamined and the Company has been allowed to retain the approved Return on Equity of 10.35%.¹ In 2009 both PacifiCorp and Questar filed rate cases within months of each other. In that instance, Questar was allowed a return on equity approximately 250 basis points less than PacifiCorp. While the final outcome of a general rate case is uncertain, looking at the approved rate of return from the recent settlement with PacifiCorp² would suggest that a Questar 2012 general rate case may have resulted in a reduction in Questar's authorized rate of return to as low as 9.55%. As of June 2012 the calculated ROE was 9.24% including the revenue from the tracker. The calculated ROE for Questar Gas is lower than what is currently approved for Questar Gas and is lower than the very speculative 9.55% based on the recent historical differences in the allowed rates for

¹ Docket 09-057-16, Settlement Stipulation, page 5.

² Docket 11-035-200, Settlement Stipulation, page 6.

Questar and PacifiCorp. The Division will continue to monitor the ROE in future periods and will notify the Commission of significant changes.

CC:

Barrie McKay, Questar Gas

Kelly Mendenhall, Questar Gas

Michele Beck, Office of Consumer Services