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Division of Public Utilities

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MEMORANDUM

To: Public Service Commission

From: Division of Public Utilities
Chris Parker, Director
Energy Section
Artie Powell, Manager
Carolyn Roll, Utility Analyst

Date: June 17, 2013

Subject: Audit of Questar Infrastructure Tracker Pilot Program,
Docket No. 09-057-16

SCOPE AND OBJECTIVE

The Division of Public Utilities (Division) conducted an audit of Questar Gas Company's (Questar Gas or the Company) Replacement Infrastructure Account. The audit includes a detailed review of the various cost elements included in the 107 Account, sub-Account 376004. The audit reviewed costs incurred in the program from its inception in 2010 through October 31, 2012. The objective of our audit is to determine if the costs which the Company has included for recovery in the Replacement Infrastructure Tracker (Tracker) are accurate, appropriate and in compliance with the order in Docket No. 09-057-16 issued by the Utah Public Service Commission (Commission).

RECOMMENDATION

The Division performed an audit of Questar's actual Replacement Infrastructure Tracker expenditures for the period August 2010 through October 2012. The Division recommends that at the time of the next general rate case the costs associated with the Tracker be, subject to a final prudence review in the upcoming rate case, included in general rates.

BACKGROUND

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.

AUDIT

The audit was conducted to verify a sampling of actual amounts listed on the report titled Feederline Tracker Investment as of 10/31/2012, which includes all entries from August 2010 through June of 2012. Questar provided the Division with a report detailing all expenses for each feederline line project. The Division reviewed this report, and a sampling of invoices and/or supporting documentation was requested for review. It should be noted that the invoice sample utilized for review purposes was partly judgmental and partly sampled. The Infrastructure Replacement projects are large capital projects, but over 90% of the costs are for the contractor, NPL Construction Company, and the cost of the pipe. The majority of the

invoices reviewed were for these costs. Questar supplied copies of applicable documentation, invoices and/or schedules to support expenses reviewed. The documentation was verified and reconciled to the amounts presented on Pipeline Cost Tracker Reports. This report is created for each Feederline project and is a summary of all the cost associated with the specified project.

The Division also examined the actual costs compared to the budgeted amounts and a review of any reasons or explanations for deviation from the budget and reviewed the recorded transactions for mathematical accuracy. As part of the audit the Division verified that the asset is in service at the time that an application is filed with the Commission to include those costs in the Tracker. The major Feederline projects that have been completed and are included in the Tracker are FL12, FL14, FL17, FL18, FL25, FL35, and portions of FL4, FL11 and FL19. The Company excluded items closed prior to the Tracker for FL4, FL11 and FL19. The Division meets with the Company annually to review the accounting procedures for the Tracker and concludes that the procedures are reasonable and Questar staff is complying with those procedures. The result of the audit did not find any issues, but the Division notes that these expenses will be subject to review in the upcoming general rate case.

CONCLUSION

The Division has completed its audit of the Tracker and concludes at the time of the next general rate case the costs associated with the Tracker be, subject to final prudence review, included in general rates. There are no major accounting issues that need to be addressed but the Division notes that all aspects of the program are subject to review during the upcoming general rate case.

Cc: Barrie McKay, Questar Gas Company
 Michele Beck, Office of Consumer Services
 Doug Wheelwright, Division of Public Utilities