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Division of Public Utilities

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ACTION REQUEST RESPONSE

To: Public Service Commission

From: Division of Public Utilities
Chris Parker, Director
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Date: August 16, 2012

Subject: Questar Gas, Docket Nos. 12-057-08 (191 Account Pass-Through), 12-057-09 (Conservation Enabling Tariff), 11-057-10 (Energy Efficiency Amortization), 12-057-11 (Low Income Assistance Tariff Change) and 12-057-12 (Infrastructure Rate Adjustment). The Division recommends that the Commission approve the Company's applications as filed in Docket Nos. 12-057-08, 09 and 10, and as modified by the Company in Docket Nos. 12-057-11 and 12.

ISSUE:

On August 1, 2012, Questar Gas Company (QGC) filed the five applications identified above with the Public Service Commission (PSC). On August 1, 2012, the Commission issued to the Division of Public Utilities action requests in the above docketed matters. This is the Division's response to those action requests.

Docket No. 12-057-08 (191 Account Pass-Through) asks for PSC approval to decrease the commodity rate components of the QGC's Utah natural gas rates by $464,000 and the supplier non-gas cost rate components by $5,256,000 for a total decrease of $5,720,000. Based on current gas cost rates in the GS Rate class, if approved, a typical GS residential customer will see an approximate $4.43 decrease in their annual bill.

Docket No. 12-057-09 is a request to amortize the June 2012 Conservation Enabling Tariff (CET) credit balance of $2,671,059 (over-collection) in Account 191.9 and adjust the CET component in Block 1 and 2 of the GS class distribution non-gas (DNG) rate. If approved, compared to the current CET amortization rate component in the GS Rate class DNG rate, a typical GS residential customer will see an approximate $.72 decrease in their annual bill.

Docket No. 12-057-10 is a request to reduce the amount amortized in the Energy Efficiency deferred account balance. If approved, a typical GS residential customer will see an approximate $8.12 decrease in their annual bill.

Docket No. 12-057-11 is a request to adjust the Low Income Assistance rate component of the DNG rates in their GS, FS, IS, TS, FT-1, MT and NGV rate schedules of their Utah Natural Gas Tariff PSCU 400 and change the annual amount of low income assistance available to qualified GS customers from $52 to $41. A typical GS residential customer, who doesn't qualify for assistance, will see an approximate $0.04 increase in their annual bill.

Docket No. 12-057-12 requests PSC permission to update the infrastructure rate adjustment mechanism component of the DNG rates in their GS, FS, IS, TS, FT-1, MT and NGV rate schedules of their Utah Natural Gas Tariff PSCU 400. If approved, a typical GS residential customer will see an approximate $1.68 increase in their annual bill.

If all five applications are approved a typical GS residential customer will see a combined net decrease in their annual bill of approximately $11.57. All five applications request that the rate changes become effective on September 1, 2012.

RECOMMEND APPROVAL:

After a preliminary review of the applications, the Division recommends the Commission's approval on all the applications' requested rate changes, effective September 1, 2012, with the approval of the rates in Docket Nos. 11-057-08, 09, 10 and 12 on an interim basis until the appropriate audits can be completed.

DISCUSSION OF APPLICATIONS:

DOCKET NO. 11-057-08 COMMODITY GAS COST AND SUPPLIER NON-GAS COSTS (191 Account Semi Annual Pass-Through)

This filing is based on projected Utah gas costs of $529,432,681 for the test year of September 1, 2012 through August 30, 2013. The net commodity portion represents a decrease of $464,000 in rates and the Supplier Non-Gas (SNG) rates decrease of $5,256,000 for a total decrease of $5,720,000 for firm sales customers.

The commodity rate decreases from $4.167/Dth (rounded) to $4.162/Dth (rounded), resulting in a decrease in the commodity gas costs of $464,000 for firm sales customers. As will be discussed later, the base Supplier Non-Gas (SNG) rates have decreased resulting in a decrease of $5,255,801 in SNG costs.

Utah Gas Supply

For the test year from September 2012 through August 2013, QGC expects a total Utah system requirement of 113.3 million decatherms. Of this, 106.2 million decatherms will meet the projected sales requirement, 2.6 million decatherms in net storage injections and 4.5 million decatherms for gas volume reimbursement due to gathering, transportation and distribution fuel and shrinkage. To supply the Utah system requirement, QGC plans on utilizing 65.9 million decatherms of WEXPRO production, (58.2% of the total requirement), at a net projected cost of $302,945,768[1] while purchasing from third party producers 47.4 million decatherms, (41.8 % of total requirements) for $157,268,606.[2] Transportation and storage costs are projected to be $69,218,307 for an estimated total cost to Utah customers of $529,432,681.[3]

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 through 2-13, these gas costs represent a direct pass through of costs.

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1 QGC Application, Docket No. 12-057-08, Exhibit 1.5, Line 5 Column E.
2 Ibid, Line 6, Column E.
3 QGC Application, Docket No. 12-057-08, Exhibit 1.5, Line 14, Column E.

These costs do not impact the operating profit or rate of return of QGC except for $3,679,454,[4] 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 and based on the pre-tax rate of return from the weighted cost of capital approved in the Settlement Stipulation in QGC's most recent rate case, Docket No. 09-057-16.

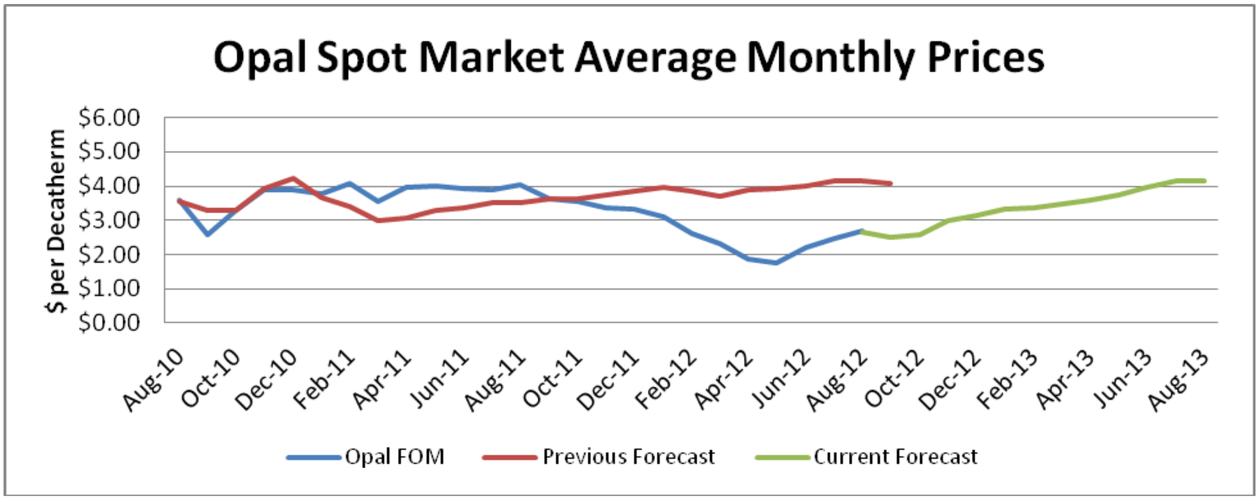
Natural Gas Spot Prices

Since the time the PSC approved the last pass-through request, effective October 1, 2011 (Docket No. 11-057-08), actual prices have trended slightly downward from the previously forecasted prices. In this filing, QGC utilizes an average forward looking thirteen month forecast spot price of $3.35/Dth[5] compared to $3.89/Dth in the previous filing. Figure 1 on the next page compares the actual first of month spot prices for natural gas at Opal, Wyoming from August 2010 through August 2012 to the forecasted prices used in the previous pass-through application in Docket No. 11-057-09, as well as the projected forecast of Rocky Mountain spot market prices for August 2012 through August 2013 used in this application to establish gas cost commodity rates to become effective September 1, 2012. As shown in Figure 1 on the next page, from January 2010 through September 2010, actual prices were higher than the forecast prices. However, since October 2011, actual prices were lower than forecast. The current forecast, used as a basis for the gas costs in this application, reflect that prices are projected to increase during the forecast period from $2.49 to $4.16 per Decatherm.

4 Ibid, Line 13, Column E.

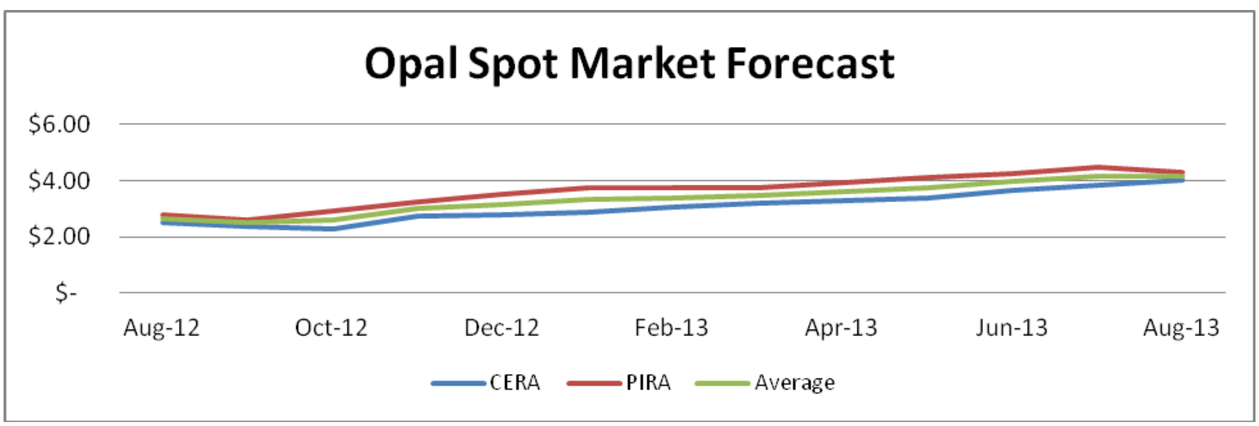
5 Arithmetic average of PIRA and CERA forecast from August 2012 to August 2013 used in pass-through application, Docket No. 12-057-08.

Figure 1



The price forecast in this filing is based on an average of future price projections by two different forecasting entities. Those two entities are Cambridge Energy Research Associates, Inc. (CERA) and PIRA Energy Group (PIRA). The two price forecasts for CERA and PIRA are displayed in Figure 2. This shows a relative consensus on the stability of natural gas prices through August 2013 by these two forecasting entities.

Figure 2



Pricing Hedges

Historically, 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 reduces the need to purchase gas in the winter. As previously mentioned, the Utah allocated portion of WEXPRO production is 65.9 million decatherms. The net well head weighted cost of this production is $4.33/Dth[6], which is an increase of $0.48/Dth from the last filing in Docket No. 11-057-09. However, with the lower projected natural gas spot market prices, the average net[7] cost of the WEXPRO production is $4.60/Dth[8] compared to the projected weighted average cost of purchased gas of $3.32/Dth.[9]

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, in addition to the 65.9 million decatherms of company owned production, QGC has developed a Utah gas supply purchase portfolio of 47.4 million decatherms. This filing includes planned gas purchases for November 2012 through March 2013. Currently, QGC gas supply management has contracted for Utah's supply requirement some 26.7 million decatherms at an average price of $3.49/Dth[10] and projected future purchase requirements for a total average purchase cost of $3.32 / Dth.[11] Typically, QGC targets 20% to 30% of the winter purchase requirement as a target for fixed price contracts. These approaches have been developed through a series of meetings with regulators to provide updated information regarding this planned "hedging" program and current expectations in the gas market.

[6] QGC Application, Docket No. 12-057-08, Exhibit 1.4, Line 3, Column D.
[7] Includes the cost of gathering services.
[8] QGC Application, Docket No. 12-057-08, Exhibit 1.4, Line 5, Column D.
[9] Ibid, Exhibit 1.4, Line 6, Column D.
[10] Ibid, Exhibit 1.2, Line 3, Column C.
[11] Ibid, Exhibit 1.2, Line 6, Column C.

Supplier Non-Gas Costs (SNG)

In contrast to the volatility that often is seen in the price of natural gas on the spot market, the SNG costs are relatively stable and predictable since these costs are set by contractual rate agreements and cover the costs associated with gathering and processing the WEXPRO gas from the well heads to market hubs, transporting the gas from market hubs to city gates and storing the gas in available gas storage facilities for later withdrawal during the winter months. Because of the stability in these costs, in Docket No. 09-057-03, QGC proposed and the Division supported, setting the SNG amortization rate annually. That annual amortization rate was last set in Docket No. 11-057-08 at $0.000 / Dth. QGC projects total SNG costs, in this filing, to be $97,118,566.[12] At current rates, SNG revenues that will be collected are projected to be $102,374,367[13] leaving an over collected balance of $5,255,801.[14] Therefore, as shown in Exhibit 1.6, QGC is reflecting a 5.16%[15] decrease from the current total SNG rates in order to adjust for this over collection.

The reduction in the SNG rate is mainly due to a reduction in the gathering charge that is to be paid to QEP. On May 1, 2012, Questar Gas Company filed a legal action against QEP Field Services Company, a subsidiary of QEP Resources, Inc. The case, entitled *Questar Gas Company v. QEP Field Services Company*, was filed in the Third District Court in Salt Lake County, Utah. Questar Gas believes certain charges of QEP Field Services for gathering services exceed the amounts contemplated under a System Wide Gathering Agreement (SWGA), effective September 1, 1993, pertaining to certain gas produced by Wexpro Company under the Wexpro Agreement. Questar Gas is alleging breach of contract by QEP Field Services and is seeking an accounting and a declaratory judgment relating to the charges under the SWGA. Also, on May 1, 2012, QEP Field Services filed a legal action against Questar Gas entitled *QEP Field Services Company v. Questar Gas Company*, in the Second District Court in Denver County, Colorado seeking declaratory judgment relating to its gathering service and charges under the same agreement. The charges under the SWGA are included in Questar Gas's rates as

[12] QGC Application, Docket No. 12-057-08, Exhibit 1.6, page 2 of 3, Line 1.
[13] Ibid, Line 4.
[14] Ibid, Line 5.
[15] Ibid, line 7.

part of its purchased gas costs in the 191 Account and the collection of those costs are included as part of the SNG rate. The calculation of the SNG rate for this case is based on a lower gathering charge than the amount claimed by QEP in the SWGA. Questar Gas has been paying a reduced gathering charge to QEP since June 2012. This issue may not be resolved for some time and could have a significant impact on future rates. If the court rules in favor of QEP, Questar Gas and ultimately the ratepayers could be required to pay the higher gathering charge from June 2012 until this issue is resolved.

Effect on a typical GS Customer

DPU Exhibit 1.1, lines 29 -35 shows a summary of the SNG and commodity rate changes proposed in this application for the GS Rate Schedule. Lines 50-56 show the net changes requested in this docket from the current rates.[16] Based on these new rates, a typical GS residential customer will realize a decrease in their annual bill of $4.43 which is a decrease of 0.65% in annual gas costs.

DOCKET NO. 12-057-09 - CONSERVATION ENABLING TARIFF (CET)

Unlike the SNG and commodity rate changes in Docket No. 12-057-08 that affect the rates for all firm sales customers, the rate changes requested in Docket No. 12-057-09 affect only the CET component of the distribution natural gas (DNG) rates of the GS rate class. In this docket, the Company is requesting to amortize an over-collected balance of $2,671,059 in the CET deferral account, which is the balance in Account 191.9 as of June 30, 2012. This over collected credit balance is greater than the credit balance approved in Docket No. 11-057-09 by $784,769 resulting in an incremental increase to the credit CET amortization rate.

Rate Details

The CET amortization rates reflected in the GS Rate Class tariff sheets filed with this application have changed for both blocks 1 and 2 of the summer and winter rates. The incremental credit

[16] Ibid, line 52.

increase in the GS DNG Block 1 rate is $(0.0076) /Dth (rounded) for the summer rate and $(0.0091) /Dth (rounded) for the winter rate as shown in DPU Exhibit 1.1.[17]

Effect on a typical GS Customer

If approved by the PSC, a typical GS rate class customer will see a decrease in their annual bill of approximately $0.72 or 0.11%.

DOCKET NO. 12-057-10 – (DSM) REQUEST TO AMORTIZE THE ENERGY EFFICIENCY DEFERRED ACCOUNT BALANCE

The Division reviewed the attached exhibits contained in the filing and agrees with the methodology used by the Company, as shown in Exhibits 1.1 through Exhibits 1.3 of the filing, to support their request to decrease the current amortization amount.

In Docket No. 05-057-T01, the Commission authorized the Company to establish a deferred expense account (Account 182.4) to record the costs associated with the approved Energy Efficiency programs and market transformation initiative. On May 31, 2011, the Commission approved the rates suggested in Docket No. 11-057-15 which included a three year amortization of the existing balance in that account. Due to lower ongoing participation in the current program and lower expenditures, the Company is proposing a reduction in the amortization level from $39 to $30 million. This reduction will continue to reduce the Energy Efficiency balance to near zero within the previously approved three year time period.

Rate Details

In Docket No 11-057-15, The Company proposed an amortization of $39 million in order to fund the existing program and draw down the balance in this account to near $0 over a three year period. As of June 30, 2012 the existing account balance has been paid down to $9.6 million. Due to lower natural gas prices the participation in this program has gone down and the existing

[17] DPU Exhibit 1.1, Line 44, Columns B, D.

balance is being reduced at a more rapid pace than projected. This modification will provide the funding for the existing program and will continue to pay down the existing balance.

Effect on a typical GS Customer

If approved by the PSC, a typical GS rate class customer will see a decrease in their annual bill of approximately $8.12 per year or 1.19%. The proposed reduction in the DSM amortization represents approximately 70% of the combined impact to GS customers identified in DPU Exhibit 1.1.

DOCKET NO. 12-057-11 - LOW INCOME ASSISTANCE TARIFF RATE

In Docket 10-057-08, the Commission approved the Low Income Assistance Program of up to $1.5 million dollars annually and authorized Questar Gas to establish a balancing account. As of July 2011, this account had an over collected beginning balance of $229,267[18]. After collections, actual payouts and interest calculations throughout the year, the over collected balance has been reduced to $8,857 as of June 2012. This is a correction from the original amount filed with the Commission on August 1, 2012 which stated that the Company was under collected by $8,857. The Division and the Company have recalculated the impact of this correction and the Company has provided corrected copies of the exhibits to the Division to reflect the change. In addition, this filing requests a reduction in the credit amount that will be paid to qualifying participants from $52 to $41. The Company is projecting an increase in the number of participants from 31,000 to 36,800 due to the ongoing weak economic conditions.

The Division has reviewed the revised exhibit contained in the filing and agrees with the methodology used by the Company, as shown in QGC Exhibit 1.2 R of the filing (attached), to support their request to increase the current low income assistance rate component of the DNG rates of all rate schedules in their Utah Natural Gas Tariff.

QGC Exhibit 1.1 of the filing details the accounting entries into the 191.8 low income balancing account for the 12 months ending June 2012. QGC Exhibit 1.2 R details the proposed

[18] 12-057-11 Exhibit 1.1, Line 1 Column F

collections for the various rate classes and has been revised to show the corrected amount. The revised amortization amount does not significantly change the proposed increase in the collection rates or change the proposed payment to low income customers.

QGC Exhibit 1.2 R column (F) shows the new low income assistance rate for each rate class. The Division obtained the model used to derive the volumes and rates shown in this exhibit and verified the accuracy of the calculations to ensure that compliance with Utah Code Ann. § 54-7-13.6, which provides, not only the authority for the Commission to approve a low-Income funding program for low-income residential customers, but also the funding guidelines to be used.

In summary, the Division supports the Company's filing as corrected in QGC Exhibit 1.2 R, believes it is in compliance with Utah Code Ann. § 54-7-13.6, is in the public interest and provides a just and reasonable low-income surcharge rate. The Division recommends the Commission approve the Application with the corrected rates as shown in QGC Exhibit 1.2 R with an effective date of September 1, 2012.

Effect on a typical GS Customer

The effect of this change in the low income assistance rate for a typical GS residential customer is an expected increase their annual bill by $0.04.

DOCKET NO. 11-057-12 - INFRASTRUCTURE RATE ADJUSTMENT

This application requests Commission permission to update the infrastructure rate adjustment component of the DNG rates in their GS, FS, IS, TS, FT-1, MT and NGV rate schedules of their Utah Natural Gas Tariff PSCU 400.

The Division reviewed the tariff sheets attached as exhibit 1.5 as well as the exhibits showing the calculations, filed with the PSC on August 1, 2012, and agrees with the methodology used by the Company, as shown in Exhibits 1.1 through Exhibits 1.4 of the filing, to support their request to increase the current infrastructure rate adjustment component of the DNG rates of all rate schedules in their Utah Natural Gas Tariff. In reviewing the initial application, the Division auditors discovered an infrastructure project in which the dollar amount closed to plant-in-service was more than the dollar amount incurred (spent) by the Company. After discussing this issue with QGC, the Company provided exhibits with corrected dollar amounts for several projects. The Company's revisions reduced the dollar amount closed to plant-in-service by $946,782. The Division agrees with this correction and has been informed that the Company will provide updated tariff sheets to reflect the appropriate change in rates. The overall revenue requirement is reduced by approximately $117,000 as a result of this revision.

QGC Exhibit 1.1R, page 1, shows a 13 month average (August 2013) gross plant balance of $98.55 million. QGC Exhibit 1.1R, page 4 details the calculation of the cumulative $10.76 million[19] additional revenue requirement necessary for the increase of $98.55 million in plant additions. The $10.76 million cumulative revenue requirement is an increase of $2.06 million from what is currently being collected in rates.[20]

QGC Exhibit 1.2 R details the spread of the $10.76 million in additional revenue requirement to the rate classes based on the same spread of the revenue requirement ordered in QGC last rate case in Docket No. 09-057-16.

QGC Exhibit 1.3 R details the new infrastructure rate component calculation of the DNG rates for each rate schedule in order to collect the $10.76 million revenue requirement. The Division has not reviewed the detailed invoices used by the Company in deriving the dollar amounts that qualify for inclusion in this filing and therefore recommends that the rates continue to be approved on an interim basis.

Effect on a typical GS Customer

As shown in QGC Exhibit 1.3 R, the effect of this increase on a typical GS residential customer's annual gas bill is an increase of $1.58 or 0.23%.

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[19] Additional from the amount included in rates from the previous general rate case.
[20] 11-057-16 Exhibit 1.1, p. 3

SUMMARY AND CONCLUSION

DPU Exhibit 1.1 combines the effect of all four applications and shows that a typical GS rate class residential customer whose annual usage is 80/Dth will see a combined net decrease in their annual bill of $11.57 or 1.70% from the implementation of the rate changes requested in these five dockets.

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 Energy Efficiency 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 and thereby realize greater savings in gas costs which comprise 67% of a GS customer's volumetric rate structure. Those GS customers that do take advantage of the EE 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 EE 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 mentioned above, with the current low natural gas prices the interest in conservation measures appears be dropping. As always, the Division will continue to monitor the published monthly index prices[21] and compare them to the prices used in this pass-through filing to see if any trend develops that may warrant an out-of-period filing by QGC.

The Division supports and recommends that the rate changes requested in Docket Nos. 12-057-08, 09, 10, and as revised in Docket Nos. 12-057-11 and 12 be approved by the Commission. With the exception of Docket 12-057-11, the proposed rates should be approved on an interim basis until the Division can complete an audit of the entries into the respective accounts. After the completion of the audits, the Division will issue memos to the Commission with its recommendations on making the requested rate changes in these dockets permanent.

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

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