

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Pass-Through Application)
of Questar Gas Company for an Adjustment) DOCKET NO. 13-057-03
in Rates and Charges for Natural Gas Service)
in Utah) REPORT AND ORDER
)

ISSUED: June 17, 2013

SYNOPSIS

The Commission approves the uncontested rate application of Questar Gas Company for an increase of \$61.4 million in its Utah natural gas rates, on an interim basis, pending the completion of an audit by the Division of Public Utilities. The effect of this application is to increase the annual bill of a typical GS residential customer using 80 decatherms per year by about \$47.39, or 7.08 percent.

By The Commission:

On May 2, 2013, Questar Gas Company (“QGC”) filed an application (“Application”) to increase rates and charges for natural gas service in Utah to reflect an annualized cost of \$611.1 million, representing a \$61.4 million increase, effective June 1, 2013. On May 3, 2013, the Commission issued a notice of filing, comment period, and hearing. In response to the Commission’s May 3, 2013, action request and May 6, 2013, amended action request, on May 20, 2013, the Division of Public Utilities (“Division”) filed a memorandum (“Memorandum”) indicating it had conducted a preliminary review of the Application and recommends the Commission approve it on an interim basis until the Division can complete its audit.

On May 29, 2013, the administrative law judge for the Commission convened a duly-noticed hearing. At the hearing, QGC briefly summarized the Application and requested its

proposed rate increase be allowed to become effective as filed on June 1, 2013. In addition, the Division summarized pertinent portions of its Memorandum and reiterated its recommendation that the Commission approve the rate change requested in the Application, effective June 1, 2013, on an interim basis, pending completion of the Division's audits. The Division testifies the requested interim rates are just and reasonable.¹

The Office of Consumer Services ("Office") also participated in the hearing and presented testimony indicating the Office has no objection to the Commission approving the requested interim rate change.²

At the conclusion of the hearing, by bench order, the Commission approved, on an interim basis, the rate change requested in the Application. This order memorializes that prior ruling. The evidence supporting the Application is uncontested and is briefly summarized below.

The Application is based on a projected Utah gas cost of \$611,127,889 for the test year of June 2013 through May 2014 ("Test Year"). The commodity portion of this forecast reflects a net increase of \$65,209,000 and the Supplier Non-Gas ("SNG") portion reflects a net decrease of \$3,775,000, for a net increase of approximately \$61,435,000 in rates for firm sales customers.³

QGC's application in this docket, and the Division's analysis presented in the Memorandum, forecast a total test year Utah gas supply requirement of approximately 111.0

¹ See Transcript of Hearing, May 29, 2013, at 10.

² See, *id.*, at 12.

³ See Application, at 2.

million decatherms. Of this amount, 106.5 million decatherms will be used to meet the projected Utah sales requirements with the remaining used for gas volume reimbursement due to gathering, transportation, and distribution fuel and shrinkage. QGC projects it will meet this requirement with 70.6 million decatherms of Wexpro production and 39.6 million decatherms of gas purchased from third party producers.⁴

QGC forecasts the Wexpro net wellhead gas production cost⁵ to be \$4.56 per decatherm, which is an increase of \$0.23 per decatherm over QGC's last filing in Docket No. 12-057-08. The total Wexpro gas production cost (i.e., the sum of net well head gas production costs and gas gathering costs) is forecast to be \$4.80 per decatherm, which is an increase of \$0.20 per decatherm over QGC's last filing in Docket No. 12-057-08. As to purchases from third party producers, QGC projects a total average purchase cost of \$4.74 per decatherm for the test year, which is an increase of \$1.42 per decatherm over QGC's last filing in Docket No. 12-057-08. The forecast of natural gas spot prices used as a basis for this projection reflects spot market prices increasing from \$4.20 per decatherm in June 2013 to \$4.82 per decatherm in December 2013. The combined effect of the foregoing Wexpro and third party supply forecasts, and associated revenue forecasts, is a commodity rate increase from \$4.08880 per decatherm to \$4.86615 per decatherm.

The Division asserts since the Company's last pass through request in Docket 12-057-08, natural gas spot market prices are trending upward when compared with previous forecasts. In this case, the average of the May 2013 through May 2014 forecast monthly spot

⁴ See Exhibit SDR#1.

⁵ The net wellhead gas production cost is the Wexpro operator service fee plus Test Year royalty payments minus revenues credits identified in the Wexpro Agreement.

price presented by the Company is \$4.47 per decatherm.⁶ At hearing the Division testified that market price of natural gas increased 43 percent since the last pass-through filing.⁷

The Application states, and the Division acknowledges, that for the past several years the Company has entered into fixed price arrangements on a portion of its winter purchased gas and therefore has not incurred any stabilization costs. Since the Company does not anticipate incurring any stabilization costs during the proposed test period it eliminated the stabilization cost of \$2,000,000 that typically has been included in the cost of purchased gas.

The Application also includes amortization of the March 2013 191 Account over-collected balance of -\$7,863,845, reflecting an amortization rate of -\$0.07576. The amortization rate of \$0.07335 in QGC's last filing in Docket No. 12-057-08 reflected an under collected balance of \$7,588,452. The combined effect of the foregoing changes in commodity costs and the amortization rate is a rate increase from \$4.16215 per decatherm to \$4.79039 per decatherm.

SNG costs are based on contractual rates for services such as gathering and processing the Wexpro gas from well heads to market hubs, transporting gas from market hubs to city gates, and storing gas for later withdrawal during winter months. QGC projects total SNG test year costs to be \$93,672,262. At current rates, SNG test year revenue is forecast to be \$97,447,293. QGC's proposed test year rates reflect a \$3,775,031 decrease, or 3.89 percent, from the current SNG rates.

⁶ See Memorandum, at 3.

⁷ See Transcript of Hearing, May 29, 2013, at 9.

In its Memorandum the Division states the reduction in the SNG rate is partially due to the reduction in storage costs in the Ryckman storage field due to a fire at the facility which temporarily eliminated the storage costs for that field.

Both the Company and Division summarize that, based on the proposed rates reflecting an increase in gas commodity costs and decrease in SNG costs described in QGC's application, a typical GS residential customer using 80 decatherms per year will experience an annual bill increase of about \$47.39 or 7.08%.

In response to the Commission's May 6, 2013, amended action request,⁸ the Division asserts the \$30.2 million increase in Wexpro's operator service fee reflects increases in taxes, the after tax adjusted return, depreciation, return on rate base investment, and operations and maintenance/general and administrative (O&M/G&A) expenses. These increases are associated with the increased production from Wexpro properties and the increase in the forecast market price upon which royalties are paid. The Division states Wexpro's O&M/G&A expenses are manageable to some extent and should be tightly controlled and although these costs increased by \$2.4 million in total, as a percentage of cost per decatherm produced, the costs have decreased.

The Division concludes that the rate change proposed by the Company results in just and reasonable rates that are in the public interest and recommends their approval. After completion of its audit, the Division will issue a memo to the Commission with

⁸ The amended action request requests the Division to include in its comments an examination and evaluation of the estimated 10 percent increase in the Wexpro operator service fee (from \$285,765,564 to \$315,627,797 as shown on line 118 of Questar's Model's Monthly Inputs tab) since the last pass-through filing in Docket No. 12-057-08.

recommendations.⁹ In response to questions posed by the presiding officer, the Division indicated as part of its audit it will evaluate whether the operator service fee only contains necessary and reasonable costs, Questar's management of gas volumes, and whether Wexpro and Wexpro II costs are separated.

Finally, at hearing the Office testified it reviewed the application and does not oppose it at this time. The Office responded affirmatively to the presiding officer's questions of whether the Application should be approved by the Commission and whether it is the Office's position that doing so would be just and reasonable and in the public interest.¹⁰

ORDER

Based on the QGC application, the recommendation of the Division, and the testimony presented at the hearing, and receiving no opposition, the Commission hereby approves the Application on an interim basis, pending the final results of the Division's audits. The rate change is effective June 1, 2013. Within seven days from today, QGC shall file for review and approval updated tariff pages reflecting the effects of this Report and Order.

DATED at Salt Lake City, Utah, this 17th day of June, 2013.

/s/ Melanie A. Reif
Administrative Law Judge

⁹ See Transcript, at 10; lines 3-9.

¹⁰ Transcript, at 12; lines 2-17.

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Approved and confirmed this 17th day of June, 2013, as the Report and Order of the Public Service Commission of Utah.

/s/ Ron Allen, Chairman

/s/ David R. Clark, Commissioner

/s/ Thad LeVar, Commissioner

Attest:

/s/ Gary L. Widerburg
Commission Secretary
D#244819

Notice of Opportunity for Agency Review or Rehearing

Pursuant to Utah Code Ann. §§ 63G-4-301 and 54-7-15, a party may seek agency review or rehearing of this order by filing a request for review or rehearing with the Commission within 30 days after the issuance of the order. Responses to a request for agency review or rehearing must be filed within 15 days of the filing of the request for review or rehearing. If the Commission fails to grant a request for review or rehearing within 20 days after the filing of a request for review or rehearing, it is deemed denied. Judicial review of the Commission's final agency action may be obtained by filing a Petition for Review with the Utah Supreme Court within 30 days after final agency action. Any Petition for Review must comply with the requirements of Utah Code Ann. §§ 63G-4-401, 63G-4-403, and the Utah Rules of Appellate Procedure.

CERTIFICATE OF SERVICE

I CERTIFY that on the 17th day of June, 2013, a true and correct copy of the foregoing REPORT AND ORDER, was served upon the following as indicated below:

By Electronic-Mail:

Colleen Larkin Bell (colleen.bell@questar.com)
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By Hand-Delivery:

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