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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, Technical Consultant

Date: June 28, 2016

Subject: Audit of Questar Infrastructure Tracker Pilot Program,
Docket Nos. 09-057-16 and 13-057-05

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 January 2013 through December 2015. The objective of our audit is to determine if the costs 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 and Docket No. 13-057-05 issued by the Public Service Commission of Utah (Commission).

RECOMMENDATION

The Division performed an audit of Questar's actual Replacement Infrastructure Tracker expenditures for the period January 2013 through December 2015. 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 pilot program that was agreed to in Docket No. 09-057-16 applied only to replacement of High Pressure (HP) feeder lines. As part of the settlement stipulation in Docket No. 13-057-05, Parties agreed to modify the Infrastructure Tracker Pilot Program to include the replacement of certain Intermediate High Pressure (IHP) beltlines.¹ 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 \$65 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 next such rate case being filed no later than July 1, 2016.

AUDIT

The audit was conducted to verify a sampling of actual amounts listed on the report titled Cost Reports for 2016 Tracker Audit of 12/31/2015, which includes all entries from January 2013 through December 2015. In this file Questar included reports detailing all expenses for each feederline and beltline project. The Division reviewed this report, and a sampling of invoices

¹ Docket 13-057-05, Settlement Stipulation, page 10.

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 85% of the costs are for the feederline contractor, NPL Construction Company; the various contractors for the beltline projects; 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 Cost Tracking Report. This report is created for each Feederline or Beltline 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. The Company reports the budget variances in the quarterly reports that are filed with the Commission and at the annual review meeting that is held in April of each year. 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. All costs were reviewed but infrastructure investment level had to exceed \$84 million before investment costs would be included in rates through the Tracker.² That level of investment was exceeded in October 2014.

The major Feederline projects that have been completed and are included in the Tracker are FL6, FL24, FL26, FL34, FL36, FL41, and portions of FL18. The Company excluded items closed prior to the Tracker for FL8, FL14, FL20, FL21, FL35, FL50, and FL66. The IHP projects that have been completed and are included in the Tracker are various projects in Salt Lake, Weber, Davis and Utah counties totaling close to \$19 million. 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 audit did not find any issues, but the Division notes that these expenses will be subject to review in the upcoming general rate case.

² Docket 13-057-05, Settlement Stipulation, page 12.

DISCUSSION

Since the pilot program became effective in June 2010, the Company has provided the Tracker impact on Questar Gas Company’s rate of return. For the period included in this audit, information for the 12 month periods ending December 2013, December 2014 and December 2015 were provided by the Company. These results were verified as part of the Infrastructure Tracker audit. Please see the table below:

Tracker impact on QGC's rate of return during the current pilot period			
	12 months ended December 2013	12 months ended December 2014	12 months ended December 2015
Infrastructure Replacement Tracker Revenue	\$18,191,652	\$8,599,780	\$5,861,924
Return on Equity with Tracker	9.59%	9.53%	9.59%
Return on Equity with out Tracker	5.95%	7.92%	8.60%
Difference in Equity	3.64%	1.61%	0.99%

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 (ROE) of 9.85%.³ Customer’s rates have increased slightly as the result of the Tracker; overall rates have not changed substantially since the Tracker was implemented. If the Infrastructure Tracker was not in place the Company would have had the option to file rate cases to recover those costs. The Company’s ROE has been higher with the Tracker, for the 12 months ending December 2015 ROE with the Tracker was 9.59% versus 8.60% without the Tracker, but has not exceeded the allowed Return on Equity. The Division will continue to monitor the ROE in future periods and will notify the Commission of significant changes.

The Division acknowledges that there is the possibility that the Company could exceed its allowed Return on Equity. As demonstrated above during the pilot period this has not been the

³ In the Matter of the Application of Questar Gas Company to Increase Distribution Rates and Charges and Make Tariff Modifications (Report and Order: February 21, 2014, P. 29).

case. The Division would note that the accounting for the Tracker provides greater transparency to review the costs. A separate account was created to record the Tracker expenses and within that account the costs are recorded by project number and feeder line number or beltline segment.

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 included, subject to final prudence review, 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