ACTION REQUEST RESPONSE

To: Public Service Commission

From: Division of Public Utilities
Chris Parker, Director
Energy Section
Artie Powell, Manager
Doug Wheelwright, Technical Consultant
Eric Orton, Utility Analyst

Date: September 16, 2013

Subject: Questar Gas, Docket Nos.
13-057-07 - 191 Account Pass-Through,
13-057-08 - Conservation Enabling Tariff,
13-057-09 - Energy Efficiency Amortization,
13-057-10 - Low Income Assistance Energy Assistance Rate
13-057-11 - Infrastructure Rate Adjustment.

RECOMMENDATION:
After a preliminary review of the applications, the Division recommends the Commission approve all the requested rate changes in Docket Nos. 13-057-07, 08, 09 and 11, effective October 1, 2013, on an interim basis until the appropriate audits can be completed.

ISSUE:
On September 3, 2013, Questar Gas Company (Company) filed the five applications identified above with the Public Service Commission (Commission). On September 4, 2013, the Commission issued an Action Request to the Division of Public Utilities in the above docketed matters. This memo is the Division's response to the Action Requests.

Docket No. 13-057-07 - 191 Account Pass-Through asks for Commission approval to decrease the commodity rate components of Questar's Utah natural gas rates by $37,162,000 and increase the supplier non-gas cost rate components by $2,969,000 for a total decrease of $34,193,000. Based on current gas cost rates in the GS Rate class, if approved individually, a typical GS residential customer will see a decrease of $26.60 in their annual bill.

Docket No. 13-057-08 is a request to amortize the July 2013 Conservation Enabling Tariff (CET) debit (under collected) balance of $114,165 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 individually, a typical GS residential customer will see an increase of $2.56 in their annual bill.

Docket No. 13-057-09 is a request to increase the amount amortized in the Energy Efficiency deferred account balance primarily due to increased participation in the weatherization program. If approved individually, a typical GS residential customer will see an increase of $10.94 in their annual bill.

Docket No. 13-057-10 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 increase the annual amount of low income assistance available to qualified GS customers from $41.00 to $62.50. If approved individually, a typical GS residential customer, who doesn't qualify for assistance, will see a decrease of $0.08 in their annual bill.

Docket No. 13-057-11 seeks approval 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 individually, a typical GS residential customer will see an increase of $3.05 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 $10.01, or approximately 1.4%. In all five applications, Questar requests an effective date of October 1, 2013.

DISCUSSION OF THE INDIVIDUAL APPLICATIONS:

DOCKET NO. 13-057-07 COMMODITY GAS COST AND SUPPLIER NON-GAS COSTS (191 Account Semi Annual Pass-Through)

This filing is based on projected Utah gas costs of $559,218,635[1] for the test year ending September 30, 2014. The commodity portion represents a decrease of $37,162,000 in the rate offset by an increase of $2,969,000 in the Supplier Non-Gas (SNG) portion of the rate for a net decrease of $34,193,000 for firm sales customers. The proposed commodity rate is a decrease from $4.79/Dth[2] to $4.43/Dth[3] for a net decrease of $0.36/Dth.

Gas Supply

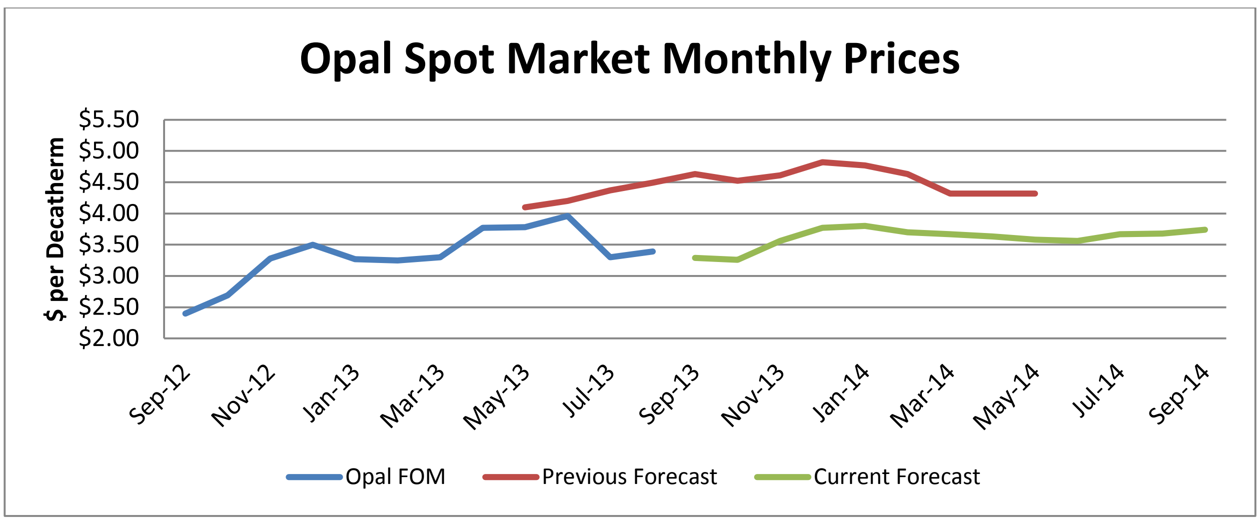
For the test year, October 2013 through September 2014, the Company expects a total system requirement of 119.166[4] million Dths. Of the total amount, 109.660[5] million Dths will meet the projected sales requirement, 3.659[6] million Dths in net storage injections and 5.847 million Dths for gas volume reimbursement due to gathering, transportation and distribution fuel and shrinkage. The Company expects total fuel cost to be $579.531[7] million. The Wexpro production has a net projected cost of $355.558 million at an average cost of $4.35.[8] The purchased gas from third parties has a net projected cost of $148.629 million at an average cost of $3.97.[9] The difference of $0.38 between Wexpro and third party producers is an increase from the $0.06 difference in the previous filing. Wexpro production represents approximately 68.6% of the total gas requirement and purchases from third party producers represent 31.4%.[10] As part of the ongoing review of the Questar 191 account, the Division will continue to monitor the operator service fees and other costs included in the Wexpro production.

Natural Gas Spot Prices

1 13-057-07Application, Page1, Paragraph 2.
2 13-057-07, Exhibit 1.6, Page 1, Column E, Line 11.
3 13-057-07, Exhibit 1.6, Page 1, Column D, Line 11.
4 13-057-07, Exhibit 1.4, Page 2, Column B, Line 3.
5 13-057-07, Exhibit 1.6, Page 1, Column E, Line 6.
6 13-057-07, Exhibit 1.4, Page 2, Column B, Line 5 + Line 6.
7 13-057-07, Exhibit 1.4, Page 1, Column B, Line 10.
8 13-057-07, Exhibit 1.4, Page 1, Column D, Line 5.
9 13-057-07, Exhibit 1.4, Page 1, Line 6.
10 13-057-07, Exhibit 1.4, Column C, Line 6 / Column C (Line 5 + Line 6).

Since the time the Commission approved the last pass-through request, effective June 1, 2013 (Docket No. 13-057-03), actual prices have trended downward from the previously forecasted prices. In this filing, the Company utilizes an average forward looking thirteen month forecast spot price of $3.61/Dth[11] compared to $4.47/Dth in the previous filing. Figure 1 below, compares the actual first of month spot prices for natural gas at Opal, Wyoming to the forecast prices used in the previous pass-through application in Docket No. 13-057-03, as well as the projected forecast used in this application. As shown, actual prices were lower than the forecast prices. The current forecast, used as a basis for the gas costs in this application, reflect a stable price forecast.

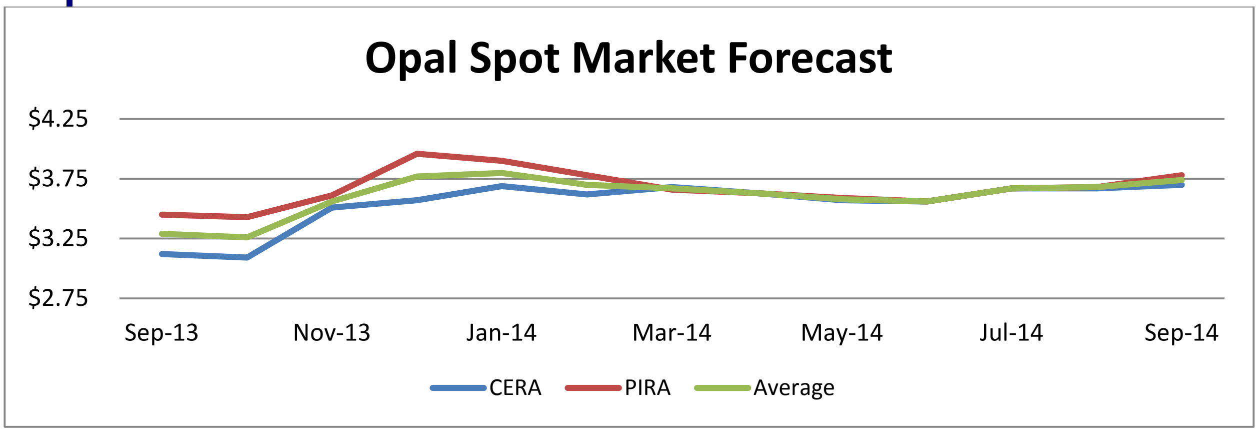
Figure 1



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 September 2014 by these two forecasting entities.

[11] Arithmetic average of PIRA and CERA forecast from September 2013 to September 2014 used in pass-through application.

Figure 2



Pricing Hedges

Historically, the Wexpro production and Questar's gas storage practices play an important role in Questar's plan to "hedge" against natural gas price volatility while meeting its overall supply plan. These practices generally allow Questar 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 months. The net well head weighted cost of this production is $4.13/Dth[12], which is a decrease of $0.43/Dth from the previous filing in Docket No. 13-057-03. The average net cost of the Wexpro production including the gathering cost is $4.35/Dth[13] compared to the projected weighted average cost of purchased gas of $3.97/Dth.[14] The remaining requirement will be purchased using a combination of contract and spot market purchases. Questar gas supply management has current contracts for approximately 45% of the purchased gas requirement.[15].

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 tariffs. These costs are associated with gathering and processing the Wexpro gas

[12] 13-057-07, Exhibit 1.4, Page 1, Column D, Line 3.
[13] 13-057-07, Exhibit 1.4, Page 1, Column D, Line 5.
[14] 13-057-07, Exhibit 1.4, Page 1, Column D, Line 6.
[15] 13-057-07, Exhibit 1.2, Column B, (Line 3 / Line 6).

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.

Questar projects total SNG costs, in this filing, to be $96,204,739.[16] At current rates, SNG revenues that will be collected are projected to be $93,234,881[17] leaving an under collected balance of $2,969,858.[18] In this filing, the Company is requesting a 3.20%[19] increase in the SNG rates in order to adjust for this under collection.

On May 1, 2012, Questar Gas Company filed a legal action against QEP Field Services Company, a subsidiary of QEP Resources, Inc. 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. The charges under the SWGA are included in Questar Gas's rates as 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 an impact on future rates. As of the date of this memo, the cumulative difference is estimated at $6.1 million. 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

---

[16] 13-057-07, Exhibit 1.6, page 2, Column D, Line 1.
[17] 13-057-07, Exhibit 1.6, page 2, Column D, Line 4.
[18] 13-057-07, Exhibit 1.6, page 2, Column D, Line 5.
[19] 13-057-07, Exhibit 1.6, page 2, Column D, Line 7.

DPU Exhibit 1.1, lines 50-56 show the net changes requested in this docket from the current rates. Based on the proposed rates, a typical GS residential customer will realize a decrease in their annual bill of $26.60 for a decrease of 3.71% in annual gas costs.

DOCKET NO. 12-057-08 - CONSERVATION ENABLING TARIFF (CET)

Unlike the SNG and commodity rate changes in Docket No. 13-057-07 that affect the rates for all firm sales customers, the rate changes requested in Docket No. 13-057-08 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 under-collected balance of $114,165[20] in the CET deferral account, which is the balance in Account 191.9 as of July 31, 2013. In the previous filing under Docket No. 12-057-09, the Company was amortizing an over collected balance of $2,671,059.[21]

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 increase in the GS DNG Block 1 rate is $0.02875 /Dth for the summer rate and $0.03413 /Dth for the winter rate as shown in DPU Exhibit 1.1.[22]

Effect on a typical GS Customer

If approved by the Commission, a typical GS rate class customer would see an increase in their annual bill of approximately $2.56 or 0.36%.

DOCKET NO. 13-057-09 – DEMAND SIDE MANAGEMENT (DSM) REQUEST TO AMORTIZE THE ENERGY EFFICIENCY DEFERRED ACCOUNT BALANCE

The Division has reviewed the filing along with the attached Exhibits 1.1 through 1.3 and agrees with the methodology used by the Company to request an increase in the current amortization amount. The Company is proposing to increase the amortization level from $24.4 million to $37.7 million which should accommodate the increase in recent participation and pay down the previous balance.

---

[20] 13-057-08, Exhibit 1.1, Column F, Line 14.
[21] 13-057-08, Exhibit 1.1, Column F, Line 1.
[22] DPU Exhibit 1.1, Columns B & D, Line 44.

Rate Details

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. 11-057-04 which included a three year amortization of the existing balance in that account. In the current budget year, the weatherization program has seen in increase in the participation level and has exceeded the projected budget amount. The recent increase is due to enhanced marketing efforts by insulation contractors. It is estimated that the proposed amortization rate satisfy the over budget amount in the current year and will draw the account balance to zero by the spring of 2014.

Effect on a typical GS Customer

If approved by the Commission, a typical GS rate class customer will see an increase in their annual bill of $10.94 per year or 1.53%. The proposed increase in the DSM amortization offsets approximately 41% of the decrease in the commodity cost identified in Docket 13-057-07.

<u>DOCKET NO. 13-057-10 - LOW INCOME ASSISTANCE TARIFF RATE</u>

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. The Division has reviewed the filing and exhibits and agrees with calculations presented in Questar's Exhibit 1.2 of this filing. The Division supports the request to change the current low income assistance rate component of the DNG rates of all rate schedules and agrees with the increased credit amount for qualifying participants.

Rate Details

In Docket No. 10-057-08, the Commission authorized the Company to establish an Energy Assistance Program and maintain a target funding level of $1.5 million per year. Due to a $51,434 over-collection in prior years and lower than anticipated participation during the last 12 months, this account has an outstanding balance of $456,360.[23] Exhibit 1.1 of this filing details

[23] Docket No. 13-057-10, Exhibit 1.1, Column F, Line 14.

the accounting entries into the 191.8 low income balancing account for year 1 and 2 along with the monthly entries for year 3 ending July 2013.

Due to the outstanding balance, this filing requests an increase in the credit amount that will be paid to qualifying participants from $41.00 to $61.50. The number of participants has been decreasing each year from 35,000 in year 1 to 29,000 in year 3. It is unclear if the improving economy or recent changes in the HEAT administration program have caused the lower participation. The proposed credit assumes approximately 31,000 participants in the next 12 months. Exhibit 1.2 column (F) shows the new low income assistance rate for each rate class.

The Division supports the Company's filing in Exhibit 1.2, 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 an effective date of October 1, 2013.

Effect on a typical GS Customer

The effect of this change in the low income assistance rate for a typical GS residential customer is a decrease their annual bill of $0.08.

DOCKET NO. 13-057-11 - 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 has reviewed the tariff sheets attached as exhibit 1.5 as well as the exhibits showing the calculations, filed with the Commission on September 3, 2013, and agrees with the methodology used by the Company. Exhibits 1.1 through Exhibits 1.4 of the filing support the request to increase the current infrastructure rate adjustment component of the DNG rates of all rate schedules in the Utah Natural Gas Tariff.

Exhibit 1.1 provides a monthly accounting of the infrastructure replacement program. As of August 2013, this account had an accumulated plant balance of $168,858,810[24] and a calculated revenue requirement of $19,498,585.[25] This represents a $3,589,487 million increase in the revenue requirement from the previous filing.[26] Exhibit 1.2 details the spread of the $19.5 million to the rate classes based on the same spread of the revenue requirement ordered in the Company's last rate case in Docket No. 09-057-16.

Exhibit 1.3 details the new infrastructure rate component calculation of the DNG rates for each rate schedule in order to collect the $19.5 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 Exhibit 1.4, the effect of this increase on a typical GS residential customer's annual gas bill is an increase of $3.05 or 0.43%.

SUMMARY AND CONCLUSION

DPU Exhibit 1.2 combines the effect of all five applications. If the Commission approves all 5 applications, a typical GS rate class residential customer whose annual usage is 80/Dth will see a combined net decrease in their annual bill of $10.01 or 1.40%.

As stated above, the primary reason for the decrease in rates is due to the lower forecast for natural gas prices. It is hoped that the forward prices will remain relatively stable, but, as history has shown, conditions and forecasts can change very rapidly. As always, the Division will continue to monitor the published monthly index prices[27] and compare them to the prices used in

---

[24] Docket No. 13-057-11, Exhibit 1.1, Page 5, Column AL, Line 68.
[25] Docket No. 13-057-11, Exhibit 1.1, Page 8, Line 11.
[26] Docket No. 13-057-11, Exhibit 1.1, Page 8, Line 13.
[27] Published monthly in Platts "Inside FERC's Gas Market Report."

this pass-through filing to see if any trend develops that may warrant an out-of-period filing by the Company.

The Division supports and recommends the rate changes requested in Docket Nos. 13-057-07, 08, 09, 10 and 11be approved by the Commission. The proposed rates are just and reasonable and in the public interest. With the exception of Docket 13-057-10, 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.

Cc: Barrie McKay, Questar Gas Company
Kelly Mendenhall, Questar Gas Company
Austin Summers, Questar Gas Company
Mike Orton, Questar Gas Company
Michele Beck, Office of Consumer Services
Maria Martinez, Division of Public Utilities
Francine Giani, Department of Commerce