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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,
Artie Powell, Energy Manager
Charles Peterson, Technical Consultant
Doug Wheelwright, Technical Consultant

DATE: March 17, 2014

RE: 14-057-03 Questar Gas Intercompany Loan Activity

I. RECOMMENDATION – No Action

Based upon the following analysis, the Division finds that Questar Gas is in compliance with the guidelines identified in Docket No. 85-057-09. The Division recommends that the Commission take no action.

II. ISSUE

On February 4, 2014, Questar Gas Company (QGC) filed a report with the Commission showing the Intercompany loan activity with Questar Corporation as of January 31, 2014. The filing included the loan balance and the supporting interest calculations. On February 13, 2014, the Commission issued an Action Request to review for compliance with the Commission order issued under Docket No. 85-057-09. This memo is the Division response to the Action Request.

III. ANALYSIS

In Docket No. 85-057-09, Mountain Fuel Supply Company was approved to make short-term loans to its parent, Questar Corporation, under certain limited conditions. Loans to the parent company would provide Mountain Fuel with the opportunity to earn an interest rate on excess

cash that was at least as favorable as the interest rate that could be earned using other short-term investments. The interest rate for loans to Questar Corporation would be set by determining a “market borrowing rate” for short-term loans and a “market investment rate” for investments available to Mountain Fuel. These two rates would be summed together and averaged to calculate an “intercompany interest rate”. By averaging the borrowing and lending rates, Mountain Fuel would receive interest from loans to Questar Corporation at a rate that is slightly higher than the “market investment rate”. Questar Corporation would in turn pay interest on short-term loans at a rate that is slightly lower than the “market borrowing rate”.

The December 2013 Form 10-K annual report for Questar Corporation identifies intercompany short-term debt as follows;

Questar centrally manages cash. Questar makes loans to Questar Gas and Questar Pipeline under a short-term borrowing arrangement. Amounts loaned earn an interest rate that is identical to the interest rate paid on amounts borrowed. The rate is adjusted monthly based on prevailing short-term market interest rates.¹

In the past it has been more common for Questar Corporation to lend money to Questar Gas on a short term basis however, as of January 31, 2013, Questar Gas had excess cash and was the lender. There is an error in the February 4, 2014 filing letter which indicates a \$3.2 million loan from the Questar Corporation to Questar Gas. Page 3 of the filing documents indicates the exact opposite transaction or a \$3.2 million loan from Questar Gas to Questar Corporation and the need to file this report with the Commission.

Short term borrowing between the operating entities will fluctuate from month to month based on operating needs. Just one month earlier on December 31, 2013, Questar Gas had a note payable to Questar Corporation of \$17.7 million or a difference of \$20.9 million in a 30 day period.

The intercompany interest rate is calculated the same for both the borrowing and the lending entities and is shown in detail on page 2 of the application. The investment rate is calculated as

¹ Questar Corporation, Form 10-K Annual Report, December 31, 2013, p. 77.

the average of four short term (1 month) money market rates at 0.05%. The borrowing rate is calculated as the average of four short term (1 month) lending rates at 0.44%. The average of the short term investment rate and the short term borrowing rate establishes the intercompany rate at 0.25%. The intercompany interest rate is calculated each month and will change based on the current market conditions. It appears that the Company is consistent in the way it is calculating the applicable interest rate and is following the guidelines established in the previous Commission order.

IV. CONCLUSION

The Division has reviewed the information filed in this Docket and finds that Questar Gas is in compliance with the guidelines identified in Docket No. 85-057-09. The Division recommends that the Commission take no action.

cc: Barrie McKay – Questar Gas
 Michele Beck – Office of Consumer Services