State of Utah
Department of Commerce
Division of Public Utilities

FRANCINE GIANI
Executive Director

THOMAS BRADY
Deputy Director

CHRIS PARKER
Director, Division of Public Utilities

GARY HERBERT
Governor

SPENCER J. COX
Lieutenant Governor

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: April 16, 2014

RE: Docket No. 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 March 14, 2014, Questar Gas Company (QGC) filed a report with the Commission showing the Intercompany loan activity with Questar Corporation as of February 28, 2014. The filing included the loan balance and the supporting interest calculations. On March 17, 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, since January 31, 2014, Questar Gas has provided loans to Questar Corporation due to an excess cash position. Questar Gas is currently in an excess cash position due to the seasonality of the business and due to the recent issuance of additional long term debt. In December 2013, Questar Gas issued a $90 million 30 year bond with an interest rate of 4.78% and a $60 million 35 year note with an interest rate of 4.83%. Notes were issued in December to take advantage of the attractive long term interest rates. Based on the 2009 order from the Commission, Questar Gas is required to file a report with the Commission when the Company is lending funds to the Corporation.

As of February 28, 2014, the loan amount to Questar Corp was $20.2 million which is an increase from the $3.2 million loan balance as of January 31, 2014. The intercompany interest rate is calculated the same for both the borrowing and the lending entities and is shown in detail

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

on page 2 of the filing. The investment rate is calculated by taking the average of four short term (1 month) money market rates and is calculated to be 0.0825% for the period under review. The borrowing rate is calculated by taking the average of four short term (1 month) lending rates and is calculated to be 0.3988% for the period under review. The borrowing rate and the lending rate are then averaged to determine the intercompany lending rate of 0.24% for the period. The intercompany interest rate is calculated each month and will change based on the current market conditions and fluctuations in the interest rates. 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. It is anticipated that Questar Gas will be in a positive cash and lending position through at least the second quarter of 2014 and will be filing monthly reports with the Commission.

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