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Department of Commerce
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
Doug Wheelwright, Technical Consultant

DATE: May 16, 2014

RE: Docket No. 14-057-03, Questar Gas Intercompany Loan Activity

RECOMMENDATION – Review the procedures and practices

Based upon the following analysis, the Division finds that Questar Gas is in compliance with the guidelines identified in Docket No. 85-057-09. Due to the amount of time that has elapsed since intercompany lending has been reviewed and with the organizational changes that have occurred within Questar Corporation, the Division recommends that the Commission open a new docket to examine and review the current intercompany lending procedures and practices. The Division does not have any recommendations to change the current intercompany lending program and concludes that ratepayers are not harmed under the current structure. The recommended review before the Commission is intended to provide an update to the current approval which will better reflect the current lending practices and the use of a revolving note for short-term lending to Questar Corporation.

ISSUE

On April 14, 2014, Questar Gas Company (QGC) filed a report with the Commission showing the Intercompany loan activity with Questar Corporation as of March 31, 2014. The filing included the loan balance and the supporting interest calculations. On April 23, 2014, the

Commission issued an Action Request to review for compliance with the Commission order issued under Docket No. 85-057-09. Additional questions were included with the Action Request concerning the Company's compliance with the filing requirements and changes that have occurred in the corporate structure since the approval of these guidelines in 1985. This memo is the Division response to the Action Request.

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;

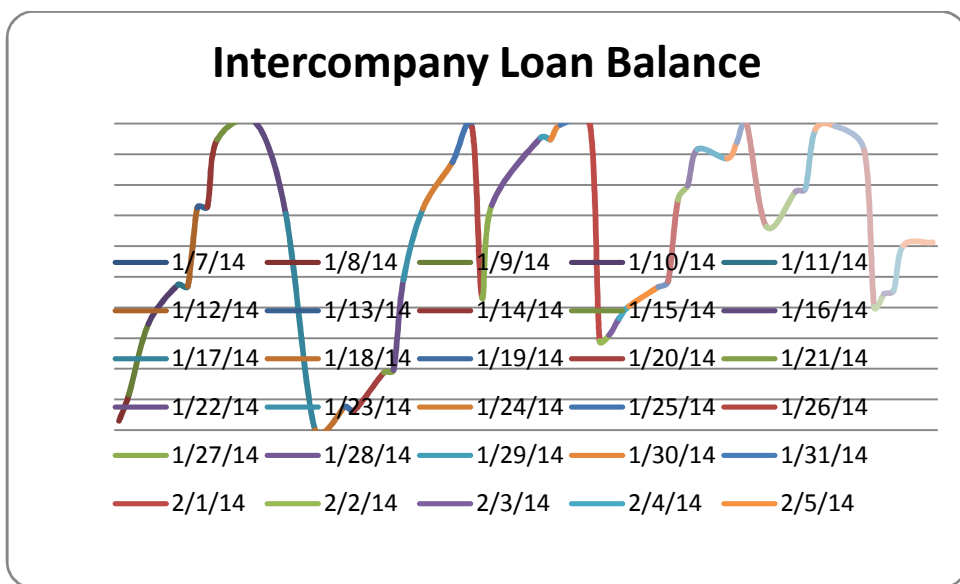
Questar (Corp) centrally manages cash. Questar makes loans to Questar Gas and Questar Pipeline under a short-term borrowing arrangement. Amounts loaned earn an interest rate that is identical to the interest rate paid on amounts borrowed. The rate is adjusted monthly based on prevailing short-term market 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 the recent issuance of additional long term debt. In

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

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 available at that time. Based on the 1985 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 March 31, 2014, the loan amount to Questar Corp was \$30.6million which is an increase from the \$20.2 million as of February 28, 2014 and the \$3.2 million loan balance as of January 31, 2014. While it appears that the outstanding balance has grown over the past 90 days, the investment log included with the filing provides a different perspective with advances and repayment occurring on a regular basis. The investment log and the chart below show the outstanding balance of the intercompany loan from January 7, 2014 through March 31, 2014. The chart provides a visual comparison of how the balance has fluctuated over the 90 day period with both advances and repayment. Over the 90 day period, there were five times when the loan amount has reached or has been very close to the \$50 million maximum amount with subsequent repayments. With cash managed at the corporate level, the intercompany loan balance is functioning similar to a revolving line of credit as opposed to individual notes with specific repayment terms.



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 filing. The investment rate is calculated by taking the average of four short term (1 month) money market rates and is calculated to be 0.075% 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 0.3503% for the period under review. The borrowing rate and the lending rate are then averaged to determine the intercompany lending rate of 0.43% for the period ending March 31, 2014. The intercompany interest rate is calculated each month and will change based on the current market conditions which will fluctuate with the change in market 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 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 to report the current balance.

As part of the approval in the 1985 order, the Commission identified specific conditions that were required for the intercompany lending program as follows:

- a) The term of any loan to Questar shall not exceed 90 days
- b) All borrowing will be supported by a promissory note
- c) No new loans would be advanced if the Company had any short term borrowings
- d) Interest would be payable at a per annum rate at least as favorable as could otherwise be earned on similar investments²

Since the current lending is functioning as a revolving line as opposed to single individual notes, the Company has executed a Subordinated Promissory Note for \$50 million dated June 10, 2010. A copy of the promissory note has been included as Attachment 1. The demand note identifies the total loan amount and the intercompany interest rate calculation. Attachment 2 is a copy of the Revolving Grid Promissory Note executed on January 1, 2014. This document identifies the \$50 million loan amount and the maximum term of 90 days. The daily balance of the loan has been provided in the InvestmentLog included with the filing. The log indicates that the loan was paid down and had a \$0 balance as of January 27, 2014 followed by additional advances and

² Docket No. 85-057-09, Report and Order, October 11, 1985, p. 6

repayment. As of March 31, 2014, no funds have been advanced beyond 90 days and the Company has no short term borrowing.

In addition to the requirements specified above, the order identified 5 additional items that should be included for regulatory oversight of the lending activity:

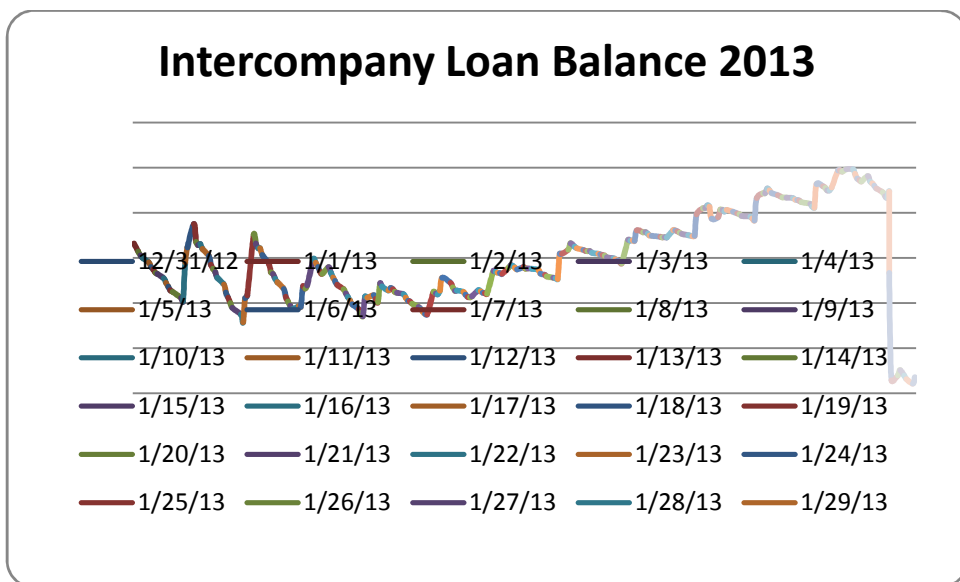
- a) Date of loans
- b) Amount of loans
- c) Loan rate and details of its calculation
- d) Length of loan
- e) Date of repayment and current balance³

As mentioned above, the current loan structure is similar to a revolving note with periodic advances and repayment. The amount of each advance, the current balance and any repayment amount is identified by date on the Investment Log included with the filing. While the specific loan length is not identified for each advance, the promissory note identifies that this is a demand note with a maximum period of 90 days. The Division has also verified that each advance have been approved by the Treasurer as required by the Promissory Note. Electronic approval by the Chief Financial Officer with a date and time stamps are recorded for each advance. While the current lending structure is different than having individual notes as anticipated in the 1985 approval, the Company has provided documentation to support compliance with the order.

The Action Requestasked for additional analysis to determine if the intercompany loan program is still in the best interest of the Questar and its utility customers. It has been nearly 30 years since the Commission issued the order on intercompany lending and many things within the Company and within the lending environment have changed since the order was issued. While the Division concludes that the Company is generally in compliance with the broad terms identified in the 1985 order, a revolving line is a different financing structure than what was anticipated in the 1985 order. The program has worked well and historically has provided Questar Gas with a source of funds for short term borrowing compared to short term lending. Prior to the January 2014 filing, the last time the Company was lending to the Corporation was in 2009. When the Company is in a borrowing position, the interest rate paid is lower than the

³ Docket No. 85-057-09, Report and Order, October 11, 1985, p. 7

prevailing borrowing rate and when in a lending position, the interest rate earned is higher than the prevailing short-term saving rate. Below is a graph showing the intercompany loan balance for Questar Gas for the calendar year 2013. The graph shows a similar pattern of advances and repayments throughout the year with a significant reduction at the end of 2013 due to the long term financing. During 2013, the loan balance from Questar Corp to Questar Gas shows an average balance of approximately \$150 million with an average interest rate of approximately 0.32%.



Questar Gas has benefitted by this lending arrangement by borrowing larger amounts than it has loaned to the Corporation. It is anticipated that a similar pattern of borrowing from the corporation will resume in the 3rd quarter of 2014. As mentioned above, the current cash position was the result of issuing long-term 30 and 35 year debt at the end of 2013 at favorable rates. While this has caused excess cash for a few months, the favorable long term interest rates on the new debt will be a benefit to ratepayers in future years in the form of lower interest expense.

CONCLUSION

The Division has reviewed the information filed in this Docket and finds that Questar Gas is generally in compliance with the guidelines identified in Docket No. 85-057-09. Due to the

amount of time that has elapsed since intercompany lending has been reviewed and with the organizational changes that have occurred within Questar Corporation, the Division recommends that the Commission open a new docket to examine and review the current intercompany lending procedures and practices. The Division does not have any recommendations to change the current intercompany lending program and concludes that ratepayers are not harmed under the current structure. The recommended review before the Commission is intended to provide an update to the current approval which will better reflect the current lending practices and the use of a revolving note for short-term lending to Questar Corporation.

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