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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
Doug Wheelwright, Technical Consultant

DATE: June 18, 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. As mentioned in the previous memos, the Division recommends that the Commission open a new docket to examine and review the current intercompany lending procedures and practices. The recommended review before the Commission is intended to provide an update to the current approval which will better reflect the total dollar amount and the current lending practices for short-term lending to Questar Corporation.

ISSUE

On June 11, 2014, Questar Gas Company (QGC) filed a report with the Commission showing the Intercompany loan activity with Questar Corporation as of May 31, 2014. The filing included the daily loan balance and the supporting interest calculations. On June 12, 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's 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”.

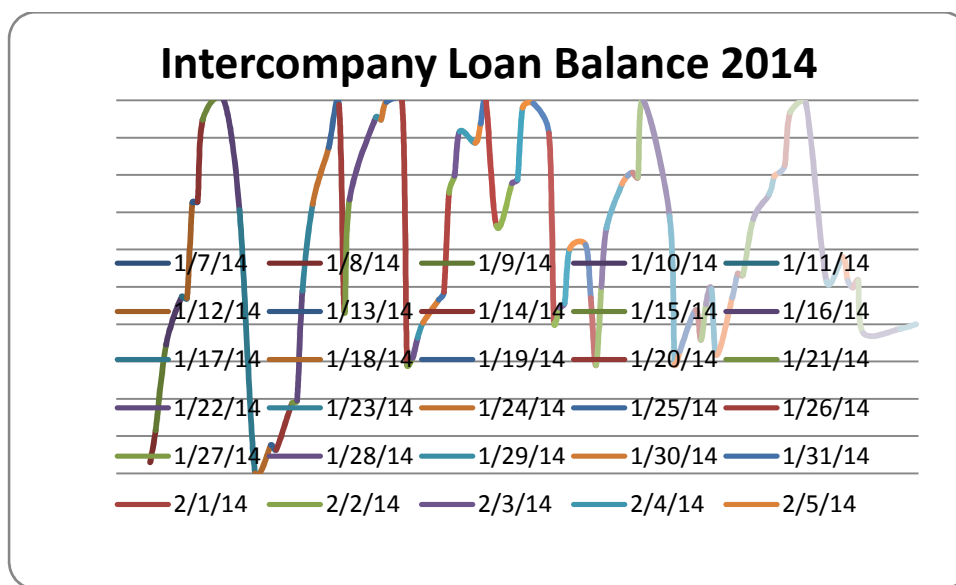
The December 2013 Form 10-K annual report for Questar Corporation identifies intercompany short-term debt as follows;

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 7, 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 December 2013, Questar Gas issued a \$90.0 million 30 year bond with an interest rate of 4.78% and a \$60.0 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 Commission order, Questar Gas is required to file a report when the Company is lending funds to the Corporation.

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

As of May 31, 2014, the loan amount to Questar Corp was \$19.4 million which is a reduction from \$26.6million as of April 30, 2014. While this is a reduction from the previous month, the balance fluctuated from a high of \$49.6 million to a low of \$18.8 million within the last 30 days. The intercompany lending facility operates and is used like a revolving line of credit as opposed to individual notes with specific repayment terms. The investment log identified as Attachment 4 of the filing shows the outstanding balance of the intercompany loan from January 7, 2014 through June 4, 2014 with the balance changing almost on a daily basis. Since the first advance in January, there have been seven times when the loan amount has reached or has been very close to \$50.0 million with subsequent repayment. The chart below provides a visual comparison of how the balance has fluctuated with both advances and repayment.



The performance of the outstanding loan has been consistent with previous months, however the documentation has recently changed. On May 12, 2014 the Company executed a new Subordinated Promissory Note and a new Revolving Grid Promissory Note. The new documents increase the total allowed intercompany loan amount from \$50.0 million to \$150.0 million.

The 1985 order specifies that loans to Questar Corp. will not exceed the greater of \$50.0 million or 13% of net utility plant and previous documents identified \$50.0 million as the maximum lending amount. As of December 31, 2013 the net plant as reported in the 10K report is \$1.458

billion. Based on the 13% calculation approved in the 1985 order, the Company could lend up to \$189.5 million to Questar Corp. Copies of the current Revolving Grid Promissory Note and Subordinated Promissory Note reflecting the increased amounts have been included with this memo as Attachment1. While these guidelines were approved in the 1985 order, the increase in the total dollar amount along with the change to a revolving line of credit should be reviewed by the Commission.

The intercompany interest rate is calculated the same for both the borrowing and the lending entities and is shown in detail on Attachment 3 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 0.0775% 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 0.3501% for the period under review. The borrowing rate and the lending rate are then averaged to determine the intercompany lending rate of 0.22% for the period ending May 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.

Since the current lending is functioning as a revolving line as opposed to single individual notes, funds are advanced and repaid on a regular basis. With funds flowing in and out of this account, there is no specific repayment term specified. Assuming that each repayment amount is used to retire the most senior advance, the longest time that funds are outstanding has been calculated to be 28 days. Based on the revolving nature of the loan arrangement, no funds have been advanced beyond 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.

The intercompany lending 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 prevailing borrowing rate and when in a lending position, the interest rate earned is higher than the prevailing short-term saving rate. 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.

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.

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
 Kelly Mendenhall – Questar Gas
 Michele Beck – Office of Consumer Services