



GARY HERBERT.
Governor
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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

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: May 23, 2014

Subject: Questar Gas, Docket Nos.
14-057-09 - 191 Account Pass-Through,
14-057-10 - Conservation Enabling Tariff,

RECOMMENDATION:

After a preliminary review of the applications, the Division recommends the Commission approve on an interim basis, the requested rate changes in Docket Nos. 14-057-09 and 14-057-10 with an effective date of June 1, 2014. The interim approval will allow additional time for the Division to complete an audit of the individual entries in the respective accounts. Specific information concerning Docket No. 14-157-10, the Conservation Enabling Tariff, will be provided under a separate memo.

ISSUE:

On May 5, 2014, Questar Gas Company (Company) filed the two applications identified above with the Public Service Commission (Commission) and the Commission issued Action Requests to the Division of Public Utilities. This memo is part of the Division's response to the Action Requests.

Docket No. 14-057-09 – The 191 Account Pass-Through asks for Commission approval to increase the commodity rate components of Questar’s Utah natural gas rates by \$88,121,000 and decrease the supplier non-gas cost rate components by \$4,271,000 for a total increase of \$83,849,000. Based on current gas cost rates in the GS Rate class, if approved individually, a typical GS residential customer will see an increase of \$64.44 in their annual bill.

Docket No. 14-057-10 – The Conservation Enabling Tariff (CET) is a request to amortize the March 2014 (over collected) credit balance of \$12,946,673 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 a decrease of \$12.83 in their annual bill.

If both applications are approved a typical GS residential customer will see a combined net increase in their annual bill of approximately \$51.61, or 7.23%.

**DOCKET NO. 14-057-09 COMMODITY GAS COST AND SUPPLIER NON-GAS COSTS
(191 Account Semi Annual Pass-Through)**

This filing is based on projected Utah gas costs of \$637.506 million¹ for the forecast test year ending May 31, 2015. The commodity portion represents an increase of \$88.121 million and is due to an increase in the actual cost of gas purchased and to an increase in the forecast price for natural gas in the test period. Approximately 26.4% of the increase or \$23.289 million² is due to actual gas costs from prior periods which were higher than the forecast gas costs which were used to set rates. The increase in the historical gas price was due to colder than normal weather conditions that occurred in many areas of the United States in December and January. The “Polar Vortex” weather condition resulted in some of the lowest temperatures recorded in major population areas of the United States in the past 20 years. Below normal temperatures over a large portion of the United States placed greater pressure on peak-day demand for natural gas, with little recovery time between the extreme cold periods. Seven of the 10 highest demand days in the U.S occurred in January 2014.³

¹ Application, Page1, Paragraph 2.

² Exhibit 1.6, Page 1, Footnote 4.

³ Winter price volatility viewed as a start of multiyear trend, not one-off experience, SNL Exclusive, April 16, 2014.

The increase in the forecast price of natural gas for the test period has been attributed to the low levels of gas currently available in storage. Due to the extreme temperatures of the past winter, storage levels have been depleted and storage inventories are more than 800 Bcf below the normal levels in the US. The increased demand to refill depleted storage has caused an increase in the current and forecast price of natural gas.

The increase in the price of natural gas commodity portion of the rates is partially offset by a \$4.271 million⁴ decrease in the supplier non-gas component of rates for a net increase of \$83.850 million for firm sales customers. The details of the decrease in SNG cost are discussed below.

The combination of these two changes results in an increase in the commodity rate from \$4.43/Dth⁵ to \$5.28/Dth⁶ for a net increase of \$0.85/Dth from the previous filing.

Gas Supply

For the test year, June 2014 through May 2015, the Company expects a total system requirement of 116.864⁷ million Dths. Of the total amount, 110.788⁸ million Dths will meet the projected sales requirement, 0.337⁹ million Dths will be placed into storage and 5.739 million Dths for gas volume reimbursement due to gathering, transportation and distribution fuel and shrinkage. The total expected fuel cost for the test period is \$660.585 million.¹⁰ Of the total gas requirement, 63.69%¹¹ will be satisfied from the Wexpro cost of service production, 15.86%¹² will be satisfied under purchase contracts and 20.45%¹³ will be purchased with spot market transactions.

The total cost of service gas production from Wexpro calculates to a total cost of \$370.202 million at an average cost of \$4.97 per Dth.¹⁴ With the addition of the recent Trail acquisition,

⁴ Application, Page 1, Paragraph 2.

⁵ Exhibit 1.6, Page 1, Column E, Line 11.

⁶ Exhibit 1.6, Page 1, Column D, Line 11.

⁷ Exhibit 1.4, Page 2, Column B, Line 3.

⁸ Exhibit 1.6, Page 1, Column E, Line 6.

⁹ Exhibit 1.4, Page 2, Column B, Line 4 + Line 5.

¹⁰ Exhibit 1.4, Page 1, Column B, Line 17.

¹¹ Exhibit 1.4, Page 2, Column B, (Line 1 / Line 3).

¹² Exhibit 1.2, Column B, Line 3 / Exhibit 1.4, Page 2, Column B, Line 3.

¹³ Exhibit 1.2, Column B, Line 4 / Exhibit 1.4, Page 2, Column B, Line 3.

¹⁴ Exhibit 1.4, Page 1, Column D, Line 12.

the cost of service production is being separated as Wexpro I and Wexpro II. This separation will allow the Company and the Division to monitor and compare the cost and production under the separate agreements. The Wexpro I production has a projected cost of \$349.484 million Dth at an average cost of \$5.01.¹⁵ The Wexpro II production has a projected cost of \$24.932 million Dth at an average cost of \$5.40¹⁶ including the gathering cost. The cost of service gas production includes the operator service fee (OSF) paid to Wexpo. As part of audit and review of the 191 account, the Division is reviewing the calculations and costs associated with the increase in the OSF in recent years. The Division will continue to monitor the OSF as well as other costs and will present any findings to the Commission.

The purchased gas from third parties has a projected cost of \$206.688 million at an average cost of \$4.87.¹⁷ With the recent increase in the market price, there is a difference of \$0.10 per Dth between Wexpro and third party purchases. The difference in price between purchased gas and produced gas is a decrease from \$0.38 in the previous filing.

Natural Gas Prices

Since the Commission approved the last pass-through request, (Docket No. 13-057-07) actual and forecast prices have increased from the previously forecasted prices. The Company utilizes an average forward looking thirteen month forecast spot price of \$4.68/Dth¹⁸ compared to \$3.61/Dth in the previous filing. Chart 1 below, compares the actual first of month spot prices for natural gas at Opal, Wyoming to the forecast prices used in the previous two pass-through applications in Docket No. 13-057-03 and Docket No. 13-057-07. The two previous forecasts have been included to show how the forecasts change over time and to show the difference between the fall and spring pass-through filings. The actual first of the month (FOM) average price has been included to show the spike in the market price that occurred in January. The historical price cost can also be compared to forecast price used in the previous case to set rates.

¹⁵ Exhibit 1.4, Page 1, Column D, Line 5.

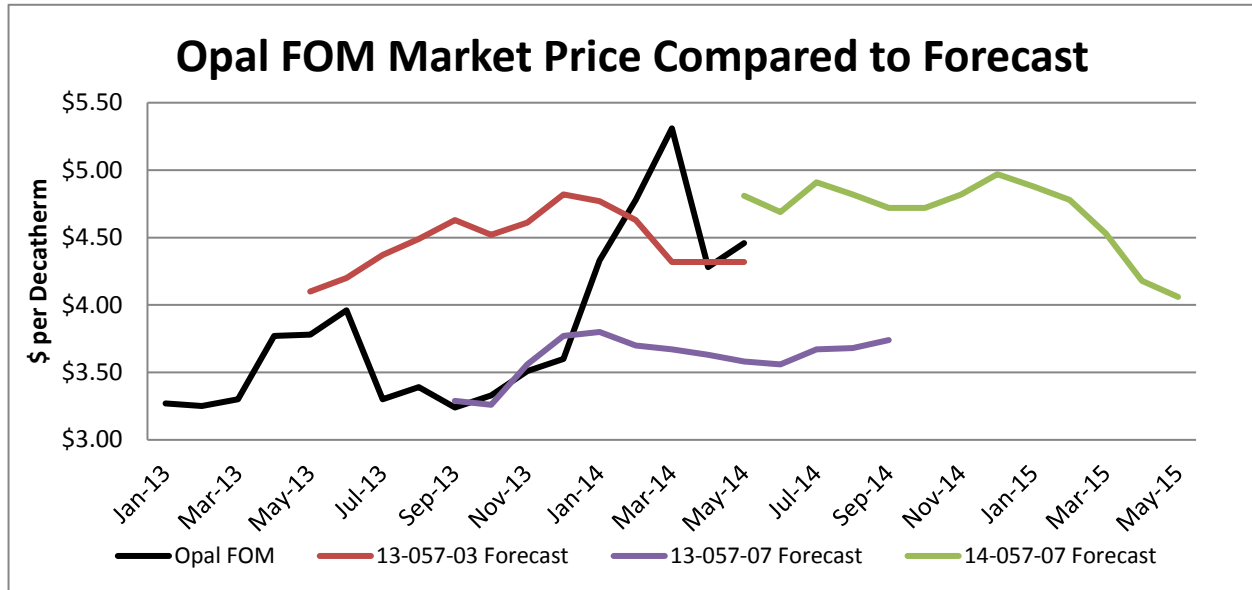
¹⁶ Exhibit 1.4, Page 1, Column D, Line 10.

¹⁷ Exhibit 1.4, Page 1, Column D, Line 13.

¹⁸ Arithmetic average of PIRA and CERA forecast from September 2013 to September 2014 used in pass-through application.

The forecast price estimate used in Docket No. 13-057-07 compares favorably to the actual price until the extreme weather conditions occurred in January 2014.

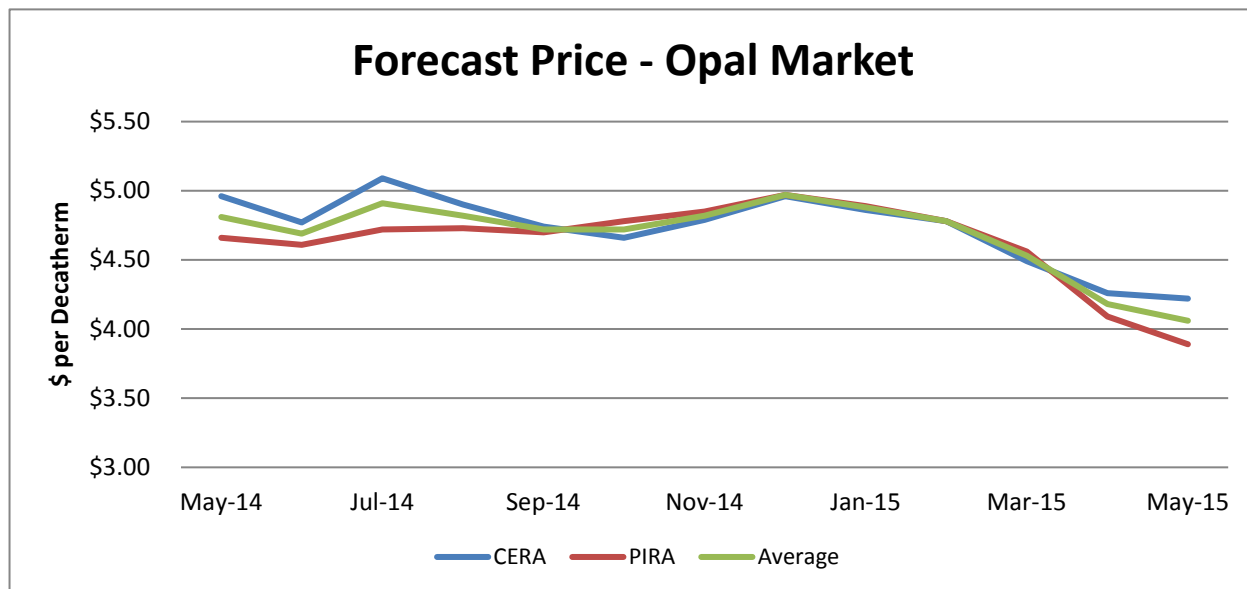
Chart 1



The forecast price used indicates a higher forecast prices than the FOM price as of May 1, 2014. The higher forecast may be due to the seasonality of the forecast period and could be influenced by the date of the forecast was drawn. The forecast from Docket 13-057-03 (spring filing) shows a higher price forecast compared to Docket 13-057-07 (fall filing) when inventory and storage levels are more certain going into the winter heating season. The forecast used as a basis for the gas costs in this application, anticipate prices under \$5 per Dth through the heating season followed by a drop in price during the warmer months.

The Company price forecast is based on an average of future price projections by two different forecasting entities, Cambridge Energy Research Associates, Inc. (CERA) and PIRA Energy Group (PIRA). The two price forecasts for CERA and PIRA and the average are displayed in Chart 2. Both forecasts indicate a relative consensus on the stability of natural gas prices through May 2015 by these two forecasting entities.

Chart 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 but does not eliminate the need to purchase gas in the winter months. Questar gas supply management has current contracts for \$18.530¹⁹ million or approximately 43.7% of the purchased gas requirement. The balance of the purchase gas requirement will be satisfied with spot market transactions.

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

¹⁹ 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 to be \$98.798 million.²⁰ The current SNG balance in the 191 account is over collected by \$5.896 million²¹ for a net amount to be collected of \$92.901 million.²² At current rates, the SNG revenues that will be collected is projected to be \$97.172 million²³ leaving an over collected balance of \$4.271 million.²⁴ In this filing, the Company is requesting a 4.41%²⁵ decrease in the SNG rates in order to adjust for the projected over collection.

Comparison to Previous Filing

A significant increase in the volume of cost of service production was identified by comparing the totals in Exhibit 1.1 with the previous filing. Additional production from new wells in the Pinedale and the Bruff Area has been verified with reports of new well approvals provided by the Hydrocarbon Monitor. The Company indicated that the increased production from Canyon Creek is due to a recently completed compression project in the area and the increase in the Church Buttes area was due to “workovers” of existing wells.

Exhibit 1.4, page 1 of each pass-through filing is a summary of the test year related costs and revenue. In order to provide a comparison of cost changes from that occur, the Division has included DPU Exhibit 1.1 with this memo. This exhibit provides a comparison of the test year cost submitted in this filing with the costs of the previous 5 pass-through filings. Page 3 of Exhibit 1.4 identifies other revenue from royalties and oil sales. Line 7 and 15 of the current filing include no revenue from oil sales in account 495-2. This is a change from previous filings and the Company has indicated that the revenue loss is due to the calculation of the price

²⁰ Exhibit 1.6, page 2, Column D, Line 1.

²¹ Exhibit 1.6, page 2, Column D, Line 2.

²² Exhibit 1.6, page 2, Column D, Line 3.

²³ Exhibit 1.6, page 2, Column D, Line 4.

²⁴ Exhibit 1.6, page 2, Column D, Line 5.

²⁵ Exhibit 1.6, page 2, Column D, Line 7.

difference between gas and oil. The Division is working with the company to verify the calculations and will report back to the Commission if necessary.

Legal Action with QEP

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 (SWGGA), 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 SWGGA. The charges under the SWGGA 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 SWGGA. Questar Gas has been paying a reduced gathering charge to QEP since June 2012. Due to the extended court proceeding, this issue may not be resolved for some time. If the court rules in favor of QEP, Questar Gas could be required to pay the higher gathering charge from June 2012 until this issue is resolved. As of the date of this memo, the cumulative difference between what is currently being billed by QEP and what being paid by Questar Gas is estimated to be \$9.7 million.

Effect on a typical GS Customer

Based on the proposed rates, if approved individually, a typical GS residential customer will realize an increase in their annual bill of \$64.43 for an increase of 9.03% in annual gas costs. If the Commission approves both applications, a typical GS rate class residential customer whose annual usage is 80/Dth will see a combined net increase in their annual bill of \$51.61 or 7.23%. DPU Exhibit 1.2 shows the net changes requested and the change from the current approved rates.

SUMMARY AND CONCLUSION

The primary reason for the increase in rates is due to higher historical gas cost and higher forecast natural gas prices in the test period. While this is a significant increase for customers,

the Company is required to file a pass-through twice per year. If there is a decrease in the forecast price before the next pass-through filing, rates could be adjusted downward prior to the next heating season. The Division will continue to monitor the published natural gas prices and compare them to the prices used in 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. 14-057-09 and 14-057-10 be approved by the Commission 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. The proposed rates are just and reasonable and in the public interest.

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