- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application of Mountain Fuel Supply Company for Approval to Make Short-Term Loans to its Parent Company, Questar Corporation	DOCKET NO. 85-057-09
In the Matter of the Review of Questar Gas Company's Intercompany Short-Term Loan Procedures and Practices Approved in Docket No. 85-057-09	DOCKET NO. 14-057-18 ORDER AMENDING OCTOBER 11, 1985, REPORT AND ORDER IN DOCKET NO. 85-057-09

ISSUED: April 9, 2015

BACKGROUND AND PROCEDURAL HISTORY

This matter was initiated by the Public Service Commission of Utah ("Commission") on June 19, 2014, pursuant to the Division of Public Utilities' ("Division") recommendations presented in its May 16 and June 2, 2014, memoranda filed in Docket No. 14-057-03, "In the Matter of Questar Gas Company Financial Documents Filed in 2014." In these documents, the Division recommended the Commission open a new docket to examine and review Questar Gas Company's ("Questar" or "Questar Gas") current intercompany lending procedures and practices. Questar's intercompany lending activities are currently governed by the Commission's October 11, 1985, Report and Order in Docket No. 85-057-09, "In the Matter of the Application of Mountain Fuel Supply Company for Approval to Make Short-Term Loans to its Parent Company, Questar Corporation" ("1985 Order").

On June 19, 2014, the Commission issued a notice of scheduling conference to be held on September 9, 2014. During this scheduling conference, participants agreed it would be beneficial to hold a technical conference regarding Questar's intercompany lending procedures and practices prior to determining the appropriate schedule for this docket. On September 9, 2014, the Commission issued a notice of technical conference and scheduling conference to be held on November 12, 2014. Following the technical and scheduling conferences, on November 12, 2014, the Commission issued a scheduling order requiring Questar to file a report addressing its intercompany short-term loan procedures and practices with the Commission by January 14, 2015. The scheduling order also specified that the Commission would address the need for additional process and schedule in this docket subsequent to Questar's January 14th filing.

On January 13, 2015, Questar filed a Report ("Report") addressing its intercompany short-term loan procedures and practices. On February 24, 2015, the Commission issued an action request to the Division requesting review and evaluation of the Report by March 31, 2015. In addition, the Commission requested the Division review and provide recommendations addressing whether the provisions of indentures identified by Questar in its September 11, 1985, Application in Docket No. 85-057-09 continue to exist and, if so, whether they continue to support a loan limitation of 13 percent of net utility plant. If provisions of indentures no longer exist, the Commission requested the Division to explain the underlying basis of the loan limitation of 13 percent of net utility plant and whether this level continues to be appropriate.

On April 1, 2015, the Division filed a memorandum summarizing its review of Questar's Report ("April Memorandum").

QUESTAR'S REPORT

Questar's Report presents the five criteria identified in the 1985 Order governing intercompany loans from Questar to its parent company, Questar Corporation. Questar then proposes modifications to three of the criteria based on discussions with parties and its current board-approved practices. The changes are summarized below.

Number	Current Criteria	Proposed Criteria
1	Term of loan not to exceed 90 days	No advance under the demand note will remain outstanding for more than 90 days
2	All borrowing supported by promissory notes	All borrowing supported by a demand note
3	No loans would be advanced by [Questar Gas] if it has short term borrowing outstanding	No Change
4	Interest would be payable on such loans at a per annum rate at least as favorable as [Questar Gas] could otherwise earn on similar investments	No Change
5	Loans would not exceed $50 million or 13 percent of net utility plant	Loans would not exceed 13% of net utility plant

Current Criteria 1 requires that the term of the loan not exceed 90 days. Questar states that under the terms of the demand note identified in proposed Criteria 2, "the note will be payable any time, as required by Questar Gas, instead of within a specific number of days."[1] Questar recommends that no advance under the demand note identified in its proposed change to current Criteria 2 will remain outstanding for more than 90 days.

Current Criteria 2 specifies that all borrowing should be supported by promissory notes. Questar proposes that this condition be replaced with the requirement that borrowing should be supported by a "note or a demand note."[2] Questar explains that a demand note is a promissory

[1] Questar Report, January 13, 2015, p. 3.
[2] Questar Report, January 13, 2015, p. 3.

note that has no expiration and can be recalled at the lender's request at any time. Questar states that it now uses demand notes as the preferred legal contract. Questar adds that although typically demand notes do not have expiration dates, it will operate consistent with its proposed Criteria 1. Questar asserts that demand notes provide similar legal protections along with greater control and flexibility while still ensuring that funds will be repaid when required by Questar.

Current Criteria 5 requires that loans would not exceed $50 million or 13 percent of net utility plant. Going forward, Questar proposes eliminating the $50 million cap and setting the sole requirement for this criteria to 13 percent of net utility plant. Questar identifies that the average net utility plant for Questar for the 12 months ended June 2014 was $1.286 billion. Questar notes that $50 million amounts to about 4 percent of net utility plant while $167 million amounts to about 13 percent of net utility plant.

Questar asserts that the $50 million cap was based on 1985 net utility plant and has become obsolete. Questar believes that 13 percent of net utility plant is the appropriate metric in the current environment as it "will allow the Company to effectively utilize excess capital while eliminating the financial risk. It is also a dynamic cap that will change over time and take into account changes in net plant and inflation."[3]

In summary, Questar requests the Commission issue an order modifying the criteria in the 1985 Order as follows:

1. No advance under the demand note will remain outstanding for more than 90 days.

2. All borrowing will be supported by a demand note.

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[3] Questar Report, January 13, 2015, pp. 3-4.

3. No loans may occur if Questar Gas has short term borrowing outstanding.
4. Interest will be payable on such loans at a per annum rate at least as favorable terms as Questar Gas could otherwise earn on a similar investment.
5. Loans will not exceed 13 percent of Questar Gas' net utility plant.

Questar states it circulated its proposed changes to the Division and the Office of Consumer Services and has the authority to represent that those parties do not oppose the recommended changes.

DIVISION COMMENTS

The Division supports Questar's proposed changes to the short-term lending criteria identified in the 1985 Order and recommends that the Commission acknowledge them. In addition, the Division states that the indenture provision referenced in Docket No. 85-057-09 is no longer applicable to the Questar Gas intercompany lending guidelines.

The Division's April Memorandum includes a history and explanation of Questar's short-term lending to its parent corporation, Questar Corporation, and information from Questar Corporation's December 2014 Form 10-K Annual Report ("Questar Corporation's Form 10-K") on the short-term loans Questar Corporation provides to Questar and Questar Pipeline.

The Division explains the intercompany lending arrangement is used like a revolving line of credit with the balance changing on a daily basis. According to the Division, in the past it has been more common for Questar Corporation to lend money to Questar on a short-term basis. However, in 2014, the Division states Questar provided loans to Questar Corporation due to an excess cash position which was due to a short-term timing difference between when new debt was issued and capital expenditures were to be paid.

The Division indicates that since July 2014, Questar Corporation has been lending funds to Questar and it is anticipated that Questar Corporation will continue to provide short-term loans to Questar in the future. The Division's analysis reveals that as of December 2014, Questar had an outstanding loan of $119.3 million from Questar Corporation[4] and that prior to 2014, the last time Questar lent money to Questar Corporation was in 2009. The Division notes that when Questar was lending to Questar Corporation in 2014, as of June 30, 2014, the maximum loan amount was $51.6 million.

Pertaining to the 1985 Order limitation that loans to Questar Corporation will not exceed the greater of $50 million or 13 percent of net utility plant, the Division explains that at the time internal lending documents had limited the loan to a maximum of $50 million and that the total dollar amount has not been changed since the original approval. The Division points out that as of December 31, 2013, the net plant as reported in Questar Corporation's Form 10-K was $1.458 billion and, based on the 13 percent amount approved in the 1985 Order, Questar could lend up to $189 million to Questar Corporation.

The Division points out that over the past 30 years both internal and external lending agreements have changed. For example, the Division states that on May 12, 2014, Questar

[4] The Division's April Memorandum states "As of December 2014, Questar Gas had an outstanding loan to Questar Corporation of $119.3 million." Since Questar has not reported any intercompany loan activity after July 2014, we presume the Division meant as of December 2014, Questar Gas had an outstanding loan from Questar Corporation of $119.3 million.

executed a new Subordinated Promissory Note and a new Revolving Grid Promissory Note[5] increasing the total allowed intercompany loan amount from $50.0 million to $150.0 million. In addition, the Division indicates the internal lending agreement has changed from a promissory note to a demand note. The Division also states that external lending agreements have changed and currently do not include restrictions relating to 13 percent of net utility plant.

The Division observes that while the increase in the requested allowed lending amount appears to be large, the increase represents a 3.7 percent annual growth rate over the past 30 years. The Division believes it is difficult to forecast a situation where Questar Gas would have $150 million in excess cash available to lend to Questar Corporation.

In the Division's opinion, the intercompany lending program has worked well historically and has provided Questar with a source of funds for short-term borrowing at an interest rate lower than the prevailing borrowing rate and for short-term lending at an interest rate higher than the prevailing short-term saving rate.

DISCUSSION, FINDINGS AND CONCLUSIONS

We commend the Division's efforts resulting in its recommendation to examine and review Questar's short-term lending procedures approved in our 1985 Order. Reviews such as this help ensure that Questar's internal policies remain consistent with Commission orders. In addition, we acknowledge the Division's conclusion that the intercompany lending program has worked well historically in support of Questar's short-term financing activities.

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[5] Copies of the Subordinated Promissory Note and the Revolving Grid Promissory Note were included in the Division's June 18, 2014, Memorandum filed in Docket No. 14-057-03.

Questar requests modification of three of the five criteria pertaining to short-term loans approved in our 1985 Order. First, Questar requests that Current Criteria 1 be changed from "the term of the loan not to exceed 90 days" to "no advance under the demand note will remain outstanding for more than 90 days." This change reflects Questar's preferred legal contract while maintaining the current loan limitation of 90 days. We find this change reasonable as it simply identifies the use of a demand note while continuing to limit the length of the loan.

Second, Questar proposes that borrowing be supported by a demand note, rather than a promissory note. Based on Questar's explanation that a demand note is a promissory note that has no expiration and can be recalled on the lender's request at any time and the Division's support of this issue, we find this change reasonable.

Third, Questar requests that the criteria that loans would not exceed $50 million or 13 percent of net utility plant be modified to simply limit loan amounts to 13 percent of net utility plant. Using information from Questar Corporation's Form 10-K, the Division indicates 13 percent of net utility plant is $184 million as of December 31. Questar states that using its June 2014 results of operations, the amount is $167 million. Questar's and the Division's arguments in support of this recommendation include that the $50 million cap has become obsolete, that a 13 percent cap would be dynamic, that 13 percent of net utility plant is the appropriate metric in the current environment because it "will allow the Company to effectively utilize excess capital while eliminating the financial risk," and that the 13 percent of net utility plant amount only represents a 3.7 percent annual growth rate over the past 30 years. We also note the Division's opinion that it is difficult to imagine a situation where Questar Gas would have $150 million in excess cash available to lend to Questar Corporation.

These arguments have merit, particularly that Questar's intercompany loan amount should be a dynamic number. Therefore, we agree with Questar's and the Division's recommendation and find Questar's intercompany loan amount should not exceed 13 percent of net utility plant.

We note, however, that Questar and the Division used different sources to identify the value of net utility plant. The Division's analysis calculates 13 percent of net utility plant using information for Questar Gas Company from Questar Corporation's Form 10-K, which represents total Questar net property, plant, and equipment (including construction work in progress). Questar calculates 13 percent of net utility plant using the total net utility plant value for Utah reported in the "Utah Jurisdictional DNG Related" column from its June 2014 Semi-Annual Results of Operations Report. These net utility plant amounts are only updated periodically and the Division is unable to determine the value for net utility plant independent of Questar. For transparency, we find it is reasonable to use the "Utah Jurisdictional DNG Related" column from the most recent Semi-Annual Results of Operations Report provided to the Commission and the Division to determine net utility plant. We recognize that net utility plant will remain static for six months but find that a six-month update is a reasonable approach for ensuring that the loan amount is dynamic going forward.

As a result of these decisions, Finding 2 of the Findings of Fact and Conclusions of Law of the October 11, 1985, Report and Order in Docket No. 85-057-09 is replaced as follows:

"2. Specific criteria for making loans to Questar Corporation proposed by Questar Gas Company are intended to assure that loans are made consistent with the best interests of Questar Gas Company and its utility customers. These criteria are:

a) No advance under the demand note will remain outstanding for more than 90 days;

b) All borrowing will be supported by a promissory note;

c) No new loans will be advanced by Questar Gas Company if it has any short-term borrowings;

d) Interests on such loans will be payable at a per annum rate at least as favorable as Questar Gas Company could otherwise earn on similar investments; and

e) Loans will not exceed 13 percent of net utility plant identified in the "Utah Jurisdictional DNG Related" column from the most recent Semi-Annual Results of Operations Report provided to the Commission and the Division.

We find and conclude that these criteria are appropriate and must be specifically followed in order to ensure that this relationship remains consistent with the statutory duties of Questar Gas Company."

Any changes to these criteria must be brought before the Commission and approved.

ORDER

1. Finding 2 of the Findings of Fact and Conclusions of Law of the October 11, 1985, Report and Order in Docket No. 85-057-09 is modified as described herein.

2. All other requirements in the October 11, 1985, Report and Order in Docket No. 85-057-09, including reporting requirements, remain in effect.

DATED at Salt Lake City, Utah, this 9th day of April, 2015.

/s/ Ron Allen, Chairman

/s/ David R. Clark, Commissioner

/s/ Thad LeVar, Commissioner

Attest:

/s/ Gary L. Widerburg
Commission Secretary
DW#265464

Notice of Opportunity for Agency Review or Rehearing

Pursuant to Utah Code Ann. §§ 63G-4-301 and 54-7-15, a party may seek agency review or rehearing of this order by filing a request for review or rehearing with the Commission within 30 days after the issuance of the order. Responses to a request for agency review or rehearing must be filed within 15 days of the filing of the request for review or rehearing. If the Commission fails to grant a request for review or rehearing within 20 days after the filing of a request for review or rehearing, it is deemed denied. Judicial review of the Commission's final agency action may be obtained by filing a Petition for Review with the Utah Supreme Court within 30 days after final agency action. Any Petition for Review must comply with the requirements of Utah Code Ann. §§ 63G-4-401, 63G-4-403, and the Utah Rules of Appellate Procedure.

CERTIFICATE OF SERVICE

I CERTIFY that on the 9th day of April, 2015, a true and correct copy of the foregoing was served on the following as indicated below:

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