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

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: October 17, 2014

Subject: Questar Gas, Docket Nos.
14-057-22 - 191Pass-Through Application
14-057-23 - Conservation Enabling Tariff and
14-057-24 – Low Income Energy Assistance Rate

RECOMMENDATION:

After a preliminary review of the applications, the Division recommends the Commission approve the requested rate changes in Docket Nos. 14-057-22, 14-057-23 and 14-057-24 with an effective date of November 1, 2014. The requested rate change for Dockets 14-057-22 and 23 should be approved on an interim basis in order to allow additional time for the Division to complete an audit of the individual entries in the respective accounts.

ISSUE:

On October 1, 2014, Questar Gas Company (Company) filed three applications identified above with the Public Service Commission (Commission) and the Commission issued Action Requests to the Division of Public Utilities. This memo is the Division's response to the Action Requests.

Docket No. 14-057-22 – The 191 Account Pass-Through asks for Commission approval to decrease the commodity rate components of Questar's Utah natural gas rates by $23,743,000 and decrease the supplier non-gas cost rate components by $5,522,000 for a total decrease of

$29,811,000. Based on current gas cost rates, if approved individually, a typical GS residential customer will see a decrease of $22.48 in their annual bill.

Docket No. 14-057-23 – The Conservation Enabling Tariff (CET) is a request to amortize the August 2014 (over collected) credit balance of $11,559,443 in Account 191.9 and adjust the CET component of the GS class distribution non-gas (DNG) rate. If approved individually, a typical GS residential customer will see an increase of $1.42 in their annual bill.

Docket No. 14-057-24 – The Low Income Energy Assistance Rate is a request to adjust for a $21,721 over collection in the 191.8 account and maintain the current credit for low income customers of $61.50 for the upcoming heating season. If approved individually, a typical GS residential customer will see a decrease of $0.01 in their annual bill.

If all three applications are approved, a typical GS residential customer will see a combined net decrease in their annual bill of approximately $21.07 or 2.75%.

DOCKET NO. 14-057-22 COMMODITY GAS COST AND SUPPLIER NON-GAS COSTS (191 Account Semi Annual Pass-Through)

This filing is based on projected Utah gas costs of $598.234 million[1] for the forecast test year ending October 31, 2015. The commodity portion represents a decrease of $23.743 million and is due to a decrease in the forecast price for natural gas in the test period. In the previous filing, the forecast price of natural gas was projected to be higher due to concerns over the low levels of gas available in storage. The extreme cold temperatures experienced by much of the US during the past winter had reduced natural gas storage to below normal levels. Inventory levels currently remain below the 5 year average[2] but have improved from the previous forecast period. The current price forecast from CIRA and PIRA used in this Docket indicate that prices have returned to levels comparable with the fall 2013 pass through, Docket No. 13-057-07.

[1] Application, Page1, Paragraph 2.
[2] EIA Weekly Natural Gas Storage Report, for the week ending October 3, 2014.

In addition to the decrease in the natural gas commodity portion of the rates, the Company is proposing a $5.522 million[3] decrease in the supplier non-gas (SNG) component of rates for a net decrease of $29.811 million for firm sales customers. The details of the decrease in SNG rate will be discussed below. The combination of the decrease in commodity and the decrease in SNG results in a decrease in the commodity rate from $5.28/Dth[4] to $5.05/Dth[5] for a net decrease of $0.23/Dth from the previous filing.

Gas Supply

For the test year, November 2014 through October 2015, the Company expects a total system requirement of 119.333[6] million Dths. Of the total amount, 112.624[7] million Dths will meet the projected sales requirement, 0.379[8] million Dths will be placed into storage and 6.330 million Dths will be used for gas volume reimbursement due to gathering, transportation and distribution fuel and shrinkage. Of the total gas requirement, 59.4%[9] will be satisfied from the Wexpro cost of service production, 15.2%[10] will be satisfied under current purchase contracts and 25.4%[11] will be purchased with future contracts and spot market transactions. The total expected fuel cost for the test period is $619.825 million. [12]

The cost of service gas production from Wexpro calculates to a total cost of $347.171 million at an average cost of $4.90 per Dth.[13] With the addition of the recent Trail acquisition, the cost of service production is being separated as Wexpro I and Wexpro II. The separation of the cost 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 $320.200 million at an

[3] Application, Page 1, Paragraph 2.
[4] Exhibit 1.6, Page 1, Column E, Line 9.
[5] Exhibit 1.6, Page 1, Column D, Line 9.
[6] Exhibit 1.4, Page 2, Column B, Line 3.
[7] Exhibit 1.6, Page 1, Column E, Line 4.
[8] Exhibit 1.4, Page 2, Column B, Line 4 + Line 5.
[9] Exhibit 1.4, Page 2, Column B, (Line 1 / Line 3).
[10] Exhibit 1.2, Column B, Line 3 / Exhibit 1.4, Page 2, Column B, Line 3.
[11] Exhibit 1.2, Column B, Line 4 / Exhibit 1.4, Page 2, Column B, Line 3.
[12] Exhibit 1.4, Page 1, Column B, Line 17.
[13] Exhibit 1.4, Page 1, Column D, Line 12.

average cost of $4.80/Dth[14] including gathering cost. The Wexpro II production has a projected cost of $26.971 million at an average cost of $6.48/Dth[15] including gathering cost. The Wexpro II costs are significantly higher than originally anticipated and higher than $5.39/Dth identified in the previous 191 filing. In response to DPU Data request 1.6 and 1.7, the Company explained that the increase was due to two factors. First, gathering charges were mistakenly left out of the calculation in the previous filing which accounts for $0.42/ Dth of the difference. Second, the original projections used in the Wexpro II analysis assumed that compression would be installed in the Trail field from the date of acquisition. To date the compression has not been installed but is scheduled to be operational by mid 2015. Once the compression is operational, the Company anticipates that the cost of service gas from the Trail field will be equal to or lower than the cost included in the original projections. The Division was unaware that compression was assumed in the original cost projections for Wexpro II.

The cost of service gas production includes the operator service fee (OSF) paid to Wexpro of $317.030 million and represents a decrease of $19.372 million from the previous filing. As part of its audit and review of the 191 account, the Division is reviewing the calculations and costs associated with the OSF in the current and previous filings. Wexpro and the Company have provided additional information and have responded to numerous data requests. The Division is continuing to review the OSF as well as other costs and will present any findings to the Commission in the future.

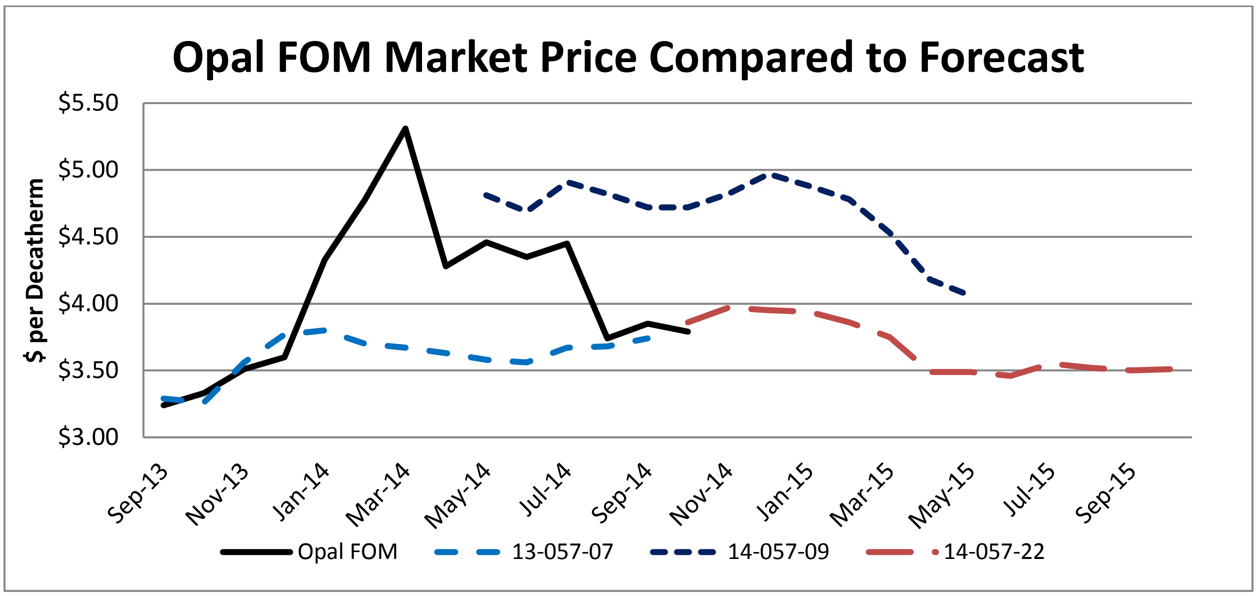
The purchased gas from third parties has a projected cost of $189.271 million at an average cost of $3.91/Dth.[16] With the decrease in the market price, the purchased gas is projected to be $0.99/ Dth lower than the Wexpro cost-of-service gas. The difference between the cost of service gas from Wexpro and market purchases was $0.10 in the previous filing.

[14] Exhibit 1.4, Page 1, Column D, Line 5.
[15] Exhibit 1.4, Page 1, Column D, Line 10.
[16] Exhibit 1.4, Page 1, Column D, Line 13.

Natural Gas Prices

Since the Commission approved the last pass-through request, (Docket No. 14-057-09) the spot price and the forecast prices for natural gas have decreased. In this filing, the Company utilizes an average forward looking thirteen month forecast price of $3.68/Dth[17] compared to $4.68/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 current and the previous two pass-through applications. (Docket Nos. 13-057-09 and 14-057-09) The forecasts used in the two previous filings have been included to show how the forecasts change over time and to show the difference between the fall and spring forecasts. The actual first of the month (FOM) average price has been included to show the variability in the market price and to show the price spike that occurred last winter. The historical price can also be compared to forecast price used in the previous case to set rates.

Chart 1

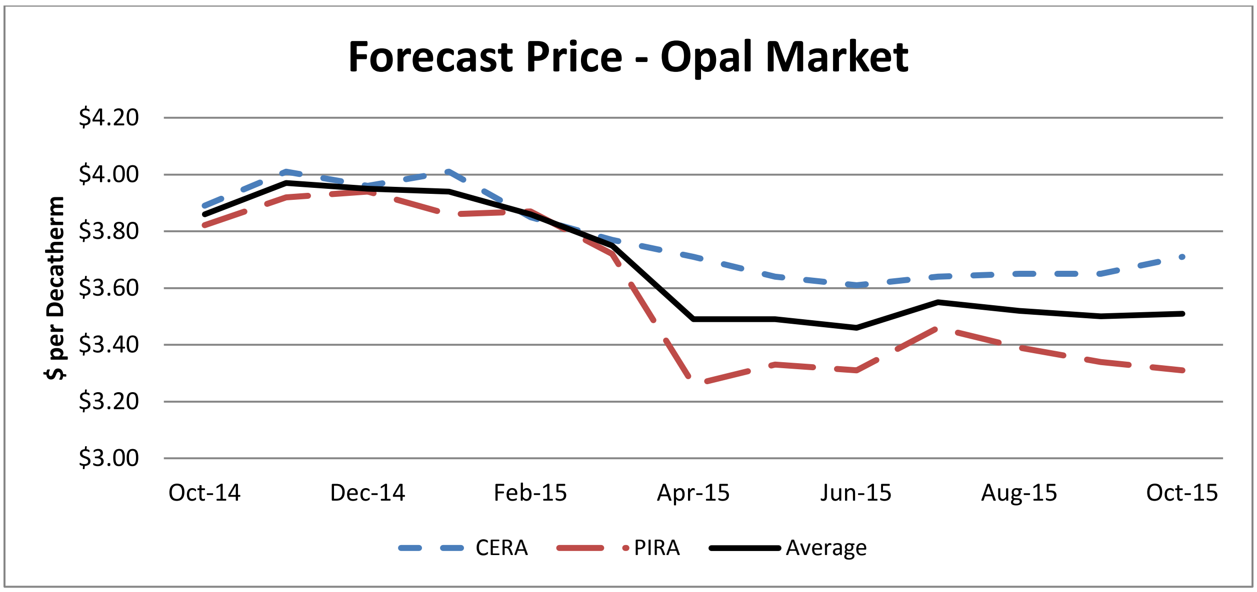


[17] Arithmetic average of PIRA and CERA forecast from October 2014 to October 2015 used in pass-through application.

The forecast used as a basis for the gas costs in this application anticipate natural gas prices under $4.00/Dth through the heating season followed by a drop in price to approximately $3.50/Dth during the warmer months of 2015.

The price forecast is based on an average of future price projections from two different forecasting entities, Cambridge Energy Research Associates, Inc. (CERA) and PIRA Energy Group (PIRA). The two price forecasts along with the average are displayed in Chart 2 below. Both forecasts indicate a relative consensus on the stability of natural gas prices through March 2015. Beginning in April 2015, the two forecasts diverge with a notable decrease in the PIRA forecast. The two entities have an average difference of approximately $0.32/Dth through the remaining seven months of the forecast period.

Chart 2



Pricing Hedges

Historically, the Wexpro production and the Company's gas storage facilities play an important role in the Company's plan to "hedge" against natural gas price volatility while meeting its overall supply requirement. The current practices generally allow the Wexpro production to flow during the summer months to satisfy the summer demand as well as to allow the Company to inject gas into storage for later use. The use of storage gas reduces but does not eliminate the need to purchase gas in the high demand winter months. The Company's gas supply management has current contracts for $18.105[18] million or approximately 37.4% of the purchased gas requirement. The balance of the purchase gas requirement will be satisfied with future contracts arrangements and spot market purchase transactions.

Supplier Non-Gas Costs (SNG)

In contrast to the volatility that often is seen in the price of natural gas, the SNG costs are relatively stable and predictable since these costs are set by contractual agreements and tariffs. These costs are associated with gathering and processing the Wexpro gas from the well-heads to market hubs, transporting the gas from market hubs to city gates and storing the gas in available facilities for later withdrawal during the winter months.

The Company projects total SNG costs to be $95.196 million.[19] At current rates, the SNG revenues that will be collected are projected to be $94.707 million [20] leaving an under collected balance of $0.489 million.[21] In this filing, the Company is requesting a 0.52%[22] increase in the SNG rates in order to adjust for the projected under collection. The current balance in the SNG amortization account shows an under collected amount of $0.876 million.[23] The over or under collection of the SNG balance is calculated and adjusted once per year in the spring 191 filing. The current filing does not include an adjustment to the amortization amount which was set in the previous pass-through filing.

Comparison to Previous Filing

QGC Exhibit 1.1 provides a detailed review of the actual natural gas production for each of the Wexpro wells for the last 12 months. This historical production information is used to forecast the royalty payments that will be payable during the test period. A significant increase in the volume of cost of service production from the Pinedale wells was noted due to the completion of

[18] Exhibit 1.2, Column B, (Line 3 / Line 6).
[19] Exhibit 1.6, page 2, Column D, Line 1.
[20] Exhibit 1.6, page 2, Column D, Line 4.
[21] Exhibit 1.6, page 2, Column D, Line 5.
[22] Exhibit 1.6, page 2, Column D, Line 7.
[23] Exhibit 1.6, page 2, Footnote 2.

22 wells in the last quarter of 2013. The volumes identified in Exhibit 1.1 reflect the historical production from the previous 12 months and have now included the increased production from these new wells.

There were differences noted in the production volumes from the Wexpro II wells in the current and the previous 191 filing. In the previous docket, the Company did not include accurate historical production data or royalty rates. The current filing includes historical production data from the date of acquisition and the correct royalty rates.

QGC 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 the projected costs included with each filing, the Division has included DPU Exhibit 1.1 with this memo. This exhibit provides a line by line comparison of the cost submitted in this filing with the costs of the previous five pass-through filings. Gathering and transportation cost as well as volumes can be compared as well as the cost of service gas cost per Dth compared to the purchase gas costs per Dth for each filing.

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 (SWGA), 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 SWGA. The charges under the SWGA 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 SWGA. 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 has been billed by QEP and what has been paid by Questar Gas is reported to be $12.0 million.

Effect on a typical GS Customer

Based on the proposed rates, if approved individually, a typical GS residential customer would see a decrease of $22.48 in their annual bill or a 2.93% decrease. The Division recommends the Commission approve, on an interim basis, the Application with an effective date of November 1, 2014.

DOCKET NO. 14-057-23 - CONSERVATION ENABLING TARIFF (CET)

The rate changes requested in Docket No. 14-057-23 affect only the CET component of the distribution natural gas (DNG) rates of the GS rate class. The Company is requesting to amortize the August 2014 over-collected (credit) balance of $11,559,443[24] in the CET deferral account. In the previous filing under Docket No. 14-057-10, the Company was amortizing an over collected balance of $12,946,673.[25] Amortizing a lower amount reduces the calculated credit for each customer and represents an increase in the CET rate. QGC Exhibit 1.2 provides a summary of the proposed rate change for the usage blocks.

Rate Details

In Docket No. 09-057-16, the Commission authorized the Company to establish and utilize a Conservation Enabling Tariff (CET) balancing account 191.9. The tariff sets forth procedures for recovering the allowed distribution non-gas (DNG) revenue per customer by means of periodic adjustments to rates. The CET amortization rates reflected in the GS Rate Class tariff sheets filed with this application will change for both blocks 1 and 2 of the summer and winter rates. The incremental increase in the GS Block 1 summer rate is $0.01379/Dth and $0.01943/Dth for the winter rate.

[24] 14-057-23, Exhibit 1.1, Column F, Line 6.
[25] 14-057-23, Exhibit 1.1, Column F, Line 1.

Effect on a typical GS Customer

If approved individually, a typical GS rate class customer would see an increase in their annual bill of approximately $1.42 or 0.19%.

The Division supports the Company's filing and believes that the proposed rates are just and reasonable and in the public interest. The Division recommends the Commission approve on an interim basis the Application with an effective date of November 1, 2014.

DOCKET NO. 14-057-24 - LOW INCOME ASSISTANCE TARIFF RATE

The Division has reviewed the filing and exhibits and agrees with calculations used to estimate the number of future participants. Based on the available balance and the forecast collection amounts, maintaining the $61.50 credit per customer is appropriate.

Rate Details

In Docket No. 10-057-08, the Commission authorized the Company to establish an Energy Assistance Program with a target funding level of $1.5 million per year. As of July 2014, the Company had over-collected $21,721 from ratepayers and has an unpaid balance of $227,969 in the 191.8 account. QGC Exhibit 1.1 of this filing provides a summary of the annual account balance in the 191.8 account for year 1 through year 3. The monthly accounting entries have been provided for year 4 (August 2013 – July 2014) leaving an unpaid outstanding balance of $227,969.[26] The combination of the unpaid balance and projected collections during the rate effective period will result in $1,706,248[27] available for credit to qualifying accounts.

The number of participants in this program has been decreasing each year from 35,000 in year 1, to 28,000 in year 4. It is unclear if the improving economy or recent changes in the HEAT administration program have caused the reduced participation. The proposed credit assumes 27,744 participants during the next 12 months and leaves the credit available to qualifying customers unchanged at $61.50. QGC Exhibit 1.2 column (F) shows the new low income assistance rate per Dth for each customer class.

[26] Exhibit 1.1, Column F, Line 14.
[27] Exhibit 1.1, Column F, Line 23.

Effect on a typical GS Customer

The effect of this change in the low income assistance rate for a typical GS residential customer is a decrease their annual bill of $0.01.

The Division supports the Company's filing, believes it is in compliance with Utah Code Ann. § 54-7-13.6, is in the public interest and provides a just and reasonable low-income surcharge rate. The Division recommends the Commission approve the Application with an effective date of November 1, 2014.

SUMMARY AND CONCLUSION

The Company is required to file a pass-through application twice per year with the Commission. This semi-annual filing provides a regular review of the current market conditions and allows the Company to adjustments rates on a regular basis. The primary reason for the decrease in rates with this filing is due to lower projected natural gas cost in the test period. 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. 14-057-22 and 14-057-23 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 Division also supports and recommends approval of the proposed rates in Docket No. 14-057-24. If all three applications are approved, a typical GS residential customer will see a combined net decrease in their annual bill of approximately $21.07 or 2.75%.

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