- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of a Request for Agency Action to Review the Carrying Charges Applied to Various Questar Gas Company Account Balances	)))))))	DOCKET NO. 14-057-32 ORDER ON CARRYING CHARGES

ISSUED: April 29, 2015

SHORT TITLE

Questar Gas Company Account Carrying Charge Interest Rates

SYNOPSIS

The Commission approves a carrying charge interest rate of 4.51 percent, effective July 1, 2015, through February 29, 2016, for accounts 182.3, 182.4, 191.1, 191.8, 191.9 and 235.1. The Commission approves updating the annual interest rates for these accounts on March 1 of each year using the average of the annual Aaa and Baa Corporate Bond interest rates for the previous year as published by the Federal Reserve Board of Governors. The Commission approves determining the Extension Area Charge interest rate on a case-by-case basis.

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APPEARANCES

Colleen Larkin Bell, Esq. Jenniffer Nelson Clark, Esq. Questar Gas Company	For	Questar Gas Company
Patricia E. Schmid, Esq. Utah Office of the Attorney General	"	Division of Public Utilities
Rex Olsen, Esq. Utah Office of the Attorney General	"	Office of Consumer Services

I. PROCEDURAL HISTORY

This matter is before the Public Service Commission of Utah ("Commission") on the December 31, 2014, Utah Division of Public Utilities' ("Division") request for agency action ("Request") seeking review of the carrying charges applied to various Questar Gas Company ("Questar" or "Company") accounts. The Request was made pursuant to Utah Code Annotated ("UCA") § 63G-4-201 and Utah Administrative Code ("UAC") R746-100-3. Specifically, the Division requested the Commission open a docket and issue a notice of scheduling conference to address the review and possible modification of the annual carrying charge of six percent applied to various Questar accounts identified in its Utah Natural Gas Tariff No. 400 ("Tariff").

On January 5, 2015, in response to the Commission's January 2, 2015, action request, the Division filed a memorandum recommending the Commission convene a scheduling conference at the earliest possible opportunity. On January 5, 2015, the Commission issued a notice of scheduling conference to be convened on January 13, 2015. On January 14, 2015, the Commission issued a Scheduling Order and Notices of Technical Conference and Hearing setting the procedural schedule for this docket.

On January 26, 2015, a technical conference was held during which Questar summarized its accounts subject to carrying charges. On February 24, 2015, the Division filed a memorandum with its initial recommendations pertaining to carrying charges ("February Proposal"). On March 10, 2015, Questar and the Office of Consumer Services ("Office") filed comments on the Division's February Proposal. On March 24, 2015, the Division filed a memorandum responding to Questar's and the Office's March 10th comments ("Responsive Memo"). No requests for intervention were filed in this docket.

On April 8, 2015, the Commission's designated Presiding Officer convened a hearing to examine the carrying charge interest rate issue ("April 8th Hearing"). Representatives of Questar, the Division, and the Office provided sworn testimony during the April 8th Hearing.

II. CARRYING CHARGES

At issue in this case are Questar's carrying charge interest rates associated with six balancing accounts and the extension area charge ("EAC"). Currently, the interest rates for each of these items is set at six percent as identified in the following table.

Account	Description	Applicable Section in the Questar Utah Natural Gas Tariff PSCU 400	Tariff/Order
191.1	Gas Pass through Costs Account ("Gas Pass Through Account")	2.06 Gas Balancing Account Adjustment Provision, "Two-Way Carrying Charge"	"An annual interest rate of 6% simple interest (.50% per month) will be applied to the monthly balance in Account 191.1, as adjusted for the corresponding tax deferral balance in Account 283. The balance in Account 191.1 will be increased by the carrying charge during months when gas costs are under-collected and reduced when gas costs are over-collected."
235.1	Customer Deposits	8.03 Fees and Charges, Finances Charges and Interest	Interest will accrue on a security deposit at a rate of 0.50% per month at an approximate annual rate of 6.00%.

Account	Description	Applicable Section in the Questar Utah Natural Gas Tariff PSCU 400	Tariff/Order
182.4	Pipeline Transmission and Distribution Integrity Management Program Account ("Integrity Management")	Not identified in Tariff. Deferred account approved on June 24, 2004, in Docket No. 04-057-03.[1] Interest rate approved in the May 26, 2006, Order Approving Rate Reduction Stipulation in Docket No. 05-057-T01, Ordering Paragraph 3.[2]	"Questar Gas may accrue interest on any new debit or credit balance in the deferred account at the rate currently approved by the Commission for Account 191 . . ."
191.9	Conservation Enabling Tariff Account ("CET")	2.08 Conservation Enabling Tariff (CET), "Two-Way" Carrying Charge	"An annual interest rate of 6% simple interest (.50% per month) shall be applied monthly to the CET Deferred Account balance, as adjusted for the corresponding tax deferral balance in Account 283. The CET Deferred Account will be increased by the carrying charge during months when the balance in the account represents revenue that is under-collected and reduced when over-collected."
182.3	Demand-Side Management Account ("DSM")	2.09 ThermWise® Energy Efficiency, Carrying Charge	"An annual interest rate of 6% simple interest (0.50% per month) shall be applied monthly to the DSM Deferred Account balance, as adjusted for the corresponding tax deferral balance in Account 283. The DSM Deferred Account will be increased by the carrying charge."

[1] Docket No. 04-057-03, "In the Matter of the Application of Questar Gas Company for an Accounting Order Regarding Treatment of Transmission Line Safety Compliance Costs."
[2] Docket No. 05-057-T01, "In the Matter of the Approval of the Conservation Enabling Tariff Adjustment Option and Accounting Orders."

Account	Description	Applicable Section in the Questar Utah Natural Gas Tariff PSCU 400	Tariff/Order
191.8	Energy Assistance Account (“Energy Assistance”)	8.03 Fees and Charges, Energy Assistance Fund, Two-Way Carrying Charge	“An annual interest rate of 6%, simple interest (.50% per month) shall be applied to the Energy Assistance Balancing Account (Account 191.8). Interest will be assessed on the monthly balance of this account.”
	Extension Area Charge	9.02 New Or Additional Service	“The EAC will be calculated to provide sufficient revenue to recoup the total non-refundable payment which would otherwise be collected in the new service extension area and allow the Company to recover a 6% return on the deferred portion during the collection period.”

III. DIVISION RECOMMENDATION

The Division’s recommendation addresses three items. First, the Division recommends setting the carrying charge interest rate for specific accounts to the average of the annual Aaa and Baa Corporate Bond interest rates for the previous calendar year as published by the Federal Reserve Board of Governors. Second, the Division recommends updating the carrying charge interest rate annually, initially setting the rate on July 1, 2015, and then updating it March 1 of succeeding years. Third, in response to Questar’s March 5th comments on the February Proposal, the Division does not oppose evaluating the carrying charge applicable to EACs on a case-by-case basis. The Division states its recommended rate for calendar year 2014 was 4.51 percent and recommends the Commission adopt this rate beginning July 1, 2015.

The Division identifies six accounts noted in the table above.[3] The Division explains that, with the exception of Account 235.1 – Customer Deposits for which the carrying charge only accrues to the customer, the carrying charge interest can either accrue to Questar (in the case of an under-collected balance) or to customers (in the case of an over-collected balance).

The Division lists several hypothetical scenarios demonstrating how it would be possible for Questar to use the carrying charge interest rate to its advantage and presents the results of a correlation analysis it performed on Account 191.1 data. The Division concludes "that there is no evidence of the Company trying to manipulate these balances in order to achieve some internal corporate goal."[4]

The Division asserts that in mid-1990, when the Commission adjusted Questar's carrying charge from 9.0 percent to the current 6.0 percent, the 90-day commercial paper rate was about 5.5 percent and the long-term bond rates and the bank prime lending rates were about 1.5 to 2.0 percent above the 6.0 percent rate. The Division observes the current bank prime lending rate is 3.25 percent, the average of the long-term Aaa and Baa Corporate Bond rates is approximately 4.50 percent, and the 90-day commercial paper rate is approximately 0.10 percent. The Division believes the carrying charge rate for more recent accounts (for example, DSM) was set for consistency with the rates used in other accounts and not based on interest rate levels at the time the account was established.

The Division maintains there is no perfect, one-size-fits all carrying charge rate. In addition, the Division believes "it is unreasonable to expect the Company to be able to

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[3] In addition to the six accounts, the table provided in the February proposal also identifies the "Extension Area Charge (EAC)" but no further reference to this charge is made in the Division's memorandum.
[4] DPU Memorandum – QGC Carrying Charges, February 24, 2015, p. 5.

meaningfully control funds flowing into or out of these accounts."[5] Based on this, the Division concludes "that a single interest rate balancing the interests of rate payers and the Company that has been employed to date combined with continued regulatory monitoring of the account balances appears to be the most reasonable."[6]

In support of its carrying charge interest rate recommendation, the Division believes that a readily available long-term rate is appropriate because long-term interest rates are typically more stable and short-term rates are subject to manipulation by federal monetary policy. In addition, the Division asserts that longer-term interest rates would discourage Questar from accumulating large customer balances as a source of funding.

In support of its recommendation to annually update the carrying charge interest rate, the Division asserts that periodically revising the carrying charge interest rate will keep it in line with current market rates. The Division explains that the March to February fiscal year will allow the Division to collect and evaluate the data from the preceding calendar year.

The Division's February Proposal also identifies the EAC as a charge subject to the current six percent carrying charge. The Division's February Proposal does not specifically address the interest rate used to determine the EAC, but in its Responsive Memorandum, the Division states it does not oppose Questar's recommendation to determine the EAC interest rate on a case-by-case basis. The Division believes, however, that future EACs will likely have the same or similar carrying charges as the Division's proposal for the other accounts. The Division

[5] Ibid, p. 6.
[6] Ibid.

states this is because EACs will likely be long-term and require a long-term carrying charge rate to keep other ratepayers neutral to the extension.

The Division concludes that the application of long-term interest rates to these accounts would avoid the possible appearance of unfair treatment to customers and would incent Questar to keep the over-collected and deposit balances as low as reasonably possible. The Division recommends that if the Commission believes a move to a lower, shorter-term rate is more appropriate, it would likely be best to do that in steps keeping with the principle of gradualism.

During the April 8th Hearing, the Division clarified there was no particular significance to its proposed July 1, 2015, effective date other than that it provides a reasonable time for the process to conclude and for Questar to implement the changes approved by the Commission. At the April 8th Hearing, the Division testified the changes are in the public interest and will result in just and reasonable rates.

IV. COMMENTS

A. Questar

Questar supports the Division's recommendation to update the carrying charge interest rate on an annual basis. Questar states the Division's proposal will be beneficial to Questar and its customers in the future. Questar asserts this procedure will allow the carrying charge interest rate to reflect current market conditions and is similar to the process used to set interest rates in its other jurisdiction.

Questar agrees with the Division's observation that either the long-term or short-term debt rates could be reasonable choices for the carrying charges. Questar is comfortable accepting the Division's recommendation to use the long-term interest rates to set the carrying charge interest rate but would not be opposed to using a short-term interest rate as most of the accounts to which the carrying charge interest rate applies are short-term in nature. Questar recommends that whatever rate is selected by the Commission, the same rate should be applied to both over- and under-collected balances. Questar asserts this symmetry meets the fairness principle of rate design.

Questar notes that the Division's February Proposal identifies six balancing accounts and one charge, i.e., the EAC. Questar recommends calculating EACs on a case-by-case basis, as approved by the Commission. Questar maintains that typically the economics of these projects are reviewed in detail and the Commission could determine, on a case-by-case basis, a discount rate during this review. During the April 8th Hearing, Questar stated this approach "would not preclude the Commission from using the currently effective interest rate, but it would give a little more flexibility to choose an appropriate rate."[7]

During the April 8th Hearing, Questar provided two reasons in support of its proposed case-by-case approach. First, Questar states the Commission approves EACs on a case-by-case basis and "there may be instances where the Commission may want to give a different or more favorable rate to a specific community or extension area."[8] Second, Questar suggests that "because interest rates will be set at the beginning of the year, there may be instances where the Company files an extension area charge at the end of the year and if interest rates change dramatically, the Commission may want to use a more refreshed interest rate in the calculation."[9]

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[7] *See* April 8, 2015, Hearing Transcript, p. 16.
[8] Ibid.
[9] Ibid.

At hearing, Questar acknowledged that the language in its Tariff pertaining to carrying charges for the various accounts is inconsistent but that the carrying charge interest rate is applied in the same manner to these accounts. Questar also acknowledged that the Integrity Management Balancing account balance has only dropped slightly since the last general rate case, most likely due to the amortization period used to determine the amortization rate for this account. Questar stated that in the next rate case it would probably propose a three-year amortization which would reduce the account balance to approximately zero over the amortization period; this would allow the actual Integrity Management expenses and amortization rate to be closely linked.

B. Office of Consumer Services

The Office supports the Division's recommendation. The Office believes the Division's recommendation allows the carrying charge interest rate to reflect current market rates for like assets and removes the potential incentive to manipulate the system. The Office asserts the carrying charge should be consistent with the underlying risk Questar or ratepayers incur resulting from over- or under-collection in the accounts identified by the Division and should be commensurate with a realistic determination of the risk of default of a debt.

In addition, the Office supports a carrying charge interest rate that provides an incentive for Questar to maintain zero or near-zero balances when feasible. The Office contends a carrying charge consistent across the accounts at issue in this case will maintain stability and ease of calculation and administration.

V. DISCUSSION, FINDINGS, AND CONCLUSIONS

We commend the Division for its recommendation to initiate this docket as it is in the best interest of Questar and ratepayers to ensure that carrying charge interest rates reflect current market conditions.

A. Carrying Charge Determination Method and 2015 Rate

Pertaining to the Division's annual carrying charge interest rate proposal applicable to the Gas Pass-Through, CET, DSM, Integrity Management, Low Income, and Customer Deposit accounts, we find merit in the Division's testimony that a readily available long-term rate is appropriate because the long-term interest rates are typically more stable than short-term rates and longer-term interest rates would discourage Questar from accumulating large customer balances as a source of funding. Both Questar and the Office support the Division's proposal. For the foregoing reasons, we find the Division's proposal reasonable and approve it for the six accounts noted above. Further, we approve the Division's proposed method and implement a 4.51 percent carrying charge interest rate for accounts 182.3, 182.4, 191.1, 191.8, 191.9, and 235.1, based on the annual average of the Aaa and Baa corporate bonds published by the Federal Reserve for the previous calendar year of 2014, effective July 1, 2015, through February 29, 2016.

We direct Questar to file updated tariff sheets reflecting this decision by June 1, 2015. In addition, we direct Questar to correct the inconsistencies in the Tariff language pertaining to the description of the carrying interest rates for the five accounts described in the Tariff.

B. Carrying Charge Annual Update

We are persuaded by the Division's testimony that the carrying charge interest rate for the Gas Pass-Through, CET, DSM, Integrity Management, Low Income, and Customer Deposit accounts should be updated annually to ensure carrying charge interest rates reflect current market rates.

We approve the Division's proposal to update the carrying charge interest rate on March 1 of succeeding years using the interest rate calculation method approved above. Neither the Division nor Questar, however, provide a proposal identifying the process for annually updating the carrying charge interest rate. Therefore, we direct Questar and the Division to develop and file proposed Tariff language identifying this process by September 1, 2015.

C. Integrity Management Deferred Account

As discussed during the April 8th hearing, unlike other accounts, Questar's Tariff does not include a description of the Integrity Management account. The Integrity Management account, approved in 2004, has progressed from a short-term to a long-term solution for addressing incremental costs associated with U.S. Department of Transportation integrity management rules.[10] For this reason, we find it is reasonable and more transparent for Questar to include in its Tariff a description of this account and how it is implemented and managed. This description should be of similar detail to Tariff Section 2.06 – Gas Balancing Account Adjustment

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[10] These rules are found in 49 CFR Part 192 Subpart O – Gas Transmission Pipeline Integrity Management and Subpart P – Gas Distribution Pipeline Integrity Management.

Provision. We direct Questar to work with interested parties to develop and file this new section to be included in Questar's Tariff by September 1, 2015.

We note the Integrity Management account has been in effect since 2004 and its monthly amortization rate is a fixed amount determined during the most recent general rate case (i.e., it is not based on weather-normalized sales volumes). This amortization amount cannot be changed until the next general rate case. The amortization rates for the CET, DSM, and Low-Income Assistance accounts approved subsequent to the approval of the Integrity Management account, however, are based on weather-normalized sales volumes and the amortization rate can be adjusted whenever necessary. We invite comments on these differences during the next general rate case.

D. EAC Interest Rate

We approve Questar's proposal to determine the EAC interest rate on a case-by-case basis in each future EAC approval proceeding. We are persuaded by Questar's statement at hearing that a case-by-case approach "would not preclude the Commission from using the currently effective interest rate, but it would give a little more flexibility to choose an appropriate rate."[11] In addition, we note the EAC interest rate, while currently set at six percent, is fundamentally different from the other carrying charge interest rates at issue in this docket because it has rate implications affecting both EAC and existing customers. We direct Questar to file by June 1, 2015, updated tariff sheets reflecting this decision, effective July 1, 2015.

To identify an appropriate EAC interest rate, we direct Questar to include in all future applications for EAC approval its justification for the recommended EAC interest rate. The

[11] *See* April 8, 2015, Hearing Transcript, p. 16.

application shall also include an evaluation of the recommended EAC interest rate relative to Questar's current cost of capital and cost of debt, and the carrying charge interest rate in effect at the time of the filing.

VI. ORDER

1. Questar shall file revised tariff sheets by June 1, 2015, reflecting a carrying charge interest rate of 4.51 percent for accounts 182.3, 182.4, 191.1, 191.8, 191.9, and 235.1, effective July 1, 2015.
2. Questar shall develop and file tariff language to identify an annual interest rate update process by September 1, 2015.
3. Questar shall develop and file tariff language pertaining to the integrity management deferred account as described above by September 1, 2015.
4. Questar shall file updated tariff sheets by June 1, 2015, to specify a case-by-case EAC interest rate determination, effective July 1, 2015.
5. Questar shall include in all future applications for EAC approval its justification for its recommended EAC interest rate and an evaluation of this rate in relation to Questar's cost of capital and cost of debt, and the carrying charge interest rate in effect at the time of the filing.

DATED at Salt Lake City, Utah, this 29th 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#265920

Notice of Opportunity for Agency Review or Rehearing

Pursuant to §§ 63G-4-301 and 54-7-15 of the Utah Code, an aggrieved party may request agency review or rehearing of this Order by filing a written request with the Commission within 30 days after the issuance of this 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 does not grant a request for review or rehearing within 20 days after the filing of the request, 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 §§ 63G-4-401 and 63G-4-403 of the Utah Code and Utah Rules of Appellate Procedure.

CERTIFICATE OF SERVICE

I CERTIFY that on the 29th day of April, 2015, a true and correct copy of the foregoing was delivered upon the following as indicated below:

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