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Division of Public Utilities

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ACTION REQUEST RESPONSE

To: Public Service Commission

From: Division of Public Utilities
Chris Parker, Director
Energy Section
Artie Powell, Manager
Doug Wheelwright, Technical Consultant
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Date: May 21, 2015

Subject: Questar Gas, Docket Nos.
15-057-04 – 191 Pass-Through Application
15-057-05 - 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. 15-057-04 and 15-057-05 with an effective date of June 1, 2015. The requested rate change 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. During the technical conference, the Company identified calculation errors that were included in the model which carried through to the filed exhibits and tariff sheets. The Company has provided an updated model, exhibits and tariff sheets which have been included with this memo. References to dollar amounts and footnotes identifying specific entries refer to the corrected exhibits.

ISSUE:

On April 30, 2015, Questar Gas Company (Company) filed 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 the Division's response to the Action Requests.

Docket No. 15-057-04 – The 191 Account Pass-Through asks for Commission approval to decrease the commodity rate components of Questar's Utah natural gas rates by $85.727 million and increase the supplier non-gas cost rate components by $24.043 million for a net decrease of $61.684 million. Based on current rates, if approved individually, a typical GS residential customer will see a decrease of $44.59[1] in their annual bill.

Docket No. 14-057-23 – The Conservation Enabling Tariff (CET) is a request to amortize the March 2015 (under collected) balance of $2,667,851 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 $12.36 in their annual bill. In the previous filing under Docket No. 14-057-22, the Company was amortizing an over collected balance of $11.559[2] million. The previous amortization created a credit or a reduction for each customer. Eliminating the credit and amortization the under-collected amount represents an increase in the CET rate.

If both applications are approved, a typical GS residential customer will see a combined net decrease in their annual bill of approximately $32.22 or 4.35%.

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 $564.205[3] million for the forecast test year ending May 31, 2016. The commodity portion of the gas cost represents a decrease of $85.722 million while the supplier non-gas cost portion represents an increase of $23.836 million for a net decrease of $61.887[4] million. The details of the increase in the SNG rate will be discussed below. The large decrease in the commodity cost is due to the lower forecast price for natural gas in the test period. The current forecast from CIRA and PIRA used in this Docket anticipate an average market price between $2.55 and $2.95 during the test year period.

[1] Exhibit 1.7, Column F, Line 13.
[2] 15-057-05, Exhibit 1.1, Column F, Line 1.
[3] Exhibit 1.6, Page 1, Line 1.
[4] 15-057-04 Pass-Through Model 05-19-15, Utah Summary-by Class, Line 35.

The combination of the decrease in gas cost and the increase in SNG results in a decrease in the commodity rate from $5.05/Dth in the previous filing to $4.27/Dth.[5]

Gas Supply

For the test year, June 2015 through May 2016, the Company expects a total system requirement of 120.678[6] million Dths. Of the total amount, 114.512[7] million Dths will meet the projected sales requirement, 0.236[8] million Dths will be placed into storage and 5.930 million Dths will be used for gas volume reimbursement due to gathering, transportation and distribution fuel and shrinkage. Of the total gas requirement, 55.6%[9] will be satisfied from the Wexpro cost of service production, 15.4%[10] will be satisfied under current purchase contracts and 29.0%[11] will be purchased with future contracts and spot market transactions. The total expected fuel cost for the test period is $584.310 million.[12]

The cost of service gas production from Wexpro calculates to a total cost of $342.849 million at an average cost of $5.11 per Dth.[13] With the addition of the Trail acquisition, the cost of service production is being separated as Wexpro I and Wexpro II. The separation of the cost allows 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 $316.124 million at an average cost of $5.02/Dth[14] including gathering cost. The Wexpro II production has a projected cost of $26.725 million at an average cost of $6.46/Dth[15] including gathering cost. The Wexpro II costs are higher than originally anticipated but are down slightly from $6.48/Dth identified in the previous 191 filing. While the price for Wexpro II gas is higher than originally anticipated, the relatively small volume does not have a large impact on the total price for cost of service gas.

[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 & 5 / 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.
[14] Exhibit 1.4, Page 1, Column D, Line 5.
[15] Exhibit 1.4, Page 1, Column D, Line 10.

Natural gas from Wexpro II represents only 6.2% of the total volume and adds $0.09 to the total cost of service production. ($5.02 for Wexpro I compared to $5.11 for Total Cost of Service Gas) The original analysis did not include gathering cost and G & A costs and additional wells were projected to be drilled. With the reduction in the market price of natural gas, additional drilling has been postponed.

The cost of service gas production includes the operator service fee (OSF) paid to Wexpro of $313.350 million[16] which is a decrease of $3.680 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 $152.934 million at an average cost of $2.85/Dth[17] which is $2.26/ Dth lower than the Wexpro cost-of-service gas. The price of purchased gas has been lower than the cost-of-service gas for the past several years and long range price forecasts indicate that the market price could remain low for many years into the future.

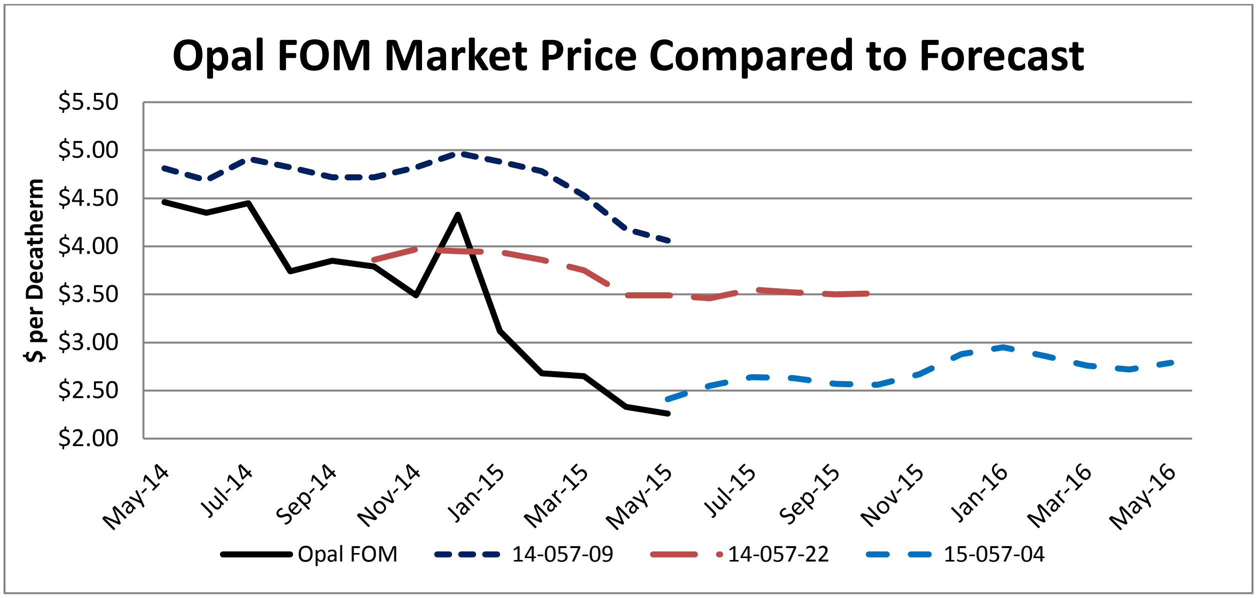
Natural Gas Prices

Since the Commission approved the last pass-through request, (Docket No. 14-057-22) the spot price and the forecast prices for natural gas have decreased substantially. In the current filing, the Company utilizes an average forward looking thirteen month forecast price of $2.69/Dth[18] compared to $3.68/Dth in the previous filing. Chart 1 below, provides a comparison of the forecast prices used in the current and the two previous pass-through applications. (Docket Nos. 14-057-09 and 14-057-22) The solid line (Opal FOM) is the historical first of month spot price

[16] Exhibit 1.1, Page 20, Line 1479.
[17] Exhibit 1.4, Page 1, Column D, Line 13.
[18] Arithmetic average of PIRA and CERA forecast from May 2015 through May 2016 used in pass-through application.

for natural gas at Opal, Wyoming. The forecasts in the two previous filings have been included to show how the forecast price has changed with each filing. The actual first of the month (FOM) price has been included to show the fluctuation in the market price and to provide a comparison of the forecast price used in the previous filings to the actual market price.

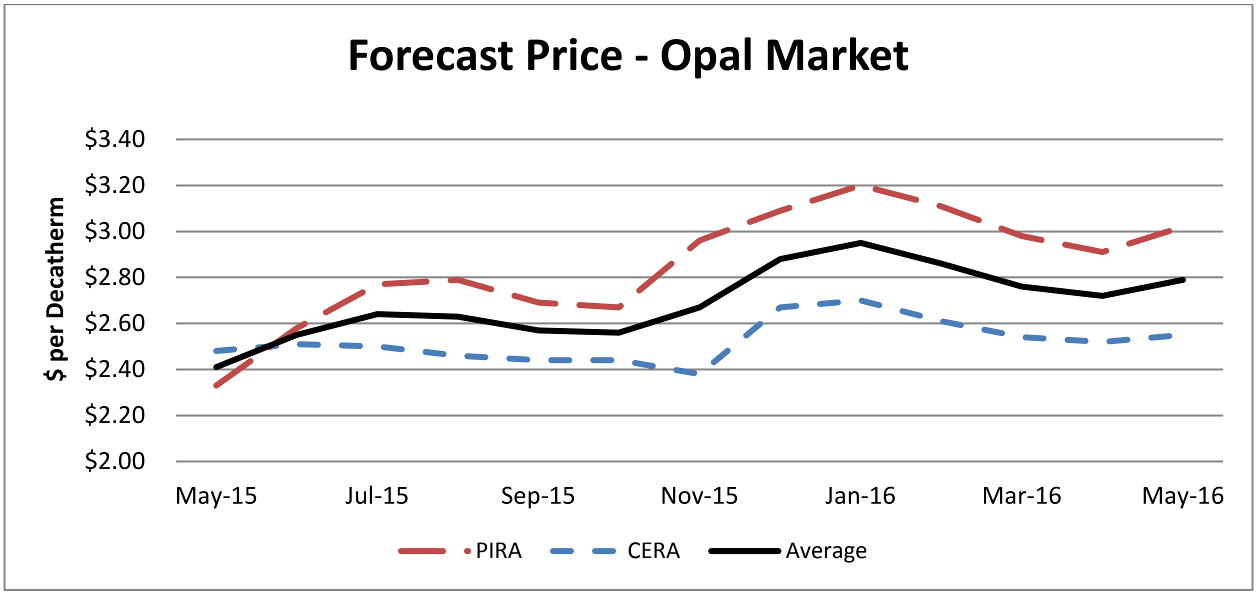
Chart 1



The forecast used in this application anticipate natural gas prices of approximately $2.64/Dth during the summer months and then increasing slightly to $2.82/Dth in the winter months.

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 May 2016, however the PIRA forecast is slightly higher. The two forecasts have an average difference of approximately $0.32/Dth through 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 total 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. In this filing, the Company has added storage at the Ryckman[19] facility which is scheduled to be in operation during the test period.

The Company's gas supply management has secured contracts for 18.560 million Dth or approximately 34.6% of the purchased gas requirement at an average price of $3.05.[20] The balance of the purchase gas requirement will be satisfied with future contracts arrangements and spot market purchase transactions.

Supplier Non-Gas Costs (SNG)

[19] Exhibit 1.3, Page 2, Line 2.
[20] Exhibit 1.2, Column C, Line 3.

In contrast to the volatility that often is seen in the market price of natural gas, the SNG costs are relatively stable and predictable since these costs are set by contractual transportation and storage agreements and tariffs. These costs are associated with gathering and processing the Wexpro gas from the well-heads to market hubs, transporting market and Wexpro gas from market hubs to city gates and storing the gas in available facilities for later withdrawal during the winter months. While the contract amounts are relatively stable, the collection of these costs are estimated and come through volumetric rates which are set based on normal weather conditions. Actual weather conditions and variations in the volumetric sales will impact the over or under collection of these costs. The forecast rates are structured so that the SNG balance is intended to range from an over-collected balance of $20.0 million in the spring to a $20.0 million under-collected balance in the fall. The process of under and over collection during the year is intended to minimize the amount of interest paid or collected by the Company on the 191 balance.

Due to the unusually warm winter experienced in the past heating season, the volumetric rates did not generate the anticipated SNG revenue. The March 2015 SNG balance was over collected $4.642[21] million instead of the anticipated $20.0 million or $15.358 million lower than forecast. In addition to the under collection in the previous period, the Company is projecting total SNG costs to be $99.310[22] million for the forecast test-year for a total requirement in this filing of $114.668[23] million. If the current rates are not adjusted, the SNG revenue collected is projected to be $90.832[24] million, leaving an under collected balance of $23.835[25] million. In this filing, the Company is requesting a 26.38%[26] increase in the total SNG rates in order to collect the projected SNG cost and the current under collected amount. The over or under collection of the SNG balance is calculated and adjusted once per year in the spring 191 filing. In Docket 14-057-09, the Company was amortizing an over-collection of $5.896 million.[27]

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[21] Exhibit 1.6, page 2, Footnote 2.
[22] Exhibit 1.6, page 2, Column D, Line 1.
[23] Exhibit 1.6, page 2, Line 3.
[24] Exhibit 1.6, page 2, Column D, Line 4.
[25] Exhibit 1.6, page 2, Column D, Line 5.
[26] Exhibit 1.6, page 2, Column D, Line 7.
[27] Docket No. 14-057-09, Exhibit 1.6, Page 2, Line 2.

Comparison to Previous Filing

QGC Exhibit 1.1 provides a detailed review of the actual natural gas production for each of the Wexpro I and Wexpro II wells for the last 12 months. This historical production information is used to forecast the royalty payments that are anticipated during the test period. The volumes identified in Exhibit 1.1, column E, reflect the historical well-head production. The price identified in column D, represents the forecast price used in the test period. The volume and price are used to forecast the royalty payment for the test year. Well-head volumes do not include fuel gas, processing and lost and unaccounted for gas. The Company is working on a reconciliation of the well-head cost-of-service production volumes with sales volumes.

QGC Exhibit 1.4, page 1 provides a summary of the test year related costs and revenue. In order to provide a comparison of the projected costs in the current filing with the estimated cost in previous pass-through filings, the Division has included DPU Exhibit 1.1 with this memo. This exhibit provides a comparison of Wexpro cost and volume changes along with changes in gathering and transportation cost. The price per Dth for the cost of service gas, purchased gas and the combined total cost has been highlighted. While the cost of service gas has increased from $4.90 in the previous filing to $5.11 in the current filing, the purchased gas has decreased from $3.91 to $2.85. The total cost per Dth has decreased from $5.50 in the fall pass-through to $5.10 and is noticeably lower than the $5.96 in the spring 2014 pass-through filing.

Effect on a typical GS Customer

Based on the proposed rates in Docket No. 15-057-04, if approved individually, a typical GS residential customer would see a decrease of $44.59 in their annual bill or a 6.04% decrease. The Division recommends the Commission approve the Application on an interim basis, with an effective date of June 1, 2015.

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.

On October 19, 2014, QEP Field Service and Tesoro Logistics LP (Tesoro) entered into a purchase agreement to transfer the related assets and liabilities of QEP Field Services to Tesoro. The purchase transaction was closed on December 2, 2014. On December 2, 2014, the court issued a memorandum decision granting two motions for partial summary judgement for breach of contract filed by Questar Gas. The court found that QEP breached the Gas Gathering Agreement by overcharging Questar Gas in its gathering rates. The court also denied two motions for partial summary judgement filed by QEP and denied cross-motions related to another claim. Due to the extended court proceeding, these issues may not be resolved for some time. 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 $15.3 million; however the total impact of a decision is unknown at this time and no trial date has been set.

In a separate legal issue, on February 13, 2015, a jury reached a verdict in the case of Rocky Mountain Resources and Robert N. Floyd v. QEP Energy Company and Wexpro.[28] Plaintiffs allege they are entitled to a 4% overriding royalty interest (ORRI) in state oil and gas leases assigned to Wexpro and QEP in the Pinedale Field. The jury awarded the Plaintiffs $14.1 million from Wexpro and $16.2 million from QEP. Wexpro and QEP plan to file an appeal of the case to the Wyoming Supreme Court. Additional royalty payments from this case could potentially be expected to be recovered from Questar Gas customers.

[28] Ninth Judicial District, County of Sublette, State of Wyoming, Case No. 2011-7816.

DOCKET NO. 15-057-05 - CONSERVATION ENABLING TARIFF (CET)

The rate changes requested in Docket No. 15-057-05 affect only the CET component of the distribution natural gas (DNG) rates of the GS rate class. The Company is requesting to amortize the March 2015 under-collected balance of $2.668[29] million in the CET deferral account. In the previous filing under Docket No. 14-057-22, the Company was amortizing an over collected balance of $11.559[30] million. The previous amortization created a credit or a reduction for each customer. Eliminating the credit and amortizing the under-collected amount represents an increase in the CET rate. QGC Exhibit 1.2, include in the filing, provides a summary of the changes in the winter and summer 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 $0.12374/Dth[31] and $0.16825/Dth[32] for the winter rate.

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 $12.36 or 1.68%. The Division recommends the Commission approve the Application on an interim basis, with an effective date of June 1, 2015.

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

[29] 15-057-05, Exhibit 1.1, Column F, Line 8.
[30] 15-057-05, Exhibit 1.1, Column F, Line 1.
[31] 15-057-05, Exhibit 1.2, Column C, Line 1.
[32] 15-057-05, Exhibit 1.2, Column C, Line 3.

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. 15-057-04 and 15-057-05 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. If both applications are approved, a typical GS residential customer will see a combined net decrease in their annual bill of approximately $32.22 or 4.35%.

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