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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
Carolyn Roll, Technical Consultant
Eric Orton, Utility Analyst

Date: November 23, 2015

Subject: Action Request Response regarding Docket No's 15-057-17 and 15-057-18.

In the Matter of the Application of Questar Gas Company to Change the Infrastructure Rate Adjustment

And

In the Matter of the Application of Questar Gas Company to Amortize the Energy Efficiency Deferred Account Balance

RECOMMENDATION

The Division of Public Utilities (Division) recommends that the Utah Public Service Commission (Commission) authorize the proposed new rates for both the Infrastructure Rate Adjustment and the Energy Efficiency Deferred Account Balance the as requested by Questar Gas Company (Company) in its applications. The requested rate changes will be on an interim basis until a complete audit can be performed on each filing. The Division also recommends that the Commission accept the proposed tariff sheets for the Questar Gas Company Tariff 400 Section §2.07.

BACKGROUND

Docket No. 15-057-17 is a request to increase the infrastructure replacement rate. On October 30, 2015, the Commission issued an Action Request to the Division regarding the Company's application requesting the Division to review the application and make recommendations. Also on October 30, 2015, the Commission issued its Notice of Scheduling Conference. On November 5, 2015, the Commission held its Scheduling Conference and issued its Order and Notice of Hearing and specifying November 23, 2015 as the due date for comments on the proposed rate change, with November 25, 2015, for reply comments and November 30, 2015, as the date for the hearing. This memo is the Division's response to the Commission's Action Requests.

Docket No. 15-057-18 is a request to continue the current amortization of the Energy Efficiency deferred account balance. The data filed in Docket No. 15-057-16 (Utah Energy Efficiency Budget Filing) shows a reduction of expenditures in some of the rebate programs. Based on the current balance, projected volumes and the Energy Efficiency budget, the Company believes it can maintain the current amortization rate and collect the required revenue while minimizing interest expense. The Company recommends no adjustment in the amortization at this time. A Scheduling Conference was held on November 5, 2015 at which time both Docket Nos. 15-057-17 and 15-057-18 were set on the same schedule. On November 18, 2015 the Commission issued an Amended Action Request for Docket No. 15-057-18 requesting additional information and clarification on the Company's filing. The Division requested that the Company respond to the Commission's questions. The Company will be filing response to the Commission questions and corrected Exhibits 1.1 and 1.2 in reply comments which are due November 25, 2015. The differences have no effect on the rates that are requested in this docket. The Division has preliminarily reviewed the Company's corrected data and agree with the adjustments; as these are interim rates a more complete review will be conducted during the Division's audit of the Energy Efficiency account. This memo is the Division's response to the Commission's Amended Action Request.

ISSUE

<u>DOCKET NO. 15-057-17 – REQUEST TO CHANGE THE INFRASTUCTURE RATE ADJUSTMENT</u>

In the general rate case order dated February 21, 2014, the Commission authorized the Company to continue the infrastructure tracker pilot program. As part of that order, the Company was to defer increasing customer's rates until $84 million worth of infrastructure investment had been completed and placed into service. The balance for the infrastructure tracker was set to zero with the rate case order. According to the Company's records, significantly more than the $84 million has been invested, closed and placed into service by October 31, 2015 and the Company now proposes to collect the remaining amount in rates.

Effect on a typical GS Customer

If the Infrastructure Rate Adjustment is approved the typical GS customer will see an increase in their annual rates of $5.71 or 0.82%.

<u>DOCKET NO. 15-057-18 – REQUEST TO AMORTIZE THE ENERGY EFFICIENCY DEFERRED ACCOUNT BALANCE</u>

The Company is proposing to maintain the current amortization level, which should get the average balance for the year at or near zero. The current 182.4 account has a balance of $3.0 million (this will be reflected in the corrected Exhibit 1.1 that the Company will file on November 25, 2015). The Company is proposing to maintain the current rate of $0.24341 per Dth. The Company will monitor the balance during the winter months where usage is higher, and will make any adjustments in a spring filing, if necessary.

Effect on a typical GS Customer

If the Energy Efficiency Deferred Account Balance is approved by the Commission, a typical GS rate class customer will see no change in their annual bill.

If both applications are approved the rate effect on a typical GS customer will see an increase in their annual rates of $5.71 or 0.82%.

DISCUSSSION

DOCKET NO. 15-057-17 – REQUEST TO CHANGE THE INFRASTUCTURE RATE ADJUSTMENT

The Company's application includes six exhibits. Exhibit 1.1 provides the dollar amounts showing the infrastructure investment from January 2013 through October 2015 including the time frame during which the $84 million has been spent. This investment amount includes investment in the intermediate high pressure (IHP) lines as well as high pressure lines.

Through October 31, 2015, the Company has spent $182,103,857 in infrastructure closed to investment. These are projects that are complete and gas is flowing in the pipe. After subtracting the $84 million, the Company shows a balance of approximately $98 million. Beginning with the remaining balance of $182 million, once depreciation and taxes are considered, the Company is left with proposing to collect just over $98 million it spent above the $84 million on rate base investment. Applying the Company's allowed pre-tax rate of return and adding in depreciation expense and taxes the total incremental revenue requirement of $12.6 million with the increase in this filing of approximately $7.3 million (see Exhibit 1.1 page 4 of 4 lines 15 and 17). This is the amount the Company proposes to include in this filing.

The Division examined the attached exhibits, had discussions with the Company, and investigated some of the larger entries to determine that they were recorded accurately in Exhibit 1.1. Exhibit 1.1 page 4 of 4 summarizes the preceding three pages. Exhibit 1.2 shows the reduction to plant resulting from revenue received from the Lakeside power generating plant. In Exhibit 1.3 the Company is demonstrating that the $7.3 million revenue increase is allocated according to the cost of service percent ordered in the rate case (Post Bonus Depreciation and the 72% step-up pertaining to the IT customers). Exhibit 1.4 shows how this $7.3 million will be divided using the demand charge and volumetric rates to collect this amount on a percentage change. The monthly change to a typical GS customer is shown in exhibit 1.5 while exhibit 1.6 shows the legislative and proposed tariff sheets.

Initially, the Company planned on spending $66.1 million in 2015 (Docket 14-057-29). However, after discovering that they had spent more than they were allowed to recover in the Tracker in 2014, the 2015 budget was revised downward. In the March 19, 2015, memo to the Commission the Company adjusted the 2015 budget to $62.8 million (13-057-18 Exhibit 2). It should be noted that the amount that the Company closes each year and the amount that it spends per year ($65 million plus the GDE Deflator rate) can and should differ. The Division will audit the total spent in 2015 after the Company's books are closed.

<u>DOCKET NO. 15-057-18 – REQUEST TO AMORTIZE THE ENERGY EFFICIENCY DEFERRED ACCOUNT BALANCE</u>

In Docket No. 05-057-T01, the Commission authorized the Company to establish a deferred expense account (Account 182.4) to record the costs associated with the approved Energy Efficiency programs and Market Transformation Initiative. On May 31, 2011, the Commission approved the rates suggested in Docket No. 11-057-04 which included a three year amortization of the existing balance in that account. Due to increased activity in the weatherization program the rate was increased in Docket No. 13-057-09, the proposed amortization rate would satisfy the over budget amount in 2013 while keeping to the schedule to have the balance near zero by spring, 2014. In April, 2014 the balance in the amortization account was near zero. In the current filing the Company believes it can maintain the current amortization rate and collect the required revenue while minimizing interest expense.

The Division examined the exhibits as filed with the application and the corrected exhibits that the Company will file with reply comments. Exhibit 1.1 is a summary of the Energy Efficiency deferred expenses accounting entries for the period from October 2014 through September 2015. Exhibit 1.2 is a summary of the deferred Energy Efficiency related expenditures by Energy Efficiency program (page 1) and by Energy Efficiency expenditure type (page 2) since October 2014. The corrected Energy Efficiency balance, as of the end of September 2015, is $3,007,234. The projected Energy Efficiency balance for the 12 months ended November 2016 is shown in Exhibit 1.3.

CONCLUSION

DOCKET NO. 15-057-17 – REQUEST TO CHANGE THE INFRASTUCTURE RATE ADJUSTMENT

The Division believes that this application is compliant with the Commission's order to defer collecting Infrastructure investment from customers until $84 million has been spent, and that the proposed tariff sheets §2.07 accurately reflect the recovery of the remaining amount spent by the Company. Therefore, the Division recommends that the Commission approve the proposed infrastructure rates on an interim basis until the Division can complete an audit at which time we will make a final recommendation to the Commission.

DOCKET NO. 15-057-18 – REQUEST TO AMORTIZE THE ENERGY EFFICIENCY DEFERRED ACCOUNT BALANCE

The Division has reviewed the filing along with Exhibits 1.1 through 1.3 and corrected Exhibits 1.1 and 1.2 and agrees with the method used by the Company to request to maintain the current amortization amount. The Division recommends that the Commission approve the proposed rates on an interim basis until a complete audit can be performed.

CC: Barrie McKay, Questar Gas Company
Kelly Mendenhall, Questar Gas Company
Michele Beck, Office of Consumer Services