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Department of Commerce
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
Eric Orton, Utility Analyst

Date: May 24, 2016

Subject: Questar Gas, Docket Nos.
16-057-05 – 191 Pass-Through Application
16-057-06 – Adjustment to the Daily Transportation Imbalance Charge

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. 16-057-05 and 16-057-06 with an effective date of June 1, 2016. These requested rate changes 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 May 2, 2016, Questar Gas Company (Company) filed the 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. 16-057-05 – The 191 Account Pass-Through asks for Commission approval to decrease the commodity rate components of Questar's Utah natural gas rates by $22.118 million and decrease the supplier non-gas cost rate components by $6.463 million for a net decrease of

$28.581 million. Based on current rates, if approved individually, a typical GS residential customer will see a decrease of $21.23[1] in their annual bill.

Docket No. 16-057-06 – Adjustment to the Daily Transportation Imbalance Charge is a request to adjust the imbalance charge calculation approved in Docket No. 14-057-31. This charge has only been in assessed since February 2016 but is required to be recalculated as part of the 191 pass-through filing. The revised calculation is a decrease from $0.08896 per Dth to $0.07839 per Dth or an 11.9% reduction in the calculated rate.

DOCKET NO. 16-057-05 COMMODITY GAS COST AND SUPPLIER NON-GAS COSTS (191 Account Semi Annual Pass-Through)

This filing is based on projected Utah gas costs of $541.698[2] million for the forecast test year ending May 31, 2017. The commodity portion of the gas cost represents a decrease of $22.118 million and the supplier non-gas cost portion (SNG) represents a decrease of $6.463 million for a net decrease of $28.581[3] million. The details of the decrease in the SNG rate will be discussed below. The projected decrease in the commodity cost in this filing is due to the low price for natural gas and the amortization of the over-collected balance in the 191 account. The current forecast from CIRA and PIRA used in this Docket anticipate an average market price of $2.72 for the winter months. Due to the large volume of cost of service gas from Wexpro, market purchases are planned only for the winter months. Only the forecast winter pricing has been used since company production from Wexpro is sufficient to meet the demand during the summer months. The forecast gas cost for the test period is $0.02 per Dth lower than the previous filing. The primary reason for the decrease in this filing is the amortization of the over-collected balance in the 191 account. The amortization amount represents a $0.18 per Dth decrease from the previous filing. The combination of the decrease in gas cost and the decrease in SNG results in a decrease in the commodity rate from $4.10 per Dth in the previous filing to $3.90 per Dth.[4]

[1] Exhibit 1.7, Column F, Line 13.
[2] Exhibit 1.6, Page 1, Line 1.
[3] 15-057-11 Pass-Through Model, Utah Summary-by Class, Line 24.
[4] Exhibit 1.6, Page 1, Column D, Line 9.

Gas Supply

For the test year, June 2016 through May 2017, the Company expects a total system requirement of 115.324[5] million Dths. From the total requirement amount, 111.600[6] million Dths will be used to meet the projected sales requirement, 0.086[7] million Dths will be placed into storage and 3.638 million Dths will be used for gas volume reimbursement due to gathering, transportation and distribution fuel and shrinkage. Of the total gas requirement, 57.0%[8] will be satisfied from the Wexpro cost-of-service production, 15.2%[9] will be satisfied under current purchase contracts and 27.8%[10] will be purchased with future contracts and spot market transactions. The total expected fuel cost for the test period is $561.763 million.[11]

The cost-of-service gas production from all Wexpro production indicates a total cost of $341.205 million at an average cost of $5.19 per Dth.[12] With the addition of the Wexpro II properties, the cost-of-service production has been separated and is provided 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 $297.409 million at an average cost of $5.25 per Dth[13] including gathering cost. The Wexpro II production has a projected cost of $43.797 million at an average cost of $4.86 per Dth[14] including gathering cost. The Wexpro II costs are lower than the previous filing due to the increased production from the Canyon Creek wells. While the price for Wexpro II gas is lower than Wexpro I, the relatively small volume does not have a large impact on the total price for cost-of-service gas. With the continued low market price for natural gas, additional drilling for new wells will be limited for both Wexpro I and II and cost-of-service volumes are expected to decline over time.

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

The cost-of-service gas production includes the operator service fee (OSF) payable to Wexpro of $307.144 million[15] which is an increase of $10.029 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. The Division has hired Overland Consulting to review these costs and a final report is anticipated within the next 60 days. The Division is continuing to review the OSF as well as other costs and will present any findings to the Commission in the future.

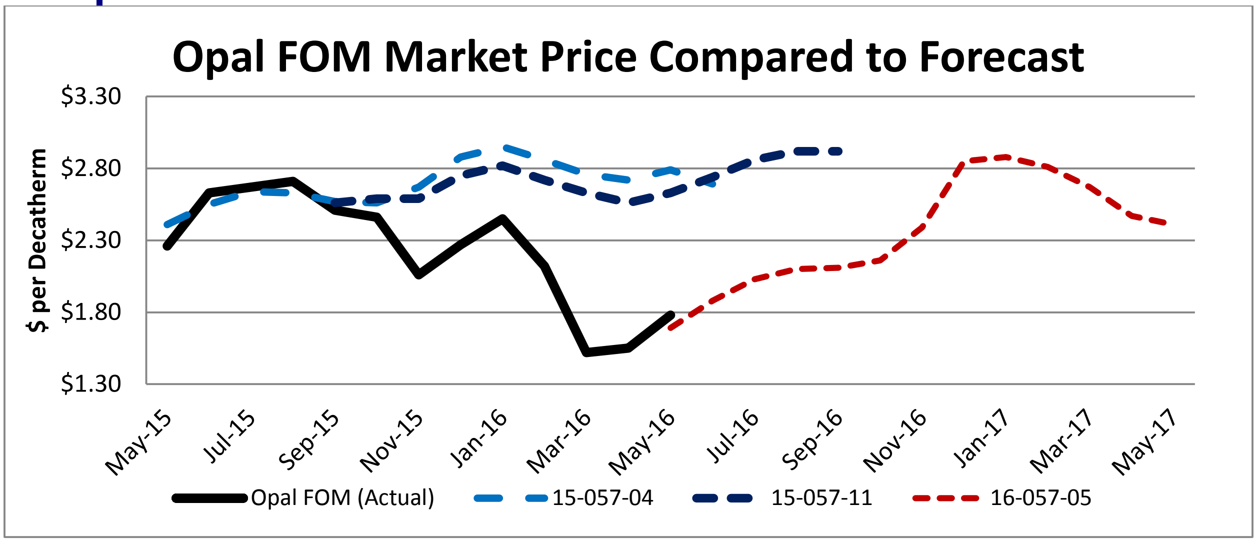
The purchased gas from third parties has a projected cost of $135.274 million at an average cost of $2.73 per Dth.[16] In this filing, the anticipated gas purchased from the open market is $2.47 per Dth lower than the Wexpro cost-of-service gas. The price of purchased gas has been lower than the cost-of-service 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

The forecast price for natural gas in the test period is lower during the summer months but is similar to the previous forecast for the winter months. Since market purchases are projected only during the winter months, the model uses the forecast price for only the winter months. In the current filing, the Company utilizes a forecast winter price of $2.72 per Dth[17] compared to $2.74 per 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. 15-057-04 and 15-057-11) The two previous filings have been included to show how the forecast price has changed over the past 12 months. The solid line include in the graph is the historical first of month spot price for natural gas at Opal, Wyoming. (Opal FOM) The historical 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. The historical actual price comparison shows how the market prices have dropped compared to the previous forecasts.

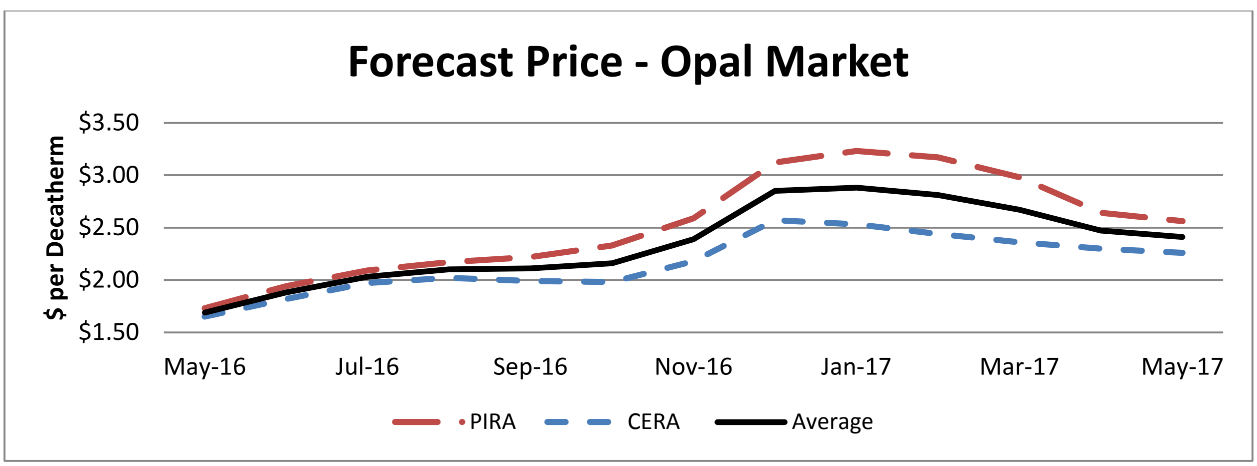
[15] Exhibit 1.1, Page 21, Line 1572.
[16] Exhibit 1.4, Page 1, Column D, Line 13.
[17] Questar Pass-Through Model, Monthly Inputs Tab.

Chart 1



The market price forecast anticipates low natural gas prices of approximately $2.11 per Dth during the summer months and $2.72 per 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.

Chart 2



From a long-term perspective, according to the early release of the U.S. Energy Information Administration's "Annual Energy Outlook," natural gas prices are projected to remain below $5/MMBtu through 2040 with or without the Clean Power Plan.

Pricing Hedges

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 in addition to allowing 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 during the high demand winter months. The Company's gas supply management has secured contracts for 17.530 million Dth or approximately 35.3% of the purchased gas requirement at an average price of $2.97.[18] 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 price volatility that can occur with 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. Variations in the actual volumetric sales due to changing weather conditions will impact the collection of these costs and will result in the over or under collection of SNG costs. The forecast rates are structured so that the SNG balance is intended to have an over-collected balance of $20.0 million in the spring and a $20.0 million under-collected balance in the fall.

[18] Exhibit 1.2, Column C, Line 3.

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. The amortization of the over or under collection is established annually in the spring pass-through filing.

The Company is projecting total SNG costs for the test period of $103.622[19] million for the forecast test-year plus the $3.898 million amortization of the under collected amount from the previous filing for a total of $107.520[20] million. If the current rates are not adjusted, the SNG revenue collected is projected to be $113.983[21] million resulting in an estimated over collected balance of $6.463[22] million. In this filing, the Company is requesting a 5.68%[23] decrease in the total SNG rates in order to collect the appropriate SNG cost.

Comparison to Previous Filing

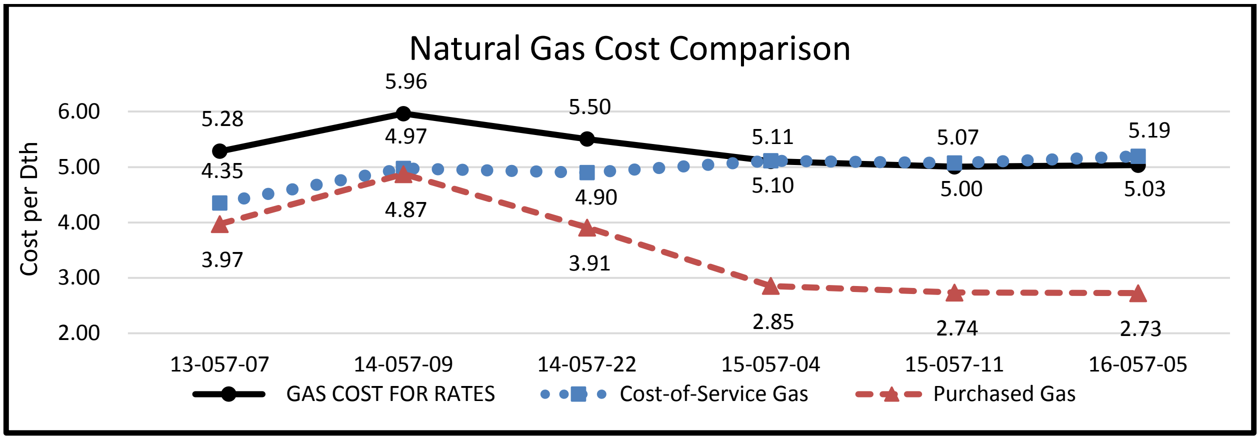
QGC Exhibit 1.1 provides a detailed review of the actual natural gas production for each of the Wexpro I and Wexpro II wells for the last 12 months. This historical production information is used to forecast the royalty payments that will be paid during the test period. The volumes identified in Exhibit 1.1, column E, reflect the historical well-head production, however the price identified in column D, represents the forecast price used in the test period. The historical volume and forecast price are used to estimate the royalty payment for the test year. Well-head volumes do not include fuel gas, processing and lost and unaccounted for gas and represent the lowest price per Dth prior to losses and processing.

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 Chart 3 below. This chart provides a comparison of projected gas cost per Dth in the current filing with the projected cost from the past 5 pass-through filings. The solid line indicates the total gas price per Dth used for setting customer rates and includes Wexpro cost-of-service production, purchased gas costs, gathering,

[19] Exhibit 1.6, page 2, Column D, Line 1.
[20] Exhibit 1.6, page 2, Column D, Line 3.
[21] Exhibit 1.6, page 2, Column D, Line 4.
[22] Exhibit 1.6, page 2, Column D, Line 5.
[23] Exhibit 1.6, page 2, Column D, Line 7.

transportation and storage costs. The dotted line indicates the cost-of-service price per Dth for only the cost-of-service production from both Wexpro I and Wexpro II. The dashed line indicates the price of purchased gas included in each filing.

Chart 3



In the current filing, the cost-of-service gas has increased to $5.19 per Dth compared to $5.07 per Dth in the previous filing while purchased gas shows little change at $2.73 per Dth compared to $2.74 per Dth. The total cost per Dth has increased slightly from $5.00 in the last pass-through to $5.03 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. 16-057-05, a typical GS residential customer would see a decrease of $21.23 in their annual bill or a decrease of 3.03%. The Division recommends the Commission approve the Application on an interim basis, with an effective date of June 1, 2016.

Legal Issues

On May 1, 2012, Questar Gas Company filed a legal action against QEP Field Services Company, a subsidiary of QEP Resources, Inc. concerning certain charges for gathering services under the Wexpro Agreement. On March 22, 2016, a settlement was reached in this case and the disputed issues were resolved. The charges under the System Wide Gathering Agreement 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 that has been used in this case assumes the settled contract terms going forward.

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.[24] 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. [25]

On January 31, 2016, Questar Corporation, the parent company of Questar Gas, entered into a merger agreement with Dominion Resources, Inc. a Virginia corporation. The merger has been approved by Questar shareholders and regulatory agencies have scheduled hearings for August and September of 2016.

DOCKET NO. 16-057-06 - ADJUSTMENT TO THE DAILY TRANSPORTATION IMBALANCE CHARGE

In Docket No. 14-057-31, the Commission approved a supplier non-gas charge of $0.08896 per dekatherm (Dth) applied to the daily imbalance volumes that were outside of a 5% daily tolerance threshold. This new rate applies to transportation customers that were taking service under MT, TS and FT-1 rate schedules and any amount collected under the rate is credited to GS customers through the 191 account. This rate is intended to charge transportation customers for SNG services that are being used and was implemented in part to improve the daily accuracy of the gas nomination process. The Commission order specifies that this rate must be reviewed with each pass-through docket and in the next general rate case.

[24] Ninth Judicial District, County of Sublette, State of Wyoming, Case No. 2011-7816.
[25] Questar 2015 Form 10-K, Note 10 – Contingencies, p. 87

The Company began to assess the imbalance charge as of February 1, 2016. It should be noted that this rate applies only to transportation customers if their individual daily gas nomination amount is outside the ±5% daily tolerance limit. Only the customer nominations that are outside the tolerance limit are assessed the charge and the dollar amount collected is credited to GS customers through the 191 account. The specific dollar amount that has been paid by all transportation customers is identified as a separate line item in the monthly 191 financial information.

The proposed new rate of $0.07839 per Dth is a reduction from the current $0.08896 per Dth and is calculated based on the historical imbalance volumes for the previous 12 months ended March 31, 2016. While the calculation of the new rate includes the nomination activity for 12 months, the new rate was only in place for 2 of the 12 months. The Division is continuing to review the daily nomination information for all transportation customers that was provided with this filing and it does appear that the nominations have become more accurate since this rate was imposed.

The Division has reviewed the calculation and the information provided by the Company but has not completed an audit of the individual entries and the credits to the 191 account. Since these credits flow through the 191 account, the Division believes that it is appropriate to approve the change to this rate on an interim basis until an audit of the 191 account has been completed.

Effect on TS Customers

There is a potential impact to TS customers but the impact will not be the same for each customer. As mentioned above, this rate applies to TS customers only when their individual daily gas nominations are outside the ±5% tolerance limits. This rate may apply to some customers on a daily basis while others may not be impacted depending on the accuracy of the nomination process. This rate has a related impact on GS customers as the imbalance charge is collected and credited to the 191 account. Since this is a new rate with only two months of actual implementation, the Division has only been able to verify the actual dollar amount that has been credited to the 191 account for the month of February 2016 which totaled $36,158. This amount is credited to the SNG collection rate and could have a minor impact on the balance of the over or under collection in the 191 account.

The Division recommends the Commission approve the Application on an interim basis, with an effective date of June 1, 2016.

SUMMARY AND CONCLUSION

The Company is required to file a pass-through application at least 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 semi-annual basis. The primary reason for the decrease in rates with this filing is due to the low price for natural gas and the amortization of the over-collected balance in the 191 account. 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. 16-057-05 and 16-057-06 be approved by the Commission on an interim basis with an effective date of June 1, 2016 until the Division can complete an audit of the entries into the respective accounts.

If the applications are approved, a typical GS residential customer will see a net decrease of approximately $21.23 or a 3.03% decrease in their annual bill.

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