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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
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Eric Orton, Technical Consultant
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Date: October 25, 2016

Subject: Questar Gas, Docket Nos.
16-057-09 – 191 Pass-Through Application
16-057-10 – Conservation Enabling Tariff (CET)
16-057-12 - Low Income Assistance/Energy Assistance Rate
16-057-14 – 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. 16-057-09, 16-057-10 and 16-057-13 with an effective date of November 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. The Division also recommends that the Commission approve the requested rate change in Docket No. 16-057-12, the Low Income Assistance/Energy Assistance Rate. This docket does not require an audit and the Division does not request interim approval.

**ISSUE:**

On September 29, 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 four of the six action requests. The details and recommendations for Docket No 16-057-11 and 16-057-13 are addressed in separate memos; however, a summary of the combined rate impact of all six dockets has been included in this memo.

**Docket No. 16-057-09 –** The 191 Account Pass-Through filing asks for Commission approval to increase the commodity portion of the gas cost by $7.432 million and decrease the supplier non-gas cost portion of gas cost (SNG) by $0.153 million for a net increase of $7.279 million. Based on current rates, if approved individually, a typical GS residential customer will see an increase of $5.40 in their annual bill.

**Docket No. 16-057-10 –** The Conservation Enabling Tariff (CET) filing is a request to remove the current amortization, set the new amortization rate to $0.00 and leave the over-collected balance of $1.149 million in the balancing account. If approved individually, a typical GS residential customer will see a decrease of approximately $5.60 or 0.82% in their annual bill.

**Docket No. 16-057-12 –** The Low Income Energy Assistance filing is a request to adjust the collection rate in order to collect the approved $1.5 million plus an under collected amount of $7,049. The proposed customer credit will increase from $61.50 to $70.00. If approved individually, a typical GS residential customer will see a decrease of approximately $0.16 in their annual bill.

**Docket No. 16-057-14 –** The Daily Transportation Imbalance Charge filing is a request to adjust the imbalance charge calculation approved in Docket No. 14-057-31. This charge has been assessed only since February 2016 but is required to be recalculated as part of the 191 pass-through filing. The revised calculation is based on updated volumes through August 2016. If approved, the proposed change would increase the charge from $0.07839 per Dth to $0.08125 per Dth for daily imbalance volumes outside of a 5 percent tolerance for transportation customers.

**DOCKET NO. 16-057-09 – PASS-THROUGH APPLICATION - COMMODITY GAS COST AND SUPPLIER NON-GAS COSTS (191 Account Semi Annual Pass-Through)**

This filing is based on projected Utah gas costs of $555.194[1] million for the forecast test year ending October 31, 2017. The commodity portion of the gas cost is projected to increase by $7.432 million and the supplier non-gas cost portion of gas cost (SNG) projects a slight decrease of $0.153 million for a net increase of $7.279[2] million. The projected increase in the commodity cost in this filing is due to the combination of an increase in the forecast price of the purchased natural gas and the amortization of the over-collected commodity balance in the 191 account. The current forecast from Cambridge Energy Research Associates, Inc. (CERA) and PIRA Energy Group (PIRA) used in this Docket anticipate an average market price of $3.15 for the winter heating 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 $0.43 per Dth or 16% higher than the previous filing. As a partial offset to the increase in gas prices, the Company is amortizing an over-collected balance in the commodity portion of the 191 account. The amortization amount is increasing from ($0.18) per Dth in the previous filing to ($0.23) per Dth. The combination of the increase in gas cost and the amortization of the over-collected balance results in an increase in the commodity rate from $3.90 per Dth in the previous filing to $3.97 per Dth.[3]

**Gas Supply**

For the test year, November 2016 through October 2017, the Company is projecting a total system gas requirement of 116.349[4] million Dths. From the total requirement amount, 111.655[5] million Dths will be used to meet the projected sales requirement, 1.512[6] million Dths will be placed into storage and 3.182 million Dths will be used for gas volume reimbursement due to gathering, transportation and distribution fuel and shrinkage. Of the total gas requirement,

[1] Exhibit 1.6, Page 1, Line 1.
[2] 15-057-11 Pass-Through Model, Utah Summary-by Class, Line 24.
[3] Exhibit 1.6, Page 1, Column D, Line 9.
[4] Exhibit 1.4, Page 2, Column B, Line 3.
[5] Exhibit 1.6, Page 1, Column E, Line 4.
[6] Exhibit 1.4, Page 2, Column B, Line 4 + Line 5.

58.0%[7] will be satisfied from the Wexpro cost-of-service production, 17.8%[8] will be satisfied under current purchase contracts and 24.2%[9] will be purchased with future contracts and spot market transactions. The total expected fuel cost for the test period is $575.599 million.[10]

The cost-of-service gas production from all Wexpro production indicates a total cost of $339.127 million at an average cost of $5.03 per Dth.[11] 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 $292.380 million at an average cost of $5.06 per Dth[12] including gathering cost. The Wexpro II production has a projected cost of $46.747 million at an average cost of $4.84 per Dth[13] including gathering cost. 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.

The cost-of-service gas production includes the operator service fee (OSF) payable to Wexpro of $299.833 million[14] which is a decrease of $7.311 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. On June 29, 2016, the Division filed the Overland Consulting report under Docket No. 13-057-07. The Overland Report was an audit of the OSF for the years 2005 – 2014. The Division is continuing to review and evaluate the results of the audit and could make recommendations to the Commission based on the findings in the audit.

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[7] Exhibit 1.4, Page 2, Column B, (Line 1 / Line 3).
[8] Exhibit 1.2, Column B, Line 3 / Exhibit 1.4, Page 2, Column B, Line 3.
[9] Exhibit 1.2, Column B, Line 4 & 5 / Exhibit 1.4, Page 2, Column B, Line 3.
[10] Exhibit 1.4, Page 1, Column B, Line 17.
[11] Exhibit 1.4, Page 1, Column D, Line 12.
[12] Exhibit 1.4, Page 1, Column D, Line 5.
[13] Exhibit 1.4, Page 1, Column D, Line 10.
[14] Exhibit 1.1, Page 21, Line 1572.

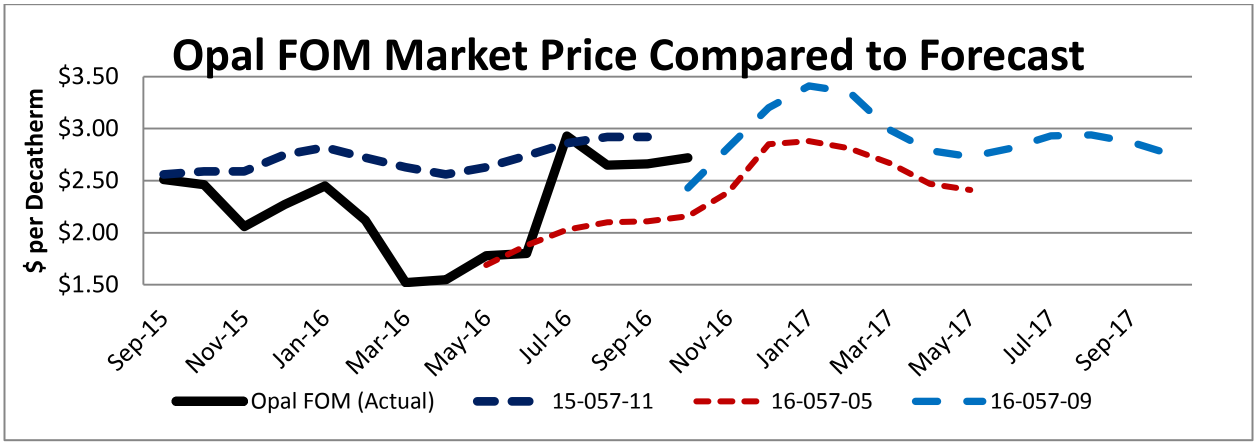
The purchased gas from third parties has a projected cost of $154.267 million at an average cost of $3.15 per Dth.[15] In this filing, the anticipated gas purchased from the open market is $1.87 per Dth lower than the Wexpro cost-of-service gas. The price of purchased gas has been lower than the cost-of-service 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**

As indicated in the chart below, the forecast market price for natural gas is higher than the previous forecast. 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 $3.15 per Dth[16] compared to $2.72 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. 15-057-11 and 16-057-05) The two previous filings have been included to show how the forecast price has changed over the past 12 months. The solid line included 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 fluctuated compared to the previous forecasts.

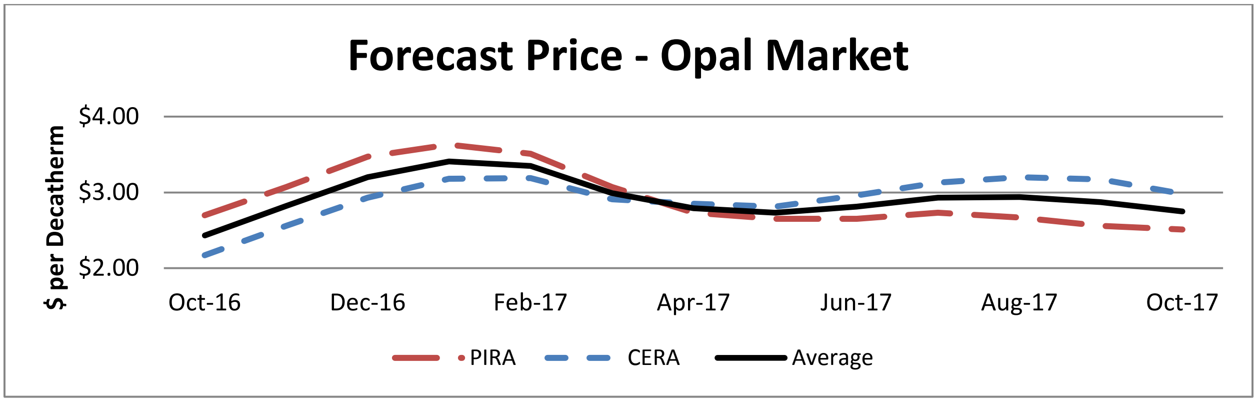
[15] Exhibit 1.4, Page 1, Column D, Line 13.
[16] Questar Pass-Through Model, Monthly Inputs Tab, Line 74.

Chart 1




The current market price forecast anticipates natural gas prices of approximately $2.78 per Dth during the summer months and $3.15 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, the U.S. Energy Information Administration's "Annual Energy Outlook," is projecting that natural gas prices will remain below $5/MMBtu through 2040.

**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. Gas that has been injected into storage is withdrawn during the high demand winter heating season.

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 20.680 million Dth or approximately 42.3% of the purchased gas requirement at an average price of $3.41 per Dth.[17] The balance of the purchase gas requirement will be satisfied with future spot market purchase transactions at an estimated price of $2.97 per Dth.[18]

**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 March and a $20.0 million under-collected balance in October. As of August 2016, the actual SNG balance was $11.580[19] million under-collected, which is close to historical averages. 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.

[17] Exhibit 1.2, Column C, Line 3.
[18] Exhibit 1.2, Column C, Line 4.
[19] Exhibit 1.6, Footnote 3.

The Company is projecting total SNG costs for the test period of $103.511[20] 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 $107.409[21] million. If the current rates are not adjusted, the SNG revenue collected is projected to be $107.562[22] million resulting in an estimated over collected balance of $0.153[23] million. In this filing, the Company is requesting a 0.14%[24] decrease in the total SNG rates in order to collect the appropriate SNG cost. The Division monitors the collection and balance of the SNG costs on a monthly basis.

**Comparison to Previous Filing**

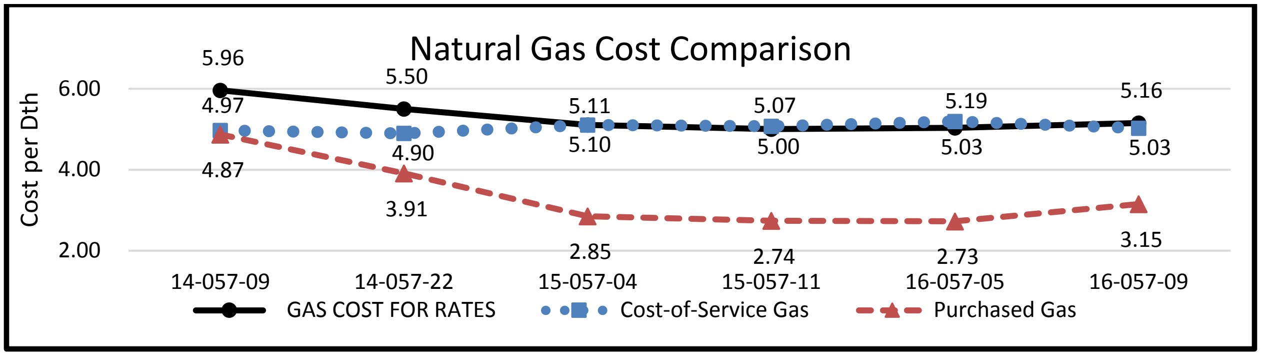
QGC Exhibit 1.1 provides a detailed review of the actual natural gas production for each of the Wexpro I and Wexpro II wells for the last 12 months. This historical production information is used to forecast the royalty payments that will be paid during the test period. The volumes identified in Exhibit 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 five 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, transportation and storage costs. The dotted line indicates the cost-of-service price

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

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 Wexpro cost-of-service gas has decreased to $5.03 per Dth compared to $5.19 per Dth in the previous filing while the price of purchased gas has increased to $3.15 per Dth compared to $2.73 per Dth in the previous filing. The total cost of gas used for rates has increased from $5.03 in the last pass-through to $5.16 due to the forecast increase in the cost of purchased gas.

**Effect on a typical GS Customer**

Based on the proposed rates in Docket No. 16-057-09, a typical GS residential customer would see an increase of $5.40 in their annual bill or an increase of 0.79% if approved individually. The Division recommends the Commission approve the Application on an interim basis, with an effective date of November 1, 2016.

**Legal Issues**

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.[25] 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

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

Court. Additional royalty payments owed as a result of this case could potentially be expected to be recovered from Questar Gas customers. [26]

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 was approved by Questar shareholders and by regulatory agencies in Utah and Wyoming. As of September 16, 2016, Questar Corporation became a wholly owned subsidiary of Dominion Resources.

[26] Questar 2015 Form 10-K, Note 10 – Contingencies, p. 87

## DOCKET NO. 15-057-12 - CONSERVATION ENABLING TARIFF (CET)

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 CET is a mechanism designed to ensure that the Company only collects from GS customers only the Commission authorized revenue per customer. The tariff sets forth procedures for recovering the allowed distribution non-gas (DNG) revenue per customer by means of periodic adjustments to rates. The rate changes requested in Docket No. 16-057-10 affect only the CET component of the distribution natural gas (DNG) rates of the GS rate class.

### Rate Details

In Docket No. 15-057-12, the Commission approved the amortization of a $6,521,745 under-collected amount in the 191.9 CET account. The previous under-collection has been recovered and the 191.9 account has an outstanding over-collected balance of $1,148,679. The Company is requesting to remove the current amortization, set the new amortization rate to $0.00 and leave the over-collected balance of $1,148,679 in the balancing account. Leaving an over collected balance in the account is a change from previous filings; however it appears reasonable due to the continued decrease in the usage per customer and the withdrawal of the 2016 general rate case.[27] The general rate case would have allowed the Company to reset the allowed revenue and usage per customer. The Company has requested to leave the over-collected balance in the account in an effort to offset future under-collection due to lower usage per customer. The Company will continue to pay interest on any over-collected balances.

Removing the amortization amount represents a decrease in the CET rate and QGC Exhibit 1.2, provides a summary of the changes in the winter and summer usage blocks. 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 decrease in the GS Block 1 summer rate is $0.05586/Dth[28] and $0.07595/Dth[29] for the winter rate.

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[27] 16-057-01, Dominion Resources Merger, Settlement Stipulation, August 22, 2016.
[28] 16-057-10, Exhibit 1.2, Column B, Line 23.
[29] 16-057-10, Exhibit 1.2, Column B, Line 25.

**Effect on a typical GS Customer**

If approved individually, a typical GS rate class customer would see a decrease in their annual bill of approximately $5.60 or 0.82%. The Division recommends the Commission approve the Application on an interim basis, with an effective date of November 1, 2016.

## DOCKET NO. 16-057-12 – LOW INCOME ASSISTANCE / ENERGY ASSISTANCE TARIFF RATE

The Division has reviewed the filing and exhibits and agrees with the calculations used to estimate the number of participants and the credit per customer. Based on the available balance, the forecast collection amounts in the test period and the estimated number of participants, the $70.00 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. 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 5 and monthly accounting entries for year 6. (August 2015 – July 2016) As of July 2016, the Company had under-collected $7,049 from ratepayers and has an unpaid balance of $285,699[30] in the 191.8 account. The combination of the unpaid balance and projected collections during the rate effective period will result in $1,792,748[31] available for credit to qualifying accounts.

The number of participants in this program has been decreasing each year since its inception. It is unclear if the improving economic conditions, recent changes in the HEAT administration program or the mild winter temperatures have caused the reduced participation. The previous 12 months showed the lowest participation level with only 22,656 customers receiving the credit. The proposed credit assumes a slight increase to 25,757 participants during the next 12 months

[30] Exhibit 1.1, Column F, Line 16.
[31] Exhibit 1.1, Column F, Line 25.

and still allows for an increase in the credit from $61.50 to $70.00 per customer. QGC Exhibit 1.2 column (F) shows the new low income assistance rate per Dth for each customer class.

**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 of $0.16 or 0.02% in their annual bill.

The Division supports the Company's filing, believes it is in compliance with Utah Code Ann. § 54-7-13.6 and is in the public interest. The Division recommends the Commission approve the Application with an effective date of November 1, 2016.

## DOCKET NO. 16-057-13 - 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 Dth applied to the daily imbalance volumes that were outside of a 5% daily tolerance threshold. The 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. The 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.

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 only 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. 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 imbalance rate was adjusted in the spring pass-through filing, Docket 16-057-06, and was reduced slightly to $0.07955. The proposed new rate of $0.08125 per Dth is an increase and is calculated based on the historical imbalance volumes for the previous 12 months ended August 31, 2016. 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. All amounts that are collected under this rate are credited to the SNG collection and could have a minor impact on the balance of the over or under collection in the 191 account for GS customers.

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

## SUMMARY AND CONCLUSION

The Company is required to file a pass-through application with the Commission at least twice per year. This semi-annual filing provides a regular review of the current market conditions and allows the Company to adjust rates on a semi-annual basis. The primary reason for the increase in rates with this filing is due to the increase in the forecast price for purchased gas, which is partially offset by 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.

In addition to the pass-through filing, the Company has filed five additional independent dockets with an effective date of November 1, 2016. Each docket has been independently evaluated and the customer impact for each docket has been calculated. Since all of the dockets have the same effective date, it is important to review the impact of the combined change in customer rates when all of the changes are consolidated. Below is a summary of the individual change of each docket and the net customer impact if all six of the dockets are approved.

| Docket | Title | $ Change | % Change |
|---|---|---|---|
| 16-057-09 | Pass Through | $5.40 | 0.79% |
| 16-057-10 | CET | ($5.60) | (0.82%) |
| 16-057-11 | DSM | ($4.26) | (0.63%) |
| 16-057-12 | Low Income | ($0.16) | (0.02%) |
| 16-057-13 | Infrastructure Tracker | $4.94 | 0.73% |
| 16-057-14 | Transportation Imbalance | N/A | N/A |
| | COMBINED IMPACT | $0.41 | 0.06% |

The net impact if all of the dockets are approved is an increase of $0.41 or 0.06% in a typical GS customer's annual bill. The Division supports and recommends the rate changes requested in Docket Nos. 16-057-09, 10, 11, 13 and 14 be approved by the Commission on an interim basis with an effective date of November 1, 2016 until the Division can complete an audit of the entries into the respective accounts. The Division also supports and recommends the rate changes requested in Docket No. 16-057-12 be approved by the Commission with an effective date of November 1, 2016. This docket does not require an audit and does not need interim approval. The proposed changes are in the public interest and represent just and reasonable rates for Utah customers.

The Division's recommendation for changes to the Demand Side Management rate in Docket 16-057-11 and the Infrastructure Tracker rate in Docket 16-057-13 have been provided in separate memos. Since the original filing, several changes and corrections have been made to the calculation of the DSM rate in Docket 16-057-11. This memo and the Division's memo for Docket 16-057-11 include the most recent information and accurately reflect the impact to customer rates. The Company will need to provide updated tariff sheets that reflect the changes to Docket 16-057-11. In addition, the Company will need to provide updated tariff sheets that reflect the combined impact to customer rates if the Commission were to approve all of the applications.

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