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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 23, 2017

Subject: Questar Gas, Docket Nos.
17-057-07 – 191 Pass-Through Application
17-057-08 – 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. 17-057-07 and 17-057-08 with an effective date of June 1, 2017. 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 1, 2017, 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. 17-057-07** – The 191 Account Pass-Through asks for Commission approval to increase the commodity rate components of Questar's Utah natural gas rates by $5.729 million and increase the supplier non-gas cost rate components by $7.112 million for a net increase of

$12.841 million. Based on current rates, if approved, a typical GS residential customer will see an increase of $9.25[1] in their annual bill.

**Docket No. 17-057-08** – The Daily Transportation Imbalance Charge filing is a request to adjust the imbalance charge calculation approved in Docket No. 14-057-31. The imbalance charge began in February 2016 and is required to be recalculated as part of the 191 pass-through filing. The revised calculation is based on updated volumes through March 2017. If approved, the proposed rate would increase from $.08125 to the proposed rate of $0.08457 for daily imbalance volumes outside the ± 5% tolerance for transportation customers.

**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 $563.658[2] million for the forecast test year ending May 31, 2018. The commodity portion of the gas cost represents an increase of $5.729 million and the supplier non-gas cost portion (SNG) represents an increase of $7.112 million for a net increase of $12.841[3] million. The details of the increase in the SNG rate will be discussed below. The projected increase in the commodity cost in this filing is due to the combination of a reduction in the commodity gas cost and a reduction of the over collected amortization 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 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 $0.13 per Dth lower than the previous filing. While the average price of purchased gas is lower, the total commodity cost is higher than the previous filing. This is due to the reduction in the amortization for previous over-collection in the 191

[1] Exhibit 1.7, Column F, Line 13.
[2] Exhibit 1.5, Page 1, Line 15, Column E.
[3] 17-057-07 Pass-Through Model, Utah Summary-by Class, Line 24, Column Q.

account. In the previous filing the amortization credit was ($0.23) per Dth compared to the proposed credit of ($0.05) per Dth. The combination of the ($0.13) reduction in the gas cost and the $0.18 change in the amortization results in a $0.05 increase in the commodity rate from $3.97 to $4.02.[4]

**Gas Supply**

For the test year, June 2017 through May 2018, the Company is projecting a total system requirement of 118.656[5] million Dths. From the total requirement amount, 114.972[6] million Dths will be used to meet the projected sales requirement, 0.429[7] million Dths will be placed into storage and 3.255 million Dths will be used for gas volume reimbursement due to gathering, transportation and distribution fuel and shrinkage. Of the total gas requirement, 57.3%[8] will be satisfied from the Wexpro cost-of-service production, 18.2%[9] will be satisfied under current purchase contracts and 24.5%[10] will be purchased with future contracts and spot market transactions. The total expected fuel cost for the test period is $584.309 million.[11]

The cost-of-service gas production from all Wexpro production indicates a total cost of $333.468 million at an average cost of $4.91 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 $280.204 million at an average cost of $5.15 per Dth[13] including gathering cost. The Wexpro II production has a projected cost of $53.264 million at an average cost of $3.93 per Dth[14] including gathering cost. The Wexpro II costs are lower than the previous filing due to the

[4] Exhibit 1.6, Page 1, Column D, Line 9.
[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.

increased production from the Canyon Creek wells and the addition of the Vermillion properties. 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.

The cost-of-service gas production includes the operator service fee (OSF) payable to Wexpro of $295.569 million,[15] which is a decrease of $11.575 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 previous filings. On June 29, 2016, the Division filed a report from Overland Consulting related to an audit of the Wexpro Operator Service Fee from 2005 – 2014. The Division is currently working with the Company to address the issues identified in the Overland report.

The purchased gas from third parties has a projected cost of $157.529 million at an average cost of $3.11 per Dth.[16] In this filing, the anticipated gas purchased from the open market is $1.80 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.

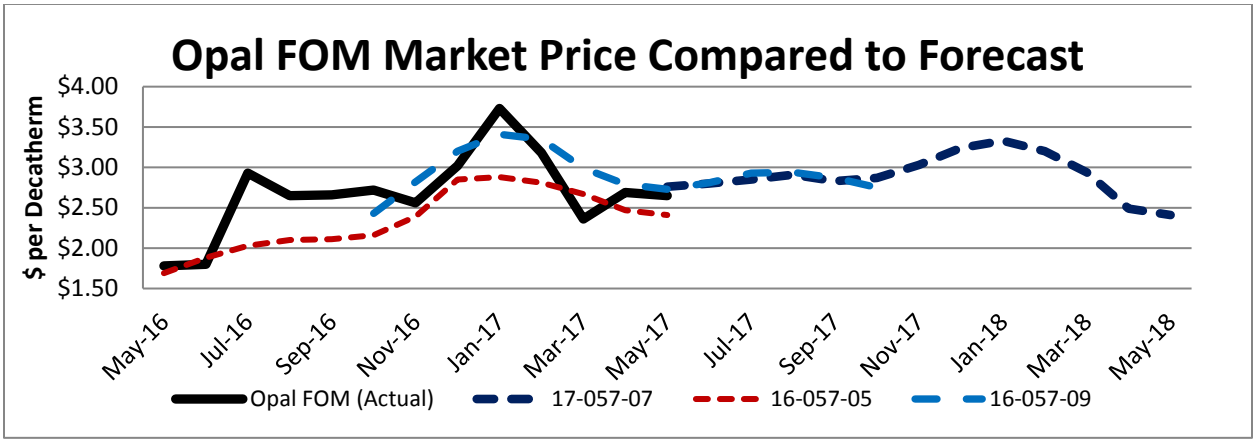
**Natural Gas Prices**

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 only during the winter months. In the current filing, the Company utilizes a forecast winter price of $3.15 per Dth.[17] Chart 1 below, provides a comparison of the forecast prices used in the current and the two previous pass-through applications. (Docket Nos. 16-057-05 and 16-057-09) 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,

[15] Exhibit 1.1, Page 21, Line 1583.
[16] Exhibit 1.4, Page 1, Column D, Line 13.
[17] Questar Pass-Through Model, Monthly Inputs Tab.

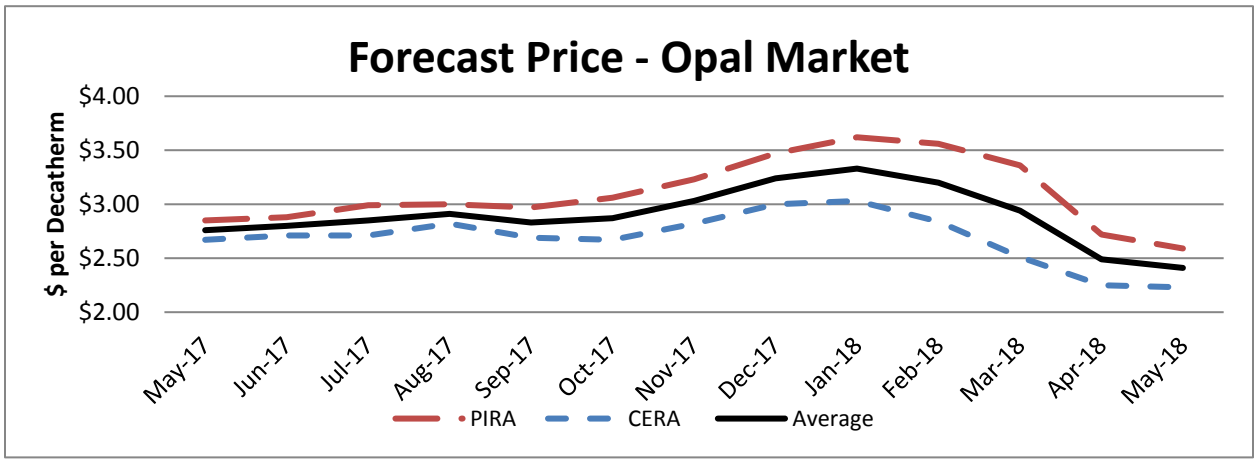
Wyoming. (Opal FOM) The historical price has been included to show the fluctuation in the market price and to provide a comparison of the forecast price used in the previous filings to the actual FOM market price. The historical actual price comparison shows how the market prices have fluctuated compared to the previous forecasts.

Chart 1




The market price forecast anticipates low natural gas prices of approximately $2.74 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, CERA and PIRA. The two price forecasts along with the average are displayed in Chart 2 below. It is interesting to note that the forecast market price in May 2018 is lower than the forecast price in May 2017.

Chart 2




From a long-term perspective, according to the U.S. Energy Information Administration's "Annual Energy Outlook," natural gas prices are projected to remain below $5/MMBtu through 2030. (Assumes 2016 dollars)

**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 21.610 million Dth or approximately 42.6% of the purchased gas requirement at an average price of $3.35per Dth.[18] The remaining 29.091 million Dth of the purchase gas requirement will be satisfied with future contract arrangements and spot market purchase transactions at an estimated average price of $2.92 per Dth.[19]

**Supplier Non-Gas Costs (SNG)**

[18] Exhibit 1.2, Column C, Line 3.
[19] Exhibit 1.2, Column D, Line 4 & 5 / Column B, Line 4 & 5.

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. 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 $113.176[20] million for the forecast test-year plus the $4.715 million amortization of the under collected amount from the previous filing for a total of $117.891[21] million. If the current rates are not adjusted, the SNG revenue is projected to collect $110.779[22] million resulting in an estimated under collected balance of $7.112[23] million. In this filing, the Company is requesting a 6.43%[24] increase in the total SNG rates in order to collect the appropriate SNG cost.

The primary reasons for the increase in SNG costs in this filing are the changes in the Kern River transportation contracts, the new peak hour transportation service contract and the proposed charges for storage in the Ryckman facility. In previous filings the cost of transportation contracts have been more stable but new or renegotiated contracts occur from time to time. The

[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.

new transportation contracts were also discussed in the IRP Docket No. 16-057-08 and the contract amounts included in this filing match the peak day transportation requirement identified in the IRP forecast. The Kern River contracts were changed to match the current conditions and Ryckman storage has been included in anticipation of the full operation of this new storage facility. The concept of a peak hour and the associated contract is new and the Division has been meeting regularly with the Company to better understand why this contract is needed and how the peak hour contract will work. The $0.874 million cost for the peak hour contract has been included in this filing and additional information will be presented to the Commission concerning the peak hour issue under Docket No. 17-057-09. Approval of this new contract cost on an interim basis will allow additional time for the Division to complete further investigation into the peak hour issue.

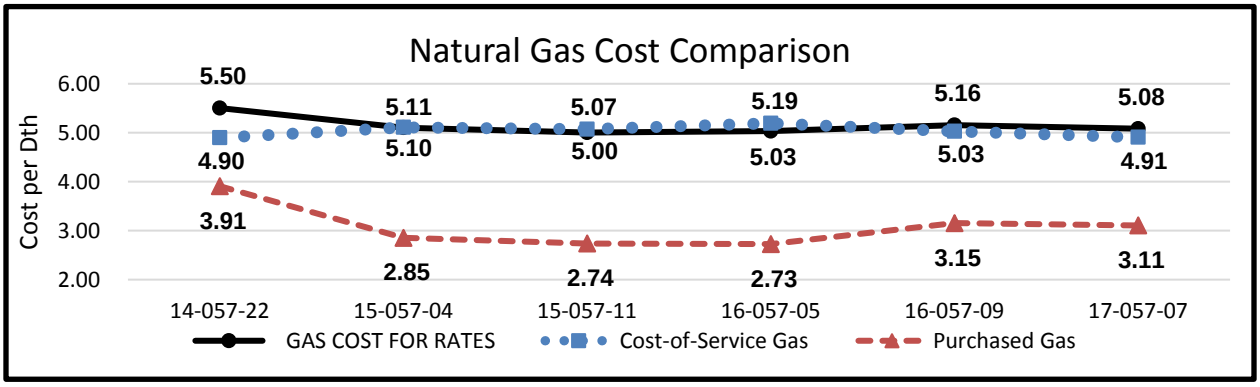
**Comparison to Previous Filing**

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 previous pass-through filings, the Division has prepared Chart 3 below. This chart provides a comparison of projected gas cost per Dth in the current filing with the projected cost from the previous 5 pass-through filings. This chart also provides a summary and comparison of the price change for COS gas from Wexpro with the change in the price for market purchases. 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 per Dth for COS gas production and includes 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 decreased to $4.91 compared to $5.03 per Dth in the previous filing and purchased gas has also decreased to $3.11 compared to $3.15 per Dth. The total gas cost for rate purposes has decreased to $5.08 compared to $5.16 in the last pass-through filing.

**Effect on a typical GS Customer**

If the proposed rates are approved, a typical GS residential customer would see an increase of $9.25 in their annual bill or an increase of 1.36%.[25] The Division recommends the Commission approve the Application on an interim basis, with an effective date of June 1, 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 to transportation customers for daily nomination imbalance volumes that were outside of a 5% daily tolerance threshold. This 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

[25] Exhibit 1.7, Line 14, Column F.

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 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 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 $0.08457 per Dth is an increase from the current $0.08125 per Dth and is calculated based on the historical imbalance volumes for the previous 12 months ended March 31, 2017. The Division is continuing to review the daily nomination information for all transportation customers that was provided as Exhibit 1.1. While it does appear that the nominations have become more accurate since this rate was imposed, there are still a number of individual customers with gas nominations that fall outside the acceptable range. The Division will continue to analyze the historical nominations and will make recommendations if necessary. The nomination process and the impact of transportation customers on the Questar system will also be reviewed and discussed in greater detail in Docket 17-057-09.

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, 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

customer's nomination process. This rate has a related impact on GS customers as the imbalance charge collected from TS customers is 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 June 1, 2017.

**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 adjust rates on a semi-annual basis. The primary reason for the increase in rates with this filing is the reduction in the amortization of the over-collected balance in the 191 account and the increase in SNG cost for transportation and storage. 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. 17-057-07 and 17-057-08 be approved by the Commission on an interim basis with an effective date of June 1, 2017, after which the Division will complete an audit of the entries into the respective accounts. If the applications are approved, a typical GS residential customer will see a net increase of approximately $9.25 or a 1.36% increase in their annual bill.

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