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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
Eric Orton, Technical Consultant

Date: October 23, 2017

Subject: Questar Gas, Docket Nos.
17-057-20 – 191 Pass-Through Application
17-057-21 – 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. 17-057-20 and 17-057-21 with an effective date of November 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. The Division also recommends that the Commission set a separate schedule to allow additional time for the Division and other parties to review the Company's transportation contracts and the models used to determine the system planning requirements.

ISSUE:

On October 2, 2017, Questar Gas Company dba Dominion Energy (Company) filed the applications identified above with the Public Service Commission (Commission) and the Commission issued an Action Request to the Division of Public Utilities. This memo is the Division's response to the Action Request.

Docket No. 17-057-20 – The 191 Account Pass-Through filing asks for Commission approval to increase the commodity rate components of the Company's Utah natural gas rates by $22.466 million and to increase the supplier non-gas cost rate components by $2.104 million for a net increase of $24.570 million. Based on current rates, if approved, a typical GS residential customer will see an increase of $17.74[1] or 2.55% in their annual bill.

Docket No. 17-057-21 – The Daily Transportation Imbalance Charge filing is a request to adjust the imbalance charge calculation approved in Docket No. 14-057-31. The transportation imbalance charge began in February 2016 and is required to be recalculated twice each year as part of the 191 pass-through filing. The revised calculation is based on updated volumes through August 2017. If approved, the proposed rate would decrease from $.08457 to the proposed rate of $0.07919. This rate applies to transportation customers with daily imbalance volumes outside the ± 5% tolerance level.

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 $567.734[2] million for the forecast test year ending October 31, 2018. The commodity portion of the gas cost represents an increase of $22.466 million and the supplier non-gas cost portion (SNG) represents an increase of $2.104 million for a net increase of $24.570[3] million. The details of the increase in the SNG rate will be discussed below. The projected increase in the commodity cost is due primarily to the under collection in the 191 account resulting in an increase in the amortization rate.

The test-year cost of gas consists of cost-of-service gas from Wexpro, contract and market purchases and storage and transportation cost. The forecast price for cost-of-service production has come down, predicting a cost of $4.81 per Dth[4] compared to $4.91 per Dth in the previous filing. Market and contract purchases for natural gas have increased and are projected to cost

[1] Exhibit 1.7, Column F, Line 13.
[2] Exhibit 1.5, Page 1, Line 15, Column E.
[3] Application, page 2.
[4] Exhibit 1.4, Page 1, Column D, Line 12.

$3.23 per Dth[5] compared to $3.11 in the previous filing. Due to the large volume of cost of service gas from Wexpro, market purchases are planned only during the winter months. Transportation costs have increased from $0.56 per Dth in the previous case to $0.58 per Dth[6] in the current filing and will be addressed in greater detail below. In total, the proposed base gas cost for customer rates will increase slightly from $4.06830 per Dth to $4.08676 per Dth or an increase of $0.01846.

The primary reason for the proposed increase in this filing is due to the amortization of the under collected balance in the 191 account. In the previous filing, the account 191 balancing account was $5.419 million over collected and the commission approved a credit amortization of ($0.05) per Dth. As of August 31, 2017, the 191 account has an under collected balance of $15.0 million.[7] In order to collect the under collected balance, the proposed amortization will add $0.14 per Dth to the current commodity cost. The combination of the $0.02 increase in the base gas cost and the $0.18 increase in the amortization rate result in a $0.20 increase in the total commodity rate from $4.02 to $4.22.[8] Total Dth sales are anticipated to be nearly the same as the amount projected in the previous filing. It is the Division's understanding that one of the main reasons for the under collection in the 191 account during the summer months is due to the price difference between the cost-of-service gas and the tariff rate that is billed to customers. The Division will continue to review the causes for the under collection in the summer months and will make recommendations if necessary.

Gas Supply

For the test year, November 2017 through October 2018, the Company is projecting a total system requirement of 119.363[9] million Dths. From the total requirement amount, 114.953[10] million Dths will be used to meet the projected sales requirement, 1.016[11] million Dths will be

[5] Exhibit 1.4, Page 1, Column D, Line 13.
[6] Exhibit 1.4, Page 1, Column D, Line 15.
[7] Application, Page 7, Paragraph 11.
[8] Exhibit 1.6, Page 1, Column D, Line 9.
[9] Exhibit 1.4, Page 2, Column B, Line 3.
[10] Exhibit 1.6, Page 1, Column E, Line 4.
[11] Exhibit 1.4, Page 2, Column B, Line 4 + Line 5.

placed into storage and 3.394 million Dths will be used for gas volume reimbursement due to gathering, transportation and distribution fuel and shrinkage. Of the total gas requirement, 58.9%[12] will be satisfied from the Wexpro cost-of-service production, 20.2%[13] will be satisfied under current purchase contracts and 20.9%[14] will be purchased with future contracts and spot market transactions. The total expected fuel cost for the test period is $588.525 million.[15]

The cost-of-service gas production from all Wexpro production indicates a total cost of $338.183 million at an average cost of $4.81 per Dth.[16] 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 $280.281 million at an average cost of $5.13 per Dth[17] including gathering cost. The Wexpro II production has a projected cost of $57.902 million at an average cost of $3.71 per Dth[18] including gathering cost. The Wexpro II costs are lower than the previous filing due to the increased production from the Canyon Creek wells and the addition of the Vermillion properties. It should be noted that the price of cost-of-service gas from Wexpro remains significantly higher than the price of market purchased gas. Wexpro has reported that the new drilling in the Wexpro II properties is producing gas at below market prices; however the small volumes do not have a significant impact on the total cost-of-service price.

The cost-of-service gas production includes the operator service fee (OSF) payable to Wexpro of $297.228 million,[19] which is an increase of $1.658 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.

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[12] Exhibit 1.4, Page 2, Column B, (Line 1 / Line 3).
[13] Exhibit 1.2, Column B, Line 3 / Exhibit 1.4, Page 2, Column B, Line 3.
[14] Exhibit 1.2, Column B, Line 4 & 5 / Exhibit 1.4, Page 2, Column B, Line 3.
[15] Exhibit 1.4, Page 1, Column B, Line 17.
[16] Exhibit 1.4, Page 1, Column D, Line 12.
[17] Exhibit 1.4, Page 1, Column D, Line 5.
[18] Exhibit 1.4, Page 1, Column D, Line 10.
[19] Exhibit 1.1, Page 21, Line 1602.

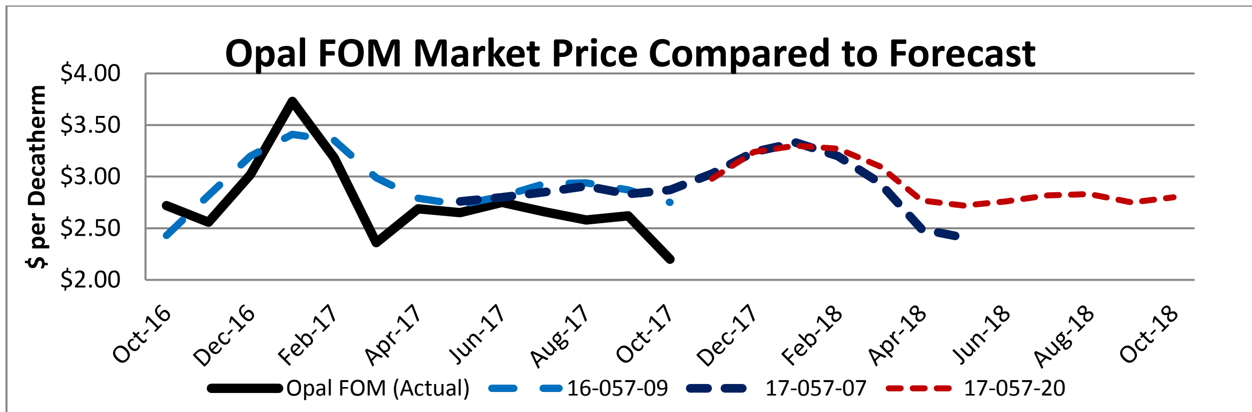
On June 28, 2017, The Division of Public Utilities, Dominion Energy Utah and Dominion Energy Wexpro signed a Memorandum of Understanding (MOU) to address items that were identified in the audit period and to clarify procedures going forward. As a result of the MOU, the Company made adjustments to the balance in the 191 Account. The Division has reviewed the entries to the 191 Account and believes that the Company has entered the adjustment amount agreed to in the MOU. In addition to the MOU, on August 31, 2017, Parties executed two guideline letters to address and clarify the procedures for periods not included in the Overland Audit as well as future periods. The first guideline letter addresses oil revenue sharing and the second guideline letter addresses incentive compensation related to financial goals. The MOU along with the guideline letters have addressed the issues identified from 2009 – 2014 in the Overland Report and no further action will be necessary. The guideline letters have also been included on the Company's website. With this portion of the 191 audit complete, the Division will soon be recommending that some of the prior year Pass-Through filings that were approved with interim rates be made permanent.

Natural Gas Prices

The forecast price for natural gas in the test period is similar to the previous forecast for the winter months but does show a slight increase. Since market purchases are anticipated only during the winter months, the Company model uses the forecast market price for spot purchases in the winter months. In the current filing, the Company utilizes an average forecast winter price of $3.18 per Dth[20] for spot purchases. Chart 1 below, provides a comparison of the forecast prices used in the current and the two previous pass-through applications. (Docket Nos. 16-057-09 and 17-057-07) and has 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 FOM market price.

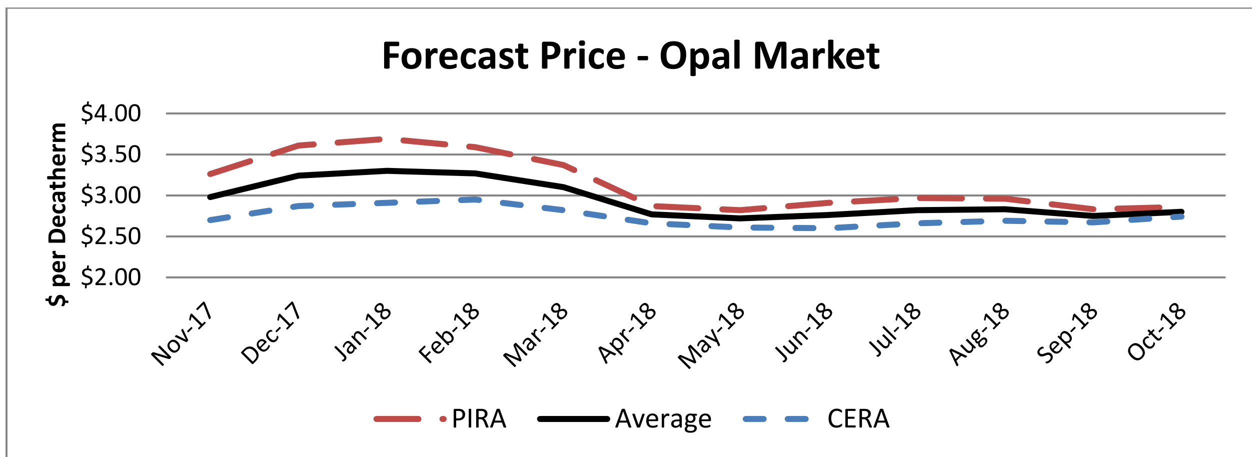
[20] Questar Pass-Through Model, Monthly Inputs Tab.

Chart 1



The current market price forecast anticipates natural gas prices of approximately $2.78 per Dth during the summer months and $3.18 per Dth in the winter months and 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. The current forecasts are not significantly different than the previous forecast used in the previous pass-through filing.

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)[21]

[21] EIA Annual Energy Outlook 2017, Natural Gas at Henry Hub (dollars per million Btu) (2016 $/MMBtu).

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 24.126 million Dth or approximately 49.1% of the purchased gas requirement at an average price of $3.34 per Dth.[22] The remaining 24.961 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 $3.12 per Dth.[23]

Supplier Non-Gas Costs (SNG)

In contrast to the price volatility that can occur with the market price of natural gas, the SNG costs have historically been 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 are collected through volumetric rates, which are set assuming 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 SNG costs

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

included in the 191 balance. The amortization of the over or under collection is established annually in the spring pass-through filing.

While SNG costs have historically been more stable, over the past 2 years SNG costs have increased by $16.1 million, which represents an 18.7% increase.[24] During this same time sales volumes have increased by only 1.6%.[25] The majority of the increase in SNG cost is due to increased transportation and gathering cost. The Company is projecting total SNG costs for the test period of $115.276 million[26] for the forecast test-year plus the $4.715 million amortization of the under collected amount determined in the previous filing for a total of $119.991 million.[27] If the current rates are not adjusted, the SNG revenue is projected to collect $117.886[28] million resulting in an estimated under collected balance of $2.105[29] million. In this filing, the Company is requesting a 1.79%[30] increase in the total SNG rates in order to collect the forecast SNG cost.

The primary reasons for the increase in SNG cost is due to the addition of the Dominion Energy Questar Pipeline (DEQP) peak hour transportation contract and an increase in the Wexpro II gathering charge. In addition, the Company has recently purchased additional Kern River transportation contracts. These existing contracts were purchased from Citadel and Sequent due to the attractive price and segmentation feature that is no longer available on new contracts with Kern River.

The Ryckman storage contract in this filing includes $2.7 million in demand charges but does not include a storage commodity charge. The removal of a commodity charge for this contract represents a change from the previous filing. The Company does not anticipate using the Ryckman storage facility in the next 12 months but was obligated to pay the $2.7 million demand fee due to previous contract commitments. The Ryckman facility has had a number of delays and is currently in bankruptcy. Page 6 of the application indicates that storage service at

[24] Exhibit 1.6, Column F, Line 5 minus Docket No. 15-057-11 Exhibit 1.6, Column F, Line 5.
[25] Exhibit 1.6, Column F, Line 4 minus Docket No. 15-057-11 Exhibit 1.6, Column F, Line 4.
[26] Exhibit 1.6, page 2, Column D, Line 1.
[27] Exhibit 1.6, page 2, Column D, Line 3.
[28] Exhibit 1.6, page 2, Column D, Line 4.
[29] Exhibit 1.6, page 2, Column D, Line 5.
[30] Exhibit 1.6, page 2, Column D, Line 7.

Ryckman began on April 1, 2017. The initial injection and withdrawal was limited and the Company does not anticipate using this facility during the test period.

The concept of a peak hour requirement and the associated transportation contracts with Kern River Gas Transportation Company (Kern River) and Dominion Energy Questar Pipeline (DEQP) have been the subject of ongoing discussion in this Docket as well as other Dockets. In Docket No 17-057-09 the Company asked for Commission approval to allocate a portion of the peak hour contracts to transportation customers and a hearing was held on September 26, 2017. As of the date of this memo, the Commission has not issued an order in this Docket and the issue of the need for peak hour service is still in question. The Division has met with Company representatives on a number of occasions to better understand the peak hour issue and how the peak hour contracts are used. This filing includes the $0.874 million peak hour contract with Kern River from the last filing and adds an additional $1.488 million peak hour service contract with DEQP. This is the first pass-through filing that has included the DEQP peak hour contract. The Division supports approval of the costs identified in this filing on in interim basis, subject to refund and true-up, but will need additional time to conduct a more extensive review of the transportation contracts and the assumptions used to determine the peak planning day requirements. Parties in this Docket have agreed to a more lengthy time schedule to review the transportation issues that are included in the pass-through filing and will recommend a schedule for discovery and testimony to the Commission. At the conclusion of the extended review portion of this Docket, adjustments could be made to the 191 balancing account. If adjustments are made, the balancing account would include interest charges so ratepayers would not be adversely impacted.

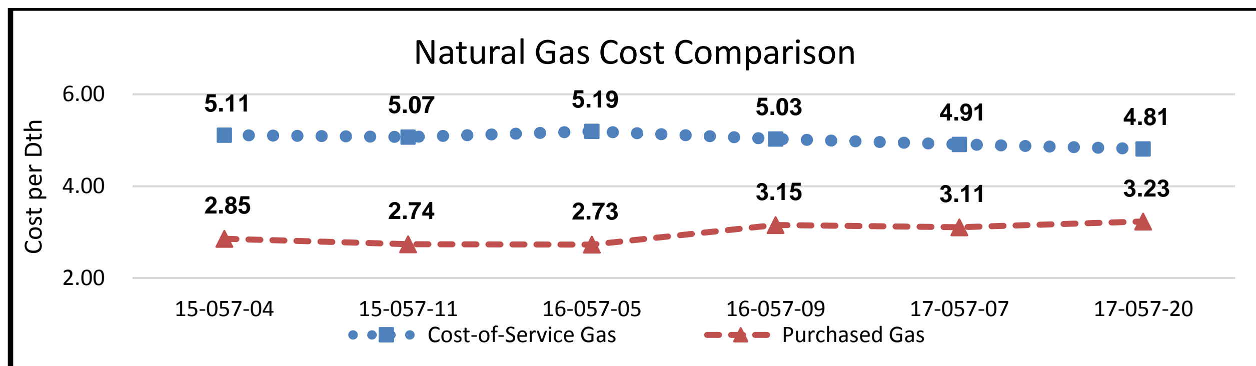
Comparison to Previous Filing

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 to 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 only to estimate the royalty payment for the test period. 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.

The Company's application provides a forecast of anticipated costs and revenue for the test period as Exhibit 1.4. In order to compare 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 cost per Dth for cost-of-service and purchased gas in the current filing compared to the previous 5 pass-through filings. 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 $4.81 compared to $4.91 per Dth in the previous filing and purchased gas has increased to $3.23 compared to $3.11 per Dth. While the price of cost-of-service production has come down, the market price continues to be significantly lower than the Wexpro production. The Company has not indicated when it anticipates the cost-of-service price to be comparable with market purchases.

Effect on a typical GS Customer

If the proposed rates are approved, a typical GS residential customer would see an increase of $17.74 in their annual bill or an increase of 2.55%.[31] The Division recommends the Commission approve the Application on an interim basis, with an effective date of November 1, 2017.

DOCKET NO. 17-057-21 - 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 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 $0.007919 per Dth is a decrease from the current $0.08457 per Dth and is calculated based on the historical imbalance volumes for the previous 12 months ended August 31, 2017. The Division is continuing to review Exhibit 1.1, which includes 186,000 lines of daily nomination information for all transportation customers. 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

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

will continue to analyze the historical nominations and will make recommendations if necessary. The nomination process and the impact of transportation customers on the Company's distribution system continue to be a concern in this as well as other Dockets.

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 recommends approving 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 would likely 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, 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 due to the under collection in the 191 account resulting in an increase in the commodity amortization rate. 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. 17-057-20 and 17-057-21 be approved by the Commission on an interim basis with an effective date of November 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 $17.74 or a 2.55% increase in their annual bill.

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