



State of Utah

DEPARTMENT OF COMMERCE
Committee of Consumer Services

To: The Public Service Commission of Utah

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Date: 9 June 2004

Subject: In the Matter of the Application of Questar Gas Company: Request for an Accounting Order Regarding Treatment of Transmission Line Safety Compliance Costs; Docket No. 04-057-03

1 BACKGROUND

In April 2004, Questar Gas Company (QGC or Company) filed an Application for an Accounting Order (Application) Regarding Treatment of Transmission Line Safety Compliance Costs. The anticipated increase in transmission line safety compliance costs are the result of new federal requirements of the Pipeline Safety Improvement Act of 2002 49 USC §§ 60101 et. seq., effective December 17, 2002, and the Final Rule regarding "Pipeline Integrity Management in High Consequence Areas (Gas Transmission Pipelines)," 49 CFR Part 192, effective January 14, 2004. In its application, QGC describes the requirements of the new Act and Final Rule as follows:

The new federal requirements under the Act and the Final Rule require gas transmission pipeline operators to perform ongoing assessments of pipeline integrity, to improve data collection, integration, and analysis, to repair and remediate transmission pipelines as necessary to implement preventative and mitigative actions. The initial pipeline integrity management program framework

and subsequent program must, at a minimum, include the following requirements: (a) an identification of all High Consequence Areas (HCA) (areas in part determined by population density, by proximity to schools or hospitals and by numbers of nearby occupied buildings); (b) a baseline assessment plan; (c) an identification of threats to applicable pipeline segments, which must include data integration and a risk assessment; (d) a direct assessment plan; (e) a remediation plan; (f) a process for continual evaluation and assessment; (g) a preventive and mitigation plan; (h) a performance plan that includes record keeping; (i) a quality assurance process; and (j) a communications plan... (Application at pages 2 – 3)

In its application, QGC requests permission to set up a regulatory asset in order to defer costs directly associated with its compliance to the mandates of the Act and Final Rule. The costs subject to deferral would be incremental costs that would otherwise be recorded as operation and maintenance (O&M) expense and would include expenditures for data management, pipeline assessment and repair, maintenance and modifications. These costs would include direct internal labor, labor overhead, tools and work equipment, materials, contractors, consultants, software and other direct costs, with no indirect costs being included. It will not include costs that would otherwise be capitalized as plant in service. The costs would be recorded in Account 182.313- Other Regulatory Assets – Pipeline Integrity.

2 ANALYSIS

According to QGC's application, QGC does not yet have "...sufficient experience nor cost data to accurately forecast the costs required to comply with this program." However, QGC has initially estimated that the O&M expenses, which include labor and pipeline integrity assessments, will range from \$2 million to \$5 million per year. This excludes capital costs. The \$2 million to \$5 million estimate includes costs associated with: initial program development, staffing, technology and data management, integrity assessments, remedial work, additional preventative maintenance and mitigative measures. QGC also maintains it does not yet have a track record established to provide firmer estimates of the costs that may need to be incurred under the new requirements. The Committee recognizes that \$2 million to \$5 million in incremental annual expenditures could have a significant impact on QGC's earnings. The Committee also acknowledges that the costs are mandated and were not raised as an issue at the time of QGC's last rate case filing in Docket No. 02-057-02.

The Committee, however, is concerned about the lack of detail in the cost estimates. In the event these cost estimates are not realized as projected, or QGC's overall cost level increases only marginally, then deferral of the pipeline safety costs would be inappropriate and result in recovery of a single-issue item. There is also a concern that

employees may be shifted from other projects or functions, with the Company receiving deferral of employee costs that were otherwise considered in setting QGC's rates.

3 RECOMMENDATION

The Committee does not oppose QGC's proposal to defer only the incremental costs that would otherwise be charged to O&M expense that are directly related to QGC's compliance with the Act and the Final Rule. However, the Commission should require QGC to keep adequate and complete records to clearly demonstrate that the costs it defers are incremental and would not otherwise have been incurred absent the Act and the Final Rule. For any employee-related costs deferred, the Company should be required to clearly demonstrate that these costs are incremental. If additional employees are retained specifically for the project, QGC should still be required to track its overall employee levels, by month, during the entire period in which the costs are deferred to clearly demonstrate that the employee costs being deferred are, in fact, incremental.

The Committee also recommends that the Order in this docket specify that it does not approve the costs for recovery in rates at this time. Rather, such costs should be subject to review in a general rate case prior to being recovered from customers in rates. At the time of the next general rate case, QGC should be required to provide full support and documentation for each cost it has recorded in the deferral account and any additional information necessary to clearly demonstrate that the costs are incremental in nature and qualify for deferred accounting as outlined in the Division's memo to the Commission of 25 May 2004. Additionally, if the actual costs are not significant compared QGC's overall operating costs and revenues, then those costs may not be recovered in the future from ratepayers, but rather would be considered normal expenses at the time of the next rate case. The Committee recommends that approval of deferred accounting for the incremental transmission line safety compliance costs will not constitute any determination of the rate-making treatment regarding the deferred costs or any determination regarding the prudence, calculation, or method of recovery of the deferred costs.