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BEFORE THE

PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Filing of Questar Gas Company's Integrated Resource Plan for the Year: May 1, 2007 to April 30, 2008	)	Docket No. 07-057-01 **QUESTAR GAS COMPANY COMMENTS**

On June 4, 2007, the Utah Public Service Commission (Commission) issued a Request for Comments (Request) in Docket No. 07-057-01, In the Matter of Questar Gas Company's Integrated Resource Plan for Plan Year: May 1, 2007 to April 30, 2008. In the Request, the Commission invited all interested parties to comment on "the appropriateness of the IRP and to make recommendations on whether the Commission should acknowledge the plan" as required by Commission's integrated resource plan (IRP) guidelines approved in its Order on Final Guidelines (Final IRP Guidelines) on September 26, 1994 in Docket No. 91-057-09. Additionally, the Commission invited comment on whether changes should be made to the approved IRP requirements and, if so, the process by which such changes should be addressed.

On June 19, 2007, the Division of Public Utilities (Division) filed a memorandum with the Commission requesting an extension to respond to the Commission's request for comments to August 3, 2007. This request was granted by Commission Notice on June 28, 2007. On June 26, 2007, Questar Gas Company (Questar Gas) filed for a further continuance to September 4, 2007, to file responsive comments. Questar Gas' Motion for Continuance was granted on July 31, 2007 by the Commission's Second Notice of Extension for Filing of Comments.

Questar Gas submits the following comments in response to the Request:

I. INTRODUCTION

Questar Gas has been filing IRPs pursuant to the Modified IRP Guidelines, as agreed to by the Division, Committee and Questar Gas, for the last eight years. In 1999, prior to implementing the Modified IRP Guidelines, the Company contacted Commission legal counsel and was told to file in accordance with the Modified IRP Guidelines. The process has been working well and has improved with each plan year. During those years, the Committee and Division representatives have thoroughly analyzed the SENDOUT Model, asking data requests, participating in public meetings, and performing their own independent reviews. Neither the Committee nor the Division has complained about the process and both have actively participated. The Modified IRP Guidelines are in fact more rigorous and stringent in their requirements than were the Final IRP Guidelines. Questar Gas believes that the Modified IRP Guidelines have been accepted and approved at least implicitly and that the appropriate discussion at this time is whether they should be updated. The Company believes that the Modified IRP Guidelines should be updated to include a requirement that demand-side management programs should be modeled annually and that price stabilization measures should be implemented.

II. BACKGROUND

On September 26, 1994, the Commission issued the Final IRP Guidelines in Docket No. 91-057-09, "In the Matter of the Analysis of an Integrated Resource Plan for Mountain Fuel

Supply Company," to be used by Mountain Fuel Supply Company (subsequently Questar Gas Company) in the development of its IRPs. During late 1997 and early 1998, the Division, the Utah Committee of Consumer Services (Committee) and Questar Gas met to discuss ways to incorporate changes in the IRP standards that would more accurately reflect the natural evolution that had occurred since the original guidelines were issued. On April 17, 1998, the Division, Committee and Questar Gas jointly filed with the Commission the Modified IRP Guidelines. Therefore, Questar Gas believes that the Commission has at least implicitly approved the Modified IRP Guidelines and has allowed Questar Gas to proceed with filing annual IRPs pursuant to the Modified IRP Guidelines.

Questar Gas has engaged in a formal integrated resource planning process since 1991. During that period of time, seventeen integrated-resource plans have been filed with Utah and Wyoming regulatory agencies. Although Questar Gas has always engaged in planning processes, the Company believes that the formal IRP process, instigated in the early 1990's, has been beneficial to all participants. As would be expected over time, the IRP process has undergone a natural evolution. Not everything anticipated at the outset of the formal process has proven to be useful. These comments document the evolution of the IRP process and the practice of filing the last eight reports pursuant to the Modified IRP Guidelines.

A. IRP Procedural History

The concept of least-cost integrated resource planning began in the electric power industry. From the beginning of the 20th century to the early 1970s, the real cost of power on a per-kilowatt-hour basis steadily declined. These declines were driven primarily by technology improvements in generation and transmission, and by the economies-of-scale that were readily obtainable through the construction of increasingly larger generating facilities. During the 1970s, per-kilowatt-hour power costs increased dramatically. These increases have generally been attributed to rising fuel prices, high interest rates, escalating construction costs, environmental concerns and anti-nuclear sentiment. Given the relatively long lead times associated with bringing on new generating facilities, all of which were highly capital-intensive, electric utilities continued to plan for load growth based on past consumption patterns without adequately factoring in the impact of slower economic growth rates and the price-elasticity of electric demand. The result was a surplus of power in various parts of the country. This in turn triggered prudence reviews to determine if these capacity additions were in the public interest. It was during these prudence reviews that the terms "least-cost planning" and "integrated resource planning" were coined. As electric utility and regulatory planners began to compare the costs of incremental power versus the cost of reducing the demand for that power, the terms "avoided cost" and "demand-side" management were also coined. It appeared to be a natural logical extension to apply integrated resource planning concepts to the natural gas industry even though there were some fundamental differences between the two industries. These differences and how they impact the utilization of integrated resource planning concepts in the natural gas sector will be discussed more in the next section of these comments.

1. Natural Gas Policy Act of 1978.

Several key pieces of legislation also had an impact on the need for formal integrated resource planning in the natural gas industry. First was the Natural Gas Policy Act of 1978 (NGPA). This Act began the process of decontrolling the regulation of wellhead natural gas prices. By 1993, this process had been completed. A series of Federal Energy Regulatory Commission (FERC) orders also had impacts on integrated resource planning, which among other things, separated the gas merchant function from the transportation function (FERC Orders 436, 500 and 636). The NGPA and the FERC orders all had the effect of placing the burden on natural gas distribution utilities of making and justifying resource decisions that were safe, reliable and reasonably priced.

2. Energy Policy Act of 1992

On October 24, 1992, the Energy Policy Act was enacted. This Act codified as federal public policy the importance of integrated resource planning for natural gas utilities. The implementation was to be as follows:

> Integrated Resource Planning. Each gas utility *shall* employ, in order to provide adequate and reliable service to its gas customers at the lowest system cost. All plans or filings of a State regulated gas utility before a State regulatory authority to meet the requirements of this paragraph shall (A) be updated on a regular basis, (B) provide the opportunity for public participation and comment, (C) provide for methods of validating predicted performance, and (D) contain a requirement that the plan be implemented after *approval* of the State regulatory authority.

(15 USCA § 3203(b)(3), emphasis added.)

The next section will discuss these four federal standards and how state guidelines are best dovetailed with them.

Prior to the passage of the Energy Policy Act of 1992, the Commission was actively considering how integrated resource planning should be implemented for natural gas distribution utilities. In Docket No. 89-057-15, "In the Matter of the Investigation of the Reasonableness of the Rates and Tariffs of Mountain Fuel Supply Company" (subsequently Questar Gas), the Commission examined the natural gas planning and purchasing policies of the Company in a general rate case. In the Report and Order, issued November 21, 1990, the gas planning function was transferred from Questar Pipeline Company to Questar Gas Company. As part of this order, the Company was ordered to "provide the Commission, Division and interested parties with a long-term, least-cost integrated resource plan" (see Attachment 1, pages 34-37 and 49). That plan was submitted to Utah regulatory agencies and the Committee by the Company on September 30, 1991. No formal IRP guidelines existed at the time.

3. Final IRP Guidelines

On May 24, 1991, the Commission established Docket No. 91-057-09 to provide guidance to the Company on future IRPs and to address gas planning and acquisition issues (see Scheduling Order in Attachment 2). On December 16, 1991, the Commission issued an Order (see Attachment 3) outlining Draft Standards and Guidelines for the Company's IRP process that was followed by a technical conference and written comments (filed by February 21, 1992). The Company filed an IRP "interim update" on October 14, 1992. On September 27, 1993, the Company filed its second "full-scale" IRP. This was followed by an interim update filed June 8, 1994. The Commission's order approving Final IRP Guidelines was issued September 26, 1994, in Docket No. 91-057-09 (see Attachment 4).

The Final IRP Guidelines provided that the Commission would acknowledge IRPs. On December 2, 1994, in Docket No. 91-057-09, the Commission "acknowledged" the IRP filed on September 27, 1993 (See Attachment 5). According to the Commission's order, acknowledgement of a plan "means the Commission deems the planning process and the Plan itself reasonable at the time the Plan is presented." Acknowledgement, approvals, and associated timing issues will be discussed in the following section.

The Company's third "full-scale" IRP was filed on May 1, 1995 (Docket No. 95-057-04) in compliance with the Final IRP Guidelines. This IRP was followed by an "interim update" filed on May 7, 1996.

A fourth "full-scale" IRP was filed May 19, 1997. This was followed by an "acknowledgement" of the May, 1, 1995, IRP issued by the Commission on August 12, 1997. (See Attachment 6).

4. Modified IRP Guidelines

On December 19, 1997, Questar Gas filed a petition to modify the Final IRP Guidelines. Following the filing of that petition, the Company met with representatives of the Division and the Committee. After multiple meetings and extensive discussions, these three parties jointly developed the Modified IRP Guidelines which were filed with the Commission on April 17, 1998. (See Attachment 7). The Modified IRP Guidelines will be discussed further in the next section. An IRP "interim update" was filed with the Commission shortly thereafter on May 15, 1998.

Inasmuch as no order on the Modified IRP Guidelines had been received by early 1999, Questar Gas inquired as to whether the Final IRP Guidelines issued in 1994 or the "Modified IRP Guidelines" filed in 1998 should be followed in the preparation of its IRP to be filed in May of 1999. Questar Gas was instructed by Commission counsel to prepare its IRP based on the proposed Modified IRP Guidelines, as was documented in its IRP filed on May 10, 1999, as follows (page 3):

> During April of 1998, agreement was reached between QGC, the Utah Division of Public Utilities, and the Utah Committee of Consumer Services on proposed new integrated resource planning guidelines.[1] These new guidelines largely memorialize the gradual evolution in the IRP process that has taken place in the State of Utah during the past nine years. The new guidelines reflect the annual nature of the gas supply function as opposed to a biennial one. Other key attributes of the modified guidelines are: consultation with regulatory agencies, public input, an informal exchange of information, the promotion of efficient communication, and an atmosphere of cooperation and understanding. All of this is to be done in a manner that does not jeopardize the confidentiality of market sensitive information. While a Commission order on the proposed IRP guidelines for QGC in the State of Utah has not been issued, QGC has been instructed to prepare the IRP based on the proposed guidelines.[2] The proposed Utah guidelines are consistent with the IRP rules issued by the Wyoming Public Service Commission.

[1] Letter from Colleen Larkin Bell to Julie Orchard, Utah Public Service Commission Secretary, Re: Proposed IRP Guidelines for Questar Gas Company, Docket No. 97-057-06, April 17, 1998.

[2] Telephone conversation on February 17, 1999, between Jon Duke and Sandy J. Mooy.

On May 10, 1999, Questar Gas filed its annual integrated resource plan pursuant to the Modified IRP Guidelines as per instructions from Commission counsel. For the ensuing eight years, Questar Gas' IRPs have been filed pursuant to the Modified IRP Guidelines as shown by the following list of IRP filing dates:

- IRP filed May 1, 2000
- IRP filed May 4, 2001
- IRP filed May 1, 2002
- IRP filed May 1, 2003
- IRP filed May 3, 2004
- IRP filed May 2, 2005, Docket No. 05-057-04
- IRP filed May 1, 2006, Docket No. 06-057-04
- IRP filed May 1, 2007, Docket No. 07-057-01

Each of these IRPs contained a statement that they were being filed under the Modified IRP Guidelines.

5. Additional Modifications.

In recent years, there has also been a dialogue on price stabilization issues between Questar Gas and regulators. Prompted largely by the unprecedented natural-gas-price spikes that occurred during the winter of 2000-2001, the Company initiated technical discussions with Utah regulatory agencies to determine jointly if the utilization of gas-cost stabilization measures would be appropriate. Initially, the focus of the group was on a review of, and instruction in, educational materials on natural gas market forces, futures and options. On May 1, 2001, a stipulation was reached by Questar Gas, the Division and the Committee and filed with the Commission. (See Attachment 8). In a nutshell, the stipulation indicated that "the Company should take into account price stability as well as cost and reliability in procuring purchased gas supplies." It was also agreed by the stipulating parties that the "costs involved with acquiring more stably-priced gas supplies should be considered gas costs and recorded in the 191 account."

Since the stipulation was filed, the Company has met on a regular basis (usually monthly) with the Division, the Committee and the Commission to discuss price stabilization activities and plans. Inasmuch as price stabilization dovetails directly with the IRP process, Questar Gas recommends that the Modified IRP Guidelines be updated to include a reference to these activities.

III. DISCUSSION

A. Basis for the Modified IRP Guidelines

1, Differences Between Electric and Natural Gas Sectors

Questar Gas believes that there were compelling reasons for the Division, Committee and Questar Gas to agree to the Modified IRP Guidelines. The Final IRP Guidelines played an important role in transferring sound integrated resource planning concepts from the electric sector to the natural gas sector, but failed to recognize fundamental differences between the two industries. The acquisition of electric generating resources is a highly capital intensive process and requires long lead times as compared with natural gas resources that are less capital intensive and require much shorter lead times. The Final IRP Guidelines required the filing of a biennial plan with an interim update filed in the off years. However, this was not meaningful for a natural gas utility. The natural gas industry is very much geared to an annual planning cycle with the focus on meeting winter heating season needs and a potential design-peak-day occurrence. No one year is more important than any other year from a planning standpoint. Unlike the Final IRP Guidelines, the Modified IRP Guidelines require that IRPs be filed on an annual basis, with quarterly variance reports. This is a more relevant and meaningful process than filing an IRP every two years.

Embarking on a full-scale planning effort on an annual basis requires tight planning time frames given the need for historical data and the need to acquire substantial resources well in advance of the winter heating season.[3] The additional effort associated with filing full-scale plans every year is justified given the annual cycles characteristic of the natural gas business. This is distinguishable from the electric sector where planning for say, a new coal-fired or nuclear power plant with lead times of 10 or 15 years, or more, can be reworked and re-filed or postponed for many years. The Modified IRP Guidelines for Questar Gas support an annual planning cycle with planning documents to be filed in early May of each year. Questar Gas believes that the use of an informal information exchange method during the planning process is a more efficient way of communicating with regulatory agencies and the public than a more formal litigated process. The Modified IRP Guidelines detail specific public meetings to be held during the late winter and early spring planning-time-frame where preliminary data, assumptions and interim results can be shared and questions asked. The Modified IRP Guidelines also require that a technical conference be held within one week of the filing of each IRP in early May. At the same time, the Modified IRP Guidelines recognize the need to maintain confidentiality of certain non-public information which can be shared with interested parties in closed meetings, one of which is required to be held during April of each year. In conformity with the Energy Policy Act of 1992, the Modified IRP Guidelines provide for methods of validating predicted performance by requiring the filing of quarterly variance reports. Given the potential variability of many of the IRP assumptions, including weather, it can not be reasonably expected that the utilization of gas supply resources in any given year will occur in a way that perfectly mirrors the IRP modeling results for that year. But, it can be very useful to document why differences

[3] As indicated in the Final IRP Guidelines, " . . . most gas supply contracts are signed in early summer," and thus, filing planning documents in the Spring (April 30th) will "produce better gas acquisition strategies because it more closely corresponds to the contract negotiation period and thus would present more current information." The filing of planning documents in the Summer or Fall allows for less gas-purchase flexibility in meeting the upcoming winter heating season needs.

occurred. The Modified IRP Guidelines facilitate this important process.

2. All Present and Future Resources

Some of the language in the Final IRP Guidelines is impractical and overreaching. For example, under the Final IRP Guidelines Questar Gas was instructed to "evaluate all present and future resources, including future market opportunities." With a 21-year modeling time frame, it is difficult to anticipate what future resources might be available over this period of time. For example, the U.S. Department of Energy currently funds research on methane hydrates, a potentially huge natural gas resource. But, it is impossible to meaningfully assess, at this point in time, when, if at all, such a resource might be available to the market, and in what quantities, and at what price.

Likewise, the Final IRP Guidelines also require Questar Gas to make an "assessment of all technically feasible delivery and gas supply options. . . ." There are myriad gas supply options available to Questar Gas that are technically feasible, but economically impractical, particularly when the stacking of interstate pipeline rates is involved. The Modified IRP Guidelines address the same issue but used more reasonable language. The IRP will include an "economic assessment of all viable delivery and gas supply options".

3. TRC Test

In the Final IRP Guidelines mandated use of the Total Resource Cost (TRC) Test as the final criterion for determining the mix of supply-side and demand-side resources in the planning process of Questar Gas. In the "Preliminary Decisions on Threshold/Procedural Issues" section it states, "The IRP process provides a mechanism in which to evaluate both supply-side and demand-side resources. Each should be compared on a total resource cost basis; that is, the total cost incurred by the utility and the rate payer to acquire a particular resource." And later in the "Guidelines" section, it states, "Integrated resource planning for Mountain Fuel is a planning process in which all known resources are evaluated on a consistent and comparable basis, in order to meet current and future natural gas energy service needs at the lowest total resource cost to MFS and its ratepayers, and in a manner consistent with the long-run public interest."

While the TRC Test is one useful mechanism for comparing resources, Questar Gas believes that all of the California Tests should be performed and all add value to the decision-making process.[4] Each of the California Tests adds a unique perspective that should not be ignored. And ultimately, the optimal final resource mix may involve an informed judgment-call balancing the results of all the tests with input from all parties and the Commission.

While the Modified IRP Guidelines do not specifically mention the California Tests, they do require the inclusion of "economically viable energy efficiency measures." Questar Gas has included demand-side measures in its annual IRP analyses, particularly in the more recent higher-gas-price environment. Questar Gas supports the inclusion in the Modified IRP Guidelines of more explicit language referencing the inclusion of demand-side resources on an annual basis (see the following "Recommendations" section).

4. Acknowledgment of IRPs

In the Procedural History section of these comments, the federal requirements for integrated resource planning were discussed. The Modified IRP Guidelines accommodate three of the four requirements listed: 1) plans will be updated on a regular basis (annual filing), 2) opportunity for public participation and comment will be made (regular meetings are scheduled), and 3) methods are provided for the validating of predicted performance (quarterly variance report). The fourth federal requirement is that "the plan be implemented after approval of the State regulatory authority."

[4] See California Standard Practice Manual, Economic Analysis of Demand Side Programs and Projects, October, 2001.

Rather than providing for approval of an IRP, the Final IRP Guidelines allow for the Commission to "acknowledge" plans. "Acknowledgement" of the Plan means the Commission deems the planning process and the Plan itself reasonable at the time the Plan is presented." The Modified IRP Guidelines do not require the Commission to "acknowledge" the plans. The Modified IRP Guidelines state that "IRPs, and more specifically the *general guidelines* for the relevant review period, may be used by regulators in their evaluation of cost recovery. The Commission's evaluation of prudence will be based on the reasonableness of the Company's decision-making process in view of the IRP and the information available at the time the decision is made." (Emphasis added.) Questar Gas finds this approach preferable to a formal acknowledgment requirement.

5. General Guidelines

One of the most useful parts of the Modified IRP Guidelines is the requirement that Questar Gas develop a list of "*general guidelines* that identify the major pieces of its operational strategy for the upcoming year." (Emphasis added.) Since Questar Gas was instructed to utilize the Modified IRP Guidelines in the preparation of its IRPs in 1999, the inclusion of this section in the report has been a useful summary of the relevant strategies for the ensuing plan year for all parties including non-regulatory entities that request copies of the IRP.

IV. RECOMMENDATIONS

Questar Gas believes that the Modified IRP Guidelines reflect the natural evolution that has taken place in natural gas integrated resource planning since the Final IRP Guidelines were issued in 1994. To the extent the Commission has not already approved and accepted them, Questar Gas recommends that the Commission formally do so now with modifications as provided below.

Questar Gas proposes that the Commission update the Modified IRP Guidelines to include the following recommendations:

- DSM should be modeled annually in the SENDOUT model and it will be included in the annual IRPs.

- The Company should take into account price stability as well as cost and reliability in procuring purchased gas supplies. The Company will, on a regular basis, report on price stability measures undertaken, and review future plans with appropriate regulatory agencies.

RESPECTFULLY SUBMITTED: September 4, 2007.

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CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the foregoing **QUESTAR GAS COMPANY** was served upon the following persons by electronic mail on September 4, 2007.

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