State of Utah

DEPARTMENT OF COMMERCE
Committee of Consumer Services

MEMORANDUM

To: The Public Service Commission of Utah

From: The Committee of Consumer Services

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Date: July 7, 2008

Subject: Comments Re: Questar Gas Company's 2008 IRP

INTRODUCTION

On May 1, 2008, Questar Gas Company (QGC or Company) filed its 2008 Integrated Resource Plan (IRP) for the planning period May 1, 2008 to April 30, 2009. On May 8, 2008, the Commission requested comments from parties be filed by July 7, 2008 on the adequacy of IRP 2008. The Commission has also opened a parallel docket to develop and implement new gas IRP standards and guidelines.

The Committee of Consumer Services (Committee) submitted extensive comments on the Company's last IRP (IRP 2007), most of which were discussed in the December 14, 2007 Order issued by the Commission in that docket. In IRP 2008, QGC responded to a number of shortcomings noted by the Commission with improved analysis, sourcing of data and information used in the IRP, and greater detail in its description of certain planning issues. For example, QGC updated SENDOUT (Version 12.1.1) in January 2008 to enable the model to perform Monte Carlo simulations so Company planners can undertake better risk analysis.

Until new gas IRP standards are available to assess future IRP filings, the Committee will limit its comments on IRP 2008 to a few select areas.

COMMENTS

1. Wexpro Production

   On page 6-2 of the 2007 IRP, QGC indicated the 2007 Wexpro drilling plan involves 43 net wells costing $85 million. At that time, the five-year drilling plan was 25-45 net wells annually for an estimated cost of $100 million/year. On page 6-3 of the 2008 IRP, QGC significantly revises upward the costs associated with the 2008 drilling plan to 39 net wells at an estimated cost of $130 million. The updated five-year drilling plan calls for 33-76 net wells at a cost ranging from $136 to $157 million/year. Thus, it appears that cost estimates have escalated by approximately 30% over a one-year period.

   The Committee reiterates its comment made on this issue last year: Ratepayers need to be confident that Wexpro gas supplies are being developed in a timely, thorough and least cost manner. The Commission should direct the Division, through its Wexpro Hydrocarbon Monitor, to report on the reasonableness of Wexpro's proposed drilling plans and associated annual budgets prior to the implementation of these plans. At this time, the Wexpro monitor simply reports on whether the actual drilling that occurred and funds spent conform to the pre-drilling plans and budgets.

2. Risk Analysis

   As previously mentioned, QGC upgraded its SENDOUT optimization model earlier this year to include Monte Carlo simulations. Stochastic analysis is performed on two key variables, price and demand (weather). The Committee views this as a positive development to enable the Company to undertake more detailed risk analysis both in terms of developing its IRP and modeling changes throughout the planning year that could effect how storage resources are used, the amounts of Wexpro gas produced and spot gas purchased and how much base-load purchased gas is actually converted from indexed to fixed price contracts.

   While the risk analysis is improved, the IRP still lacks a comprehensive treatment in the "results section" of how alternative futures will likely impact the Company's planning and operating decisions. In the next IRP we recommend the Company strive to more fully describe its assessment of risk and the potential impacts on planning and operating decisions. It may make sense to add a separate "risk analysis" section, which could include, among

other things, possible impacts on QGC's operations stemming from state, regional and national climate change initiatives.

3. SENDOUT Model

On page 9-2 of the IRP, the Company indicates that "it periodically re-evaluates the constraints in SENDOUT…to determine if they accurately reflect the realities of the problem being solved." In updating SENDOUT this year to include the Monte Carlo function, a consultant from Ventyx, Jeff Baker, was asked to comment on the whether SENDOUT was properly configured in terms of modeling constraints. In a short letter (see IRP Exhibit 9.1) to the Company dated April 24, 2008, Mr. Baker stated that QGC's system is one of the more complex systems currently being modeled and the large volume of Wexpro production and 21-year time horizon add to the modeling complexity. He further stated he reviewed data over a three-day training session and saw no indication that QGC's configuration of SENDOUT was "unduly constrained."

The Committee has two comments in this area:

- We're pleased QGC asked its vendor to evaluate the current configuration and use of SENDOUT and that the consultant was able to conclude the Company was using SENDOUT reasonably and the model was not unduly constrained. We recommend an outside review of SENDOUT occur periodically (every two-three years) using the SENDOUT vendor and possibly an independent expert that has no business relationship to QGC.
- In the modeling section in future IRPs, the Company should identify significant changes to model constraints, detail the reasons underlying changes and impacts on modeling results.

4. No Notice Transportation (NNT) Service

While the description of the NNT Service is improved over the last IRP, the Company has provided no economic analysis of alternatives to deal with hourly transient flow effects when system demand deviates from system supply. On page 7-4 of the IRP alternatives such as multiple propane air or liquefied natural gas vaporization facilities are mentioned by QGC, but quickly dismissed as impracticable because real-time operating conditions arise when hourly supply exceed hourly demand. A string of small storage facilities located throughout QGC's service territory is identified as a resource that could address the hourly transient flow issue, but the Company states such a resource is presently unavailable on its system and, if it was available, is unable to compete with the economies of scale at the Clay Basin Storage facility (plus the NNT cost adder).

While the Company is likely correct in its view that Clay Basin plus the NNT Service is the cheaper option, the IRP is the forum where such a cost-benefit assessment should occur and be reported. The Committee continues to recommend that the Company perform a cost-benefit study of NNT and potential alternatives and recommends that the Commission require the Company to include such analysis in its next IRP.

5. Gathering Cost Increases

For the second year in a row the gathering commodity rate attendant to the System-Wide Gathering Agreement (Gathering Agreement) between QGC and Questar Gas Management Company has increased. The increase in 2007 was 12% and the increase in 2008 is even more substantial at 34%. Thus, the commodity piece of the gathering rate has increased by almost 50% over two years. This sharp increase raises the question whether the Agreement is still a good deal for ratepayers.

This is another example of the type of analysis that should appropriately be addressed within the IRP context. The Committee recommends the Commission require QGC to include in its next IRP a more detailed analysis and supporting evidence that the Gathering Agreement remains the best option for serving its customers.

FOLLOW-UP

Questions regarding the Committee's comments should be directed to Dan Gimble at (801) 530-6798 or dgimble@utah.gov.