BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF QUESTAR GAS COMPANY FOR APPROVAL OF THE WEXPRO II AGREEMENT	Docket No. 12-057-13

DIRECT TESTIMONY OF JAMES R. LIVSEY

FOR QUESTAR GAS COMPANY

September 18, 2012

QGC Exhibit 2.0

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is James R. Livsey. My business address is 333 South State Street, Salt Lake City, Utah.

Q. By whom are you employed and what is your position?

A. I am employed by Wexpro Company as Executive Vice President and Chief Operating Officer. I oversee and am responsible for managing drilling, development and operations associated with Wexpro's cost-of-service properties. I am also responsible for regulatory compliance associated with oil and gas operations as well as Wexpro Company's compliance with the Wexpro Agreement.

Q. What are your qualifications to testify in this proceeding?

A. I have listed my qualifications in QGC Exhibit 2.1.

Q. Attached to your written testimony are QGC Exhibits 2.1 and 2.2. Were these prepared by you or under your direction?

A. Yes.

Q. What is the purpose of your testimony in this Docket?

A. I will provide a general overview of Wexpro and its 31-year history of producing cost-of service gas supplies for Questar Gas' customers and I will describe how Articles II and III of the Wexpro II Agreement work.

II. THE HISTORY OF WEXPRO

Q. Would you please provide a brief overview of the Wexpro I Agreement?

A. Prior to 1981, Mountain Fuel Supply had an ongoing oil and gas exploration and production program to develop a gas supply for its utility operations. In 1981, the Wexpro I Agreement was entered into by Mountain Fuel Supply, Wexpro, the Utah Committee of Consumer Services, the Utah Division of Public Utilities and the Staff of the Public Service Commission of Wyoming. It resolved an oil sharing dispute and classified ownership rights of existing properties in 1981. The Wexpro I Agreement was approved by the Wyoming Commission in October 1981 and the Utah Commission in December 1981. In 1983, the Utah Supreme Court upheld the agreement. Under the terms of the Wexpro I Agreement, Mountain Fuel Supply Company (now known as Questar Gas) retained gas production from existing company gas wells. The Wexpro I Agreement established an oil revenue sharing mechanism that provided that 54% of oil profits would be credited to Questar Gas customers and 46% would be credited to Wexpro. (Wexpro I Agreement, Article II). Future production from "productive gas reservoirs" within established "development drilling areas" is required to be developed and delivered at cost-of-service. (Wexpro I Agreement, Article III).

Q. Did Wexpro I address what would happen with regard to future development and production in the defined development drilling areas?

A. Yes. As Mr. McKay testifies, the Wexpro I Agreement governs Wexpro activities within certain clearly-defined geographic areas known as "development drilling areas." Future production from development drilling areas is to be delivered at cost-of-service to Questar Gas' customers. When Wexpro develops properties within these development drilling areas, the development is subject to the terms and conditions of the Wexpro I Agreement.

III. WEXPRO II AGREEMENT

Q. Is the Wexpro II Agreement modeled after the Wexpro I Agreement?

A. Yes, Wexpro II replicated, in Articles I, II and III, most of the terms, conditions and methodologies that exist in the Wexpro I Agreement. New properties, if approved to be a Wexpro II property, will be developed in the same manner as a property is developed under Wexpro I.

Q. How will a Wexpro II property be developed?

A. I have attached, as QGC Exhibit 2.2, a two page exhibit that illustrates the procedures set forth in Articles II and III of the Wexpro II Agreement.

Q. Would you describe page 1 of QGC Exhibit 2.2?

A. Yes. Page 1 of Exhibit 2.2 is also an exhibit to the Wexpro II Agreement (Wexpro II Agreement, Exhibit F, page 2). The flow chart sets forth, very generally, the process Wexpro II Properties would undergo. First, Wexpro will make a capital expenditure by drilling a well. Once we drill a well, a determination is made of whether or not the well is productive.

Q. What if the well is not productive?

A. The well is classified as a dry hole and Wexpro is responsible for 100% of its costs. The capital costs associated with a dry hole are excluded from the investment base and will be accounted for separately by Wexpro.

Q. What if the well is productive?

A. Then the next step is to determine whether the well is a commercial well. With the input from the Hydrocarbon Monitor, Wexpro will determine whether or not the well is a "commercial well" as defined in Section I-11 of the Wexpro II Agreement.

Q. What if it is not a "commercial well?"

A. Wexpro, again, bears 100% of the costs of the well.

Q. What if the well is identified as a "commercial well?"

A. Then Wexpro determines whether the well is primarily an oil well, or primarily a gas well as defined in Sections I-18 and I-19. Oil and gas wells are subject to different formulae for calculating Wexpro's return. Article II of the Wexpro II Agreement governs oil properties and Article III governs gas properties.

Q. Please explain how the oil well is treated?

A. Article II of the Wexpro II Agreement governs oil properties. Investment in oil wells earns the base rate of return plus a risk premium of 5% as provided in Section II-6. Oil and natural gas liquids from oil properties are owned by Wexpro. The net profits from oil properties will be shared between Wexpro and Questar Gas using the same formula as Wexpro I as provided in Sections II-2 and II-3. Wexpro will retain 46% of the net profits and 54% of oil net profits will be credited to the 191 account to the benefit of Questar Gas' customers.

Q. And if it is a gas well?

A. Article III of the Wexpro II Agreement governs gas properties. Investment in gas wells earns the base rate of return plus a risk premium of 8% as provided in Section III-4. Natural gas produced from a gas well will be delivered to Questar Gas at cost of service and the costs will be accounted for in Questar Gas' pass through proceedings.

Q. Would you please explain page 2 of QGC Exhibit 2.2?

A. Page 2 illustrates how the operating expenses (production, gathering, treatment and disposition of hydrocarbons) are accounted for and mirrors the methodology illustrated on page 1 for capital expenditures. Depending on the well classification, operating expenses are either treated under the oil sharing methodology or the gas cost-of-service methodology.

Q. Would you please summarize why the Commissions should approve the Wexpro II Agreement?

A. Yes, Wexpro has been in these development drilling areas for over 30 years. We know these fields and our knowledge and expertise can be applied to the development of new properties that potentially could become Wexpro II properties. We also know and understand the Wexpro I Agreement that the Wexpro II Agreement was modeled after. We welcome the opportunity to potentially develop new properties for Questar Gas customers under the Wexpro II Agreement.

Q. Does this conclude your testimony?

A. Yes.

State of Utah)
) ss.
County of Salt Lake)

I, James R. Livsey, being first duly sworn on oath, state that the answers in the foregoing written testimony are true and correct to the best of my knowledge, information and belief. Except as stated in the testimony, the exhibits attached to the testimony were prepared by me or under my direction and supervision, and they are true and correct to the best of my knowledge, information and belief. Any exhibits not prepared by me or under my direction and supervision are true and correct copies of the documents they purport to be.

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James R. Livsey

SUBSCRIBED AND SWORN TO this _____day of September, 2012.

____
Notary Public