BEFORE THE UTAH PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF QUESTAR GAS COMPANY FOR APPROVAL OF THE WEXPRO II AGREEMENT	))))))	DPU EXHIBIT 1.0D DOCKET NO. 12-057-13

Pre-filed Direct Testimony

Of

Douglas D. Wheelwright

On Behalf of

Utah Division of Public Utilities

December 11, 2012

Q: Please state your name, business address and title.

A: My name is Douglas D. Wheelwright. I am a Utility Analyst in the Division of Public Utilities (Division). My business address is 160 East 300 South, Salt Lake City, Utah 84114.

Q: On whose behalf are you testifying?

A: I am testifying on the Division's behalf.

Q: Please describe your position and duties with the Division.

A: I research, analyze, document, and establish regulatory positions on a variety of regulatory matters. I review operations reports and evaluate compliance with the current laws and regulations. I provide testimony in hearings before the Utah Public Service Commission (Commission); and assist in the analysis of testimony and case preparation.

Q. What is the Division Recommendation regarding the Wexpro II Agreement.

A. In the Division's view, the Wexpro II Agreement provides ratepayers with a costless option on potential future gas reserves and is in the public interest. Therefore, the Division recommends the Commission approve the Wexpro II Agreement.

WEXPRO II HISTORY

Q. Please provide a brief history of the Wexpro II Agreement.

A. Beginning in October of 2011 discussions began among the Division, the Office of Consumer Services (Office), other interested parties and Questar Gas Company (Company) on a possible Wexpro II Agreement. These meetings included a technical conference held on March 26, 2012 in which the reasons for acquiring additional cost-of-service gas reserves were presented, a brief history and description of the Wexpro I Agreement was given and a proposed methodology for the Wexpro II Agreement, including an example of a property acquisition.

Q. Were there other meetings that took place?

A. Yes, on April 26, 2012, a meeting was held that included participants from the Company, Wexpro, the Staff of the Wyoming Public Service Commission, the Division, the Office, and, by phone, the current Hydrocarbon Monitor for the Wexpro I Agreement. In this meeting, questions about the proposed Wexpro II Agreement were discussed. On June 21, 2012, parties were given the opportunity to review and discuss the model Wexpro uses to evaluate proposed natural gas reserve acquisitions.

Q: At this time how developed was the proposed Wexpro II Agreement?

A: During this time period, the Wexpro II Agreement was a 4-5 page document. Subsequent to this time there were numerous meetings held primarily between the Company, the Division and the Office in which the Agreement was expanded into its current form to address various points raised by participants.

Q: Did this lead to the filing now before the Commission?

A: In part. When it became clear that not all participants would reach agreement, those participants who were leaning toward agreement conducted further discussions and made further edits to the proposed agreement. On September 10, 2012, the Company filed with the Commission a notice of intent to file an agreement. The Agreement was signed on September 12, 2012 by the Company, the Division, Wexpro and the Wyoming Office of Consumer Advocate and was filed by the Company with the Commission on September 13, 2012 and the Wyoming Public Service Commission.

Q: Why did the Division sign the Wexpro II Agreement?

A: In short, the Wexpro II Agreement provides a no cost option to participate in long-term hedges that could benefit, and historically have benefited, the Company's ratepayers. Before answering that question in further detail, I would like to provide a little background history on the Division's involvement with the Wexpro I Agreement.

DIVISION'S INVOLVEMENT WEXPRO I

Q: Please do so.

A: The Wexpro I Agreement was set up to be a self-governing agreement.[1] Its main purpose was to create an agreement that would allow ratepayers to retain the benefits of the Wexpro wells and provide an incentive for future development. The agreement was designed to encourage proper management of these resources and provide a long-term supply of natural gas to Mountain Fuel Supply (Questar Gas) customers on a regulated cost-of-service basis. The Wexpro I Agreement was about ratepayer rights in resources that Mountain Fuel Supply Company owned and was transferring to a non-regulated affiliate Wexpro. The Wexpro I stipulation states that the agreement represents fair consideration to Mountain Fuel Supply for the transfer of those resources.[2]

Q: Please explain the term "regulated cost-of-service" that you used.

A: One must first understand that, as an entity, Wexpro is an unregulated oil and natural gas exploration company. However, under the terms of the Wexpro I Agreement, the revenues Wexpro is allowed to collect for the production of certain natural gas and oil reserves are based on actual production costs plus a return on Wexpro's investment in wells. This return is based on a base rate, using a composite set of regulated returns established by state utility

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[1] The Wexpro I Agreement is discussed in detail in Utah Department of Administrative Services v. Public Service Commission, 658 P.2d 601 (Utah 1983) (1983 Wexpro Case).

[2] 1.25, Stipulated Facts, The Wexpro Agreement, October 14, 1981.

commissions, plus a premium. Using a composite set of regulated returns to establish a base rate is very similar to the process followed in Questar Gas Company's general rate cases in establishing an allowed rate of return on equity for Questar Gas. However, the actual spot market price for natural gas may be higher or, as in the case today, lower than the total cost of service collected by Wexpro. The fact that the cost of service may, at times, be higher than the market price was contemplated in the Wexpro I Agreement.[3]

Q: Is this all explained in detail in the original Wexpro Agreement?

A: Yes, the original Agreement is very detailed in defining and explaining the intricacies involved in determining the appropriate cost-of-service.[4] The objectives of the Wexpro I Agreement are to retain the benefits of the gas reserves developed in the Wexpro properties for Questar Gas customers while providing sufficient incentives to Wexpro to prudently develop and manage those properties while accepting the risks that are inherent in developing gas reserves.

Q: What are those risks?

A . Wexpro bears all the risks and costs associated with drilling unsuccessful wells or wells that are not commercially viable. Prior to the Wexpro I Agreement, this risk was the responsibility of Mountain Fuel Gas Company's ratepayers[5].

Q: Is the Division involved in the original Agreement, and if so, how?

A: Yes. The Wexpro I Agreement charges the Division with the responsibility to monitor the agreement for compliance with the terms and conditions outlined in

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[3] Section II-5(a), The Wexpro Stipulation and Agreement, October 14, 1981.

[4] 1983 Wexpro Case, pp 606-607.

[5] The Wexpro Stipulation and Agreement, Stipulated Facts 1.3, p. 4

the agreement. Because of the many intricacies in the agreement and due to a lack of technical expertise in the area of exploration for hydrocarbons and the lack of Division staff to audit the financial data of Wexpro, the Division retains the services of two professional outside monitors as provided for in the agreement. One is the Hydrocarbon Monitor, whose responsibility includes reviewing Wexpro's drilling program, classifying the various wells per the Wexpro I Agreement classifications and monitoring Wexpro's overall drilling program. The other monitor is the Accounting Monitor who audits the monthly operator fee statements sent to the Company to ensure compliance with the accounting terms of the agreement based on the cost-of-service.

WEXPRO I BENEFITS

Q: Has the Wexpro I Agreement been beneficial to Questar Gas ratepayers?

A: Yes.

Q: How did the Division make this determination?

A: The Division reviewed the benefit analysis provided by Company witness Mr. Barrie McKay in his testimony and compared his conclusions regarding the benefits of the Wexpro I Agreement with a similar analysis conducted by the Division. The Division's analysis, which covered data from 1985 through 2011, resulted in a net savings to customers of $1.375 billion.[6] During this 26-year time-period there were only five years (1994, 1996, 2009-2011) where buying gas on the market would have been more beneficial to the Company's ratepayers because spot market purchase prices were lower than the cost of service gas provided by Wexpro.

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[6] Source of data is actual historical monthly 191 Account filings beginning in January 1985 as maintained by Commission Staff members.

Q: Were there other observations made from this analysis?

A: Yes. With improvements in drilling technology, the percentage of Wexpro I production used to meet the Company's total supply demand has increased from 30% to over 50%. This current trend in increased production is expected to continue into the near future. It is the Division's view that Wexpro I production has provided substantial benefits to Questar Gas' customers in the form of lower prices and by limiting the exposure to price variability that exists in the spot market. Due to the nature of oil and gas production properties, current Wexpro I properties will eventually cease production, taking with them the hedging benefits they have given ratepayers in the past.

WEXPRO II

Q: How does the Wexpro II Agreement work?

A: Articles I through III of the Wexpro II Agreement are patterned after the Wexpro I Agreement and are basically designed to work the same way as in Wexpro I. This process is described in the testimony of Company witnesses Messrs. McKay and Livsey, which accompanied the Company's application.

Q: The Division is a signatory party to the Agreement. Does this mean the Division is a co-applicant with the Company?

A: No. The Division is not a co-applicant with the Company. The Division supports the intent of the application and believes maintaining no-cost future options to hedge against spot market price volatility is a prudent objective and is in the public interest. This is what the Wexpro II Agreement provides.

Q: What do you mean by "no-cost future options"?

A: The Wexpro II Agreement, by itself, provides Questar Gas customers a costless option to participate in production of future natural gas reserves. Neither Questar

Gas Company nor its ratepayers incur a financial obligation resulting from the Commission's approval of the agreement.

Q: Why is the Wexpro II Agreement good for Questar Gas customers?

A: Approval of the Wexpro II Agreement provides an opportunity for Questar Gas customers to maintain a continuing option for future hedging of gas prices. The Wexpro I Agreement covers a finite physical limit to drilling acreage or development drilling areas in which Questar Gas customers can participate in ownership of gas reserves as well as limits the ownership interests to which it applies. Due to the nature of natural gas development, the proven gas reserves developed under the Wexpro I Agreement will eventually begin to decline. Without a mechanism in place for further development opportunities, Questar Gas customers could be unduly exposed to natural gas spot market volatility and uncertainty in the future.

Q: Why do you think the Wexpro II Agreement is being presented for consideration?

A: Well owners that entered into three to five year sales agreements in 2008 and 2009 were able to secure prices that are much higher than the current market price. With the comparatively low gas price today and the forecast for relatively stable prices going forward, existing owners may be interested in selling their interest in existing wells instead of entering into new sales transactions at lower prices. This creates a potential opportunity for Wexpro to acquire additional producing wells along with the rights to drill additional wells in the future.

Q: Initially, who bears the risk of acquiring a potential Wexpro II property?

A: Under the Wexpro II Agreement, before Questar Gas makes an application to include a property, Wexpro would have purchased the property in question for its own account and at its own risk.

Q: Can you explain this in more detail?

A: Prior to the purchase, Wexpro representatives would complete an analysis of the property to determine the current production from existing wells along with the potential production from new drilling. Based on this information, Wexpro would calculate the expected cost per Mcf for the existing production and forecast the expected cost for new production. If the proposed transaction is viable, Wexpro would buy the property for its own account. After completion of the purchase, the property will or may be presented for inclusion as a Wexpro II property. Since the Commissions of both Utah and Wyoming will ultimately decide the disposition of any property brought to them by Questar Gas, Wexpro initially bears the risk of that acquisition. Only after both state commissions approve a property for inclusion as a Wexpro II property, will Wexpro be allowed to recover its acquisition and development costs from ratepayers as specified in the agreement. Furthermore, the acquisition cost, if approved by both commissions, will earn a rate of return based on Questar Gas' weighted allowed return on rate base set in its most recent general rate cases before the respective commissions. (Currently 8.428%[7]) The costs to develop future reserves by additional drilling will earn at the composite base rate of the proxy companies, as set forth in the agreement plus a premium to compensate for the drilling risks. (Currently 17.41% for development wells designated for oil production and 20.41% for development wells designated for natural gas production.)

I would note that if a specific property acquisition happens to be in the same pre-defined development drilling areas of the Wexpro I Agreement then Questar Gas is obligated to bring that investment opportunity before the Public Service Commission of Utah and Wyoming for consideration of Questar Gas customer

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[7] Utah PSC Docket 09-057-16 and Wyoming PSC Docket 30010-94-GR-08

participation in the development of that property. That is, for properties within these boundaries, Questar Gas customers, through their Commissions, have the right-of-first-refusal to accept or reject the investment in gas reserves. If the property is outside of the Wexpro I development drilling areas, the Company may, at its discretion, bring specific property forward for the Commissions' consideration.

Before a specific property could be included or designated as a Wexpro II property, Questar Gas would file an application, including supporting testimony with the Commission, containing among other things, information about the particular proposed property. Interested parties would have the opportunity to review thoroughly the Company's application, with the Commission determining whether to approve or disapprove each specific property. To be included as a Wexpro II property, both Commissions, after hearing from interested parties, must approve the inclusion as a Wexpro II property. If either Commission declines Questar Gas' application, Questar Gas can remove that property from further consideration before the Commissions and Wexpro would retain the property in its own account.

Q: You indicated that the current composite rate plus the premium is 20.41% for development natural gas wells. Would you expect Wexpro to earn that same rate on a property approved by the Commission?

A: No. Wexpro would earn the higher rate on future development wells. When Wexpro purchases a property, the purchase price includes a mixture of producing wells and rights or leases to develop additional wells. The purchase price or acquisition costs earn at the lower weighted allowed return for Questar gas as previously explained. As Wexpro develops new commercial wells, those developed properties will earn the higher return. Since the newly developed wells will ramp-up over time, Wexpro's actual return on the new properties is anticipated to be a combination of existing wells at the lower rate and development wells at the higher return. In examples provided by the Company, the return over the life of the property is anticipate to be 13% to 14%. The blended rate for Wexpro II properties is projected to be lower than the return on the developed wells currently included under the Wexpro I Agreement.

Q: Do you think it is appropriate to provide a higher rate of return for the exploration wells than for existing wells?

A: The higher return is structured as an incentive to prudently drill and develop additional wells on the acquired property. By using the acquisition price for the property and the known production from the existing wells the expected cost per Mcf can be calculated. The acquisition price would represent the greatest cost to ratepayers and would provide the lowest return to Wexpro. (8.41%) If additional wells are drilled and additional revenue created from that parcel of land, the average cost per Mcf would generally be reduced. The higher return provides an incentive to drill and reduce the average price of the commodity produced by a particular property. The higher rate is also a way to compensate Wexpro for the risk of a non-producing well (dry hole) or a well that is not classified as a commercial well. Even with the recent advances in technology to help determine the probability of successful drilling, Wexpro has experienced unsuccessful drilling in recent years. As noted above, all of the costs for unsuccessful drilling are paid by Wexpro.

Q: By approving specific properties to be included in Wexpro II is the Commission participating in the management of the Questar Gas?

A: No. By asking for properties to be included in Wexpro II, Questar Gas is asking for approval of additional long term gas purchases under the Wexpro II

Agreement. The properties will already be owned by Wexpro and in many cases will be providing natural gas.

Q: Are you aware of any other companies, including non-utilities, that have projects that are similar to the Wexpro Agreement?

A: Yes. The Division recently became aware of a joint venture with Northwest Natural Gas (NW Natural) and Encana Oil and Gas and a joint venture with Nucor and Encana.

Under terms of the joint venture agreement, NW Natural and Encana will develop natural gas reserves in the Jonah Field in Wyoming's Green River Basin. NW Natural will invest $45 - $55 million per year over the next five years ($250 million total) to cover expected drilling costs in exchange for working interests in certain sections of the Jonah Field. The sections include both future and currently producing wells and are expected to provide a portion of NW Natural's long-term gas requirement over a 30-year period. During the first 10 years of the investment, NW Natural expects to receive approximately 58 billion cubic feet (Bcf) of natural gas, or 10 percent of its average annual requirement. The agreement was approved by the Oregon Commission and became effective May 1, 2011.[8]

A $3.64 billion joint venture with Nucor and Encana was signed in November 2012. Nucor expects to invest $542 million over the next three years and will share in the drilling costs for new wells in Colorado's Piceance Basin. In consideration, Nucor will receive 50 percent of the natural gas produced from the new wells over the next 13 to 22 years. The partnership is designed to support

[8] NW Natural, Encana in JV, Zacks Equity Research, March 2,2011.

Nucor's increased use of natural gas in the manufacturing facilities and will help Encana execute long-term development plans.

SUMMARY AND RECOMMENATION

Q: Please summarize.

A: In summary, the Wexpro II Agreement provides an opportunity to extend the benefits of the Wexpro I Agreement beyond its current drilling area limitations without imposing additional costs or obligations to Questar Gas customers. By the Commission approving the Agreement, as filed, there is no change to current rates charged to any Questar Gas customer nor are there any financial obligations placed on Questar Gas customers. The Wexpro II Agreement does provide a mechanism for Questar Gas customers to explore the pros and cons of future gas price hedging possibilities by obtaining cost-of-service natural gas reserves thereby limiting the customer's exposure to future natural gas spot market price volatility. The Division believes the Wexpro II Agreement is in the public interest and recommends that the Commission approve the Agreement.

Q: Does that conclude your prepared testimony?

A: Yes it does.