

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**
)
) **Rebuttal Testimony of**
) **Michele Beck**
) **On behalf of the**
) **Office of Consumer Services**
)

January 10, 2013

1 **Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?**

2 A. My name is Michele Beck. I am the director of the Utah Office of
3 Consumer Services (Office.) My business address is 160 East 300 South,
4 Salt Lake City, Utah.

5

6 **Q. DID YOU EARLIER PRE-FILE DIRECT TESTIMONY IN THIS**
7 **PROCEEDING?**

8 A. Yes.

9

10 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

11 A. I respond to certain issues raised in the direct testimony of the Division of
12 Public Utilities. Specifically, I will demonstrate the following:

- 13 • The Division's assertion that the Wexpro II Agreement (Agreement) is
14 a "no cost option" is false and misleading;
- 15 • The Division does not provide adequate information about the status of
16 proven gas reserves;
- 17 • The Division's reference to so-called similar agreements approved in
18 other jurisdictions overstates any similarities, but the NW Natural –
19 Encana Joint Venture in Oregon provides a model or approach that is
20 very relevant for improving certain aspects of the
21 • Agreement in this proceeding; and

- 22 • Overall, the Division’s testimony should be found to be insufficient to
23 comply with the Commission’s Scheduling Order in this docket or to
24 demonstrate that the Agreement is in the public interest.

25

26 **Q. THE DIVISION INDICATED THAT IT SIGNED THE AGREEMENT**
27 **BECAUSE IT PROVIDES A “NO COST OPTION TO PARTICIPATE IN**
28 **LONG-TERM HEDGES.” (SEE WHEELWRIGHT DIRECT, LINES 50 –**
29 **55). WHAT IS THE OFFICE’S RESPONSE?**

30 A. It is misleading to call the Agreement a “no cost option.” While it is true
31 that approval of the Agreement will not immediately result in any rate
32 impact, it does not come without a cost. In this case, the cost of the
33 agreement is loss of regulatory authority, review, and influence over what
34 could be a significant portion of future natural gas supplies impacting rates
35 for Utah customers.

36 If the Commission were to approve the Agreement without any
37 changes, that would be the last opportunity the Commission has to
38 influence the process associated with acquiring new Wexpro properties. It
39 is also the last opportunity to exercise any normal and ongoing regulatory
40 oversight of such properties. This Agreement only contemplates a brief
41 process during which the Commission approves or disapproves proposed
42 properties for inclusion into the Wexpro II portfolio. The ability to deny
43 each future property should not be seen as sufficient oversight or risk
44 mitigation.

45

46 **Q. ARE THERE OTHER REASONS WHY IT IS MISLEADING TO CALL**
47 **THE AGREEMENT A “NO COST OPTION”?**

48 A. Yes. It is troubling that the Division uses the term “no cost” in today’s
49 market environment. As Page 1 of Exhibit 1.2 to Barrie McKay’s Direct
50 Testimony shows, we are currently experiencing both the most prolonged
51 period of cost-of-service gas prices exceeding the price of purchased gas
52 as well as the greatest differential of those prices over the 30-year history
53 of the Wexpro I agreement.

54

55 **Q. WHAT ARE THE ANTICIPATED RATE IMPACTS RESULTING FROM**
56 **THE AGREEMENT?**

57 A. There are no rate impacts resulting from the Agreement itself. However, if
58 any new properties are approved for inclusion into Wexpro II under the
59 terms of the Agreement and in the current natural gas market
60 environment, it would likely result in a small rate increase.

61

62 **Q. WHAT IS THE OFFICE’S POSITION REGARDING THE COSTS AND**
63 **POTENTIAL RATE IMPACTS IT HAS IDENTIFIED TO BE**
64 **ASSOCIATED WITH THE AGREEMENT?**

65 A. The Office asserts that the non-monetary costs of this Agreement, namely
66 the loss of regulatory oversight, could be remedied by following the
67 recommendations presented by the Office in this case. Specifically, the

68 provision for binding arbitration needs to be removed so that the
69 Agreement results in proper regulatory oversight, in addition to the other
70 necessary improvements to the Agreement outlined in my direct
71 testimony. The Office's position toward any potential rate impacts
72 resulting from adding properties under the Agreement is that a long-term
73 view should be taken in evaluating any proposal. We would likely
74 advocate caution in obtaining any properties under current market
75 conditions, but will evaluate each individual request in a broad, long-term
76 context if and when such a request is made.

77

78 **Q. THE DIVISION INDICATES THAT ONE OF THE REASONS THE**
79 **AGREEMENT IS GOOD FOR CUSTOMERS IS THAT PROVEN GAS**
80 **RESERVES UNDER THE WEXPRO I AGREEMENT WILL**
81 **EVENTUALLY BEGIN TO DECLINE. WHAT IS YOUR RESPONSE?**

82 A. While it is likely true that the proven gas reserves will *eventually* begin to
83 decline, it is useful to further examine the level of proven gas in Wexpro I.
84 According to a presentation recently given to potential investors by
85 Questar Corporation¹, Wexpro currently has nearly fifteen years of proven
86 reserves. Thus, Wexpro likely has more proven reserves now than it had
87 at the time Wexpro I was signed. It is also my understanding that

¹ See slide 50 of 109 in the presentation Questar Analyst Day, The Montage at Deer Valley – Park City, UT, March 15, 2012. The complete presentation can be found at the following site:
http://files.shareholder.com/downloads/STR/1338554880x0x553607/ef2c8c4f-6e30-4906-b238-9207405bb935/AnalystDayPresentation_031512.pdf

88 development of gas properties under Wexpro I could exceed what is
89 categorized as proven reserves. Thus, the issue of dwindling supply
90 under Wexpro I is not one that needs to be immediately addressed.

91

92 **Q. THE DIVISION ASSERTS THAT TWO PROJECTS SIMILAR TO THE**
93 **AGREEMENT HAVE RECENTLY BEEN EXECUTED. (SEE**
94 **WHEELWRIGHT DIRECT, LINES 249 – 271) WHAT IS YOUR**
95 **RESPONSE?**

96 A. As acknowledged by the Division, one of the cited projects is between a
97 large industrial company, Nucor, and Encana Oil and Gas. The Office is
98 confident that industrial customers have many types of deals and
99 arrangements to procure natural gas as an input to their industrial
100 processes. However, industrial customers operate under much different
101 frameworks than regulated utilities so their experiences aren't relevant to
102 this proceeding.

103 In contrast, the joint venture between Northwest Natural Gas (NW
104 Natural) and Encana Oil and Gas (Joint Venture) contains a number of
105 provisions that are important to examine and are relevant to this
106 proceeding.

107

108 **Q. WHAT ARE SOME OF THE KEY DIFFERENCES BETWEEN THE**
109 **JOINT VENTURE APPROVED BY THE OREGON COMMISSION AND**
110 **THE AGREEMENT AT ISSUE IN THIS PROCEEDING?**

- 111 A. Based on my review of the Oregon Commission's Order² approving a
112 stipulation on the proposed Joint Venture (a copy of which is attached as
113 Exhibit OCS 1.1R), I note the following key differences:
- 114 • Cost of Capital: In the Joint Venture, the cost of capital is set at NW
115 Natural's authorized cost of capital. There are no premiums similar to
116 what is included in Wexpro I or the proposed Agreement.
 - 117 • Reporting Requirements: The Joint Venture requires specific and
118 ongoing reporting requirements to the Oregon Commission. Thus, the
119 Oregon Commission maintains periodic, ongoing oversight of the gas
120 properties developed under this transaction.
 - 121 • Prudence: While the Commission found the Joint Venture to be
122 prudent, this finding does not prevent future prudence evaluations. For
123 example, subsequent management decisions relating to the contracts
124 executed under the Joint Venture are subject to prudence reviews.
 - 125 • Disposition of Gas: NW Natural can elect to take its production in kind,
126 sell the production or transport it to NW Natural's distribution system.
127 Alternatively, NW Natural can elect to have Encana sell that gas at
128 market prices and use the proceeds to purchase gas. Thus, NW
129 Natural ratepayers are not obligated to pay higher than market prices
130 under this Joint Venture, in contrast to the terms of the current Wexpro
131 I and proposed Agreement.

²Public Utility Commission of Oregon, Docket UM 1520/UG 204, Order No. 11-140, April 28, 2011. The stipulation is attached to the Order as Appendix A.

- 132 • Other Regulatory Oversight: Dispute resolution remains with the
133 Oregon PSC and there is no discussion of relying on external monitors
134 to ensure compliance with performance criteria.

135

136 **Q. DOES THE JOINT VENTURE PROVIDE AN ALTERNATIVE “MODEL”**
137 **OR CONSTRUCT THAT INCLUDES CERTAIN ATTRIBUTES THAT**
138 **THIS COMMISSION SHOULD CONSIDER WHEN EVALUATING THE**
139 **MERITS OF THE PROPOSED WEXPRO II AGREEMENT?**

140 A. Yes. The Joint Venture appears to include a number of features I have
141 already discussed in my direct testimony. As noted above, the Joint
142 Venture maintains normal regulatory review processes relating to
143 prudence, dispute resolution and reporting requirements. It also sets a fair
144 and reasonable return for developing gas properties at the utility’s cost of
145 capital. Finally, the “take” or “sell” option mitigates ratepayers’ risk of
146 paying gas cost that could exceed market levels.

147

148 **Q. RETURNING TO THE DIVISION’S TESTIMONY, ARE THERE OTHER**
149 **PROBLEMS THAT YOU WOULD LIKE TO ADDRESS?**

150 A. Yes. The Division did not comply with the Commission’s Scheduling Order
151 in this docket and has yet to demonstrate that its decision to sign the
152 Agreement, or the Agreement itself, is in the public interest.

153

154 **Q. WHAT DID THE COMMISSION ORDER THE DIVISION TO ADDRESS**
155 **IN THIS DOCKET?**

156 A. In its Scheduling Order and Notice of Technical Conference and Hearings
157 dated November 9, 2012, the Commission stated the following:

158 With respect to the parties' direct testimony deadline of December 11,
159 2012, the Division shall include in its filing specific allegations upon
160 which the Division relies to establish its statutory authority to enter the
161 Wexpro II Agreement, to contract with Wexpro, and to carry out the
162 obligations the Division assumes in the Wexpro II Agreement. [See
163 Page 3]
164
165

166 **Q. HAS THE DIVISION COMPLIED WITH THE COMMISSION'S**
167 **NOVEMBER 9, 2012 ORDER?**

168 A. No. The testimony of witness Douglas Wheelwright does not address the
169 Division's statutory authority to enter into the Agreement and ability to
170 satisfactorily carry out the obligations assumed under the Agreement.
171 Further, by signing this Agreement the Division appears to be inconsistent
172 with a recent position it took in another proceeding.

173

174 **Q. IN WHAT WAY DOES THE DIVISION'S PARTICIPATION IN THIS**
175 **AGREEMENT APPEAR INCONSISTENT WITH ITS POSITION IN**
176 **ANOTHER CASE?**

177 A. Recently, the Division declined to sign a stipulation to settle issues in the
178 PacifiCorp transmission rate case at the FERC. The Division explained its
179 actions in a memo to the FERC (a copy of which is attached as Exhibit
180 OCS 1.2R.) As part of its explanation, the Division stated:

181 “The Division believes that signing the agreement may limit the
182 range of positions that the Division could take in a future Utah state
183 proceeding on some of these issues.” [See Page 1]

184
185 Thus, the Division acknowledges the potential limitations of signing
186 agreements that may impede its ability to take appropriate positions in
187 future state regulatory proceedings. Nonetheless, the Division signed the
188 Wexpro II Agreement despite the fact that it includes a comprehensive
189 binding arbitration provision that explicitly limits the positions the Division
190 can take before the Commission on disputed matters.

191

192 **Q. OVERALL, DOES THE DIVISION DEMONSTRATE THAT THE**
193 **AGREEMENT AND ITS DECISION TO BECOME A SIGNATORY IS IN**
194 **THE PUBLIC INTEREST?**

195 A. No. In fact, the Division doesn’t discuss or make any reference to public
196 interest in its testimony. Instead, it seems to evaluate the Agreement from
197 the standpoint of whether any immediate costs or obligations are imposed
198 by the Agreement. Thus, the Division appears to have undertaken a new,
199 lower standard of evaluation that fails to consider the extent to which
200 future regulatory oversight and the ability to take positions in promoting
201 the public interest are limited by the Agreement.

202 The Division also is careful to distinguish between its role as a
203 signatory rather than a “co-applicant.” (See Wheelwright Direct, Lines 135-
204 137) However, the Division does not provide evidence that it carried out
205 its statutory duties “to provide the Public Service Commission with

206 objective and comprehensive information, evidence, and
207 recommendations” consistent with the objectives outlined in Utah Code
208 54-4a-6. Absent a demonstration that the Agreement is in the public
209 interest, the Commission cannot approve it.

210

211 **Q. DOES THE OFFICE STILL SUPPORT THE RECOMMENDATIONS SET**
212 **FORTH IN YOUR DIRECT TESTIMONY IN THIS CASE?**

213 A. Yes. In my Direct Testimony, I discussed a number of flaws in the
214 Agreement and important issues that had not been adequately addressed
215 with supporting evidence by the Company. The Office continues to
216 recommend that these concerns must be remedied before the Agreement
217 can be found to be in the public interest. I would add that certain
218 provisions or aspects of the NW Natural – Encana Joint Venture approved
219 by the Oregon Commission merit consideration in order to develop an
220 Agreement that can be found to be in the public interest.

221

222 **Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**

223 A. Yes.