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 1.0 SR DOCKET NO. 12-057-13

Pre-filed Surrebuttal Testimony

Of

Douglas D. Wheelwright

On Behalf of

Utah Division of Public Utilities

January 24, 2013

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: Did you previously file testimony in this Docket?

A: Yes.

Q: What is the purpose of your testimony in this matter?

A: I will provide comments on the Rebuttal testimony filed by Ms. Michele Beck on behalf of the Office of Consumer Services (Office).

Q: Ms. Beck states that it is "false and misleading" to refer to the Wexpro II Agreement as a no cost option. (Beck Rebuttal, line 14) Do you still feel that it is appropriate to refer to the Agreement as a "no cost option"?

A: Yes I do. Approval of the Wexpro II Agreement provides the structure or framework that could allow future properties to be included in the cost of service gas production. The proposed Agreement does not impact customer rates but does provide a possible future option for ratepayers. Any impact on customer rates would occur only if, after the evaluation of a specific proposed property, the Public Service Commissions of Utah and Wyoming approve a property for inclusion under the Wexpro II Agreement.

Q. Does Ms. Beck offer any further comment regarding her objection to calling the Wexpro II Agreement a "no cost option?"

A. Yes. She clarifies that the cost of the agreement is a non-monetary cost, and describes it as a "loss of regulatory authority, review, and influence over what could be a significant portion of future natural gas supplies impacting rates for Utah customers."[1] Ms. Beck later acknowledges that "There are no rate impacts resulting from the Agreement itself".[2]

Q: Do you agree that approval of the Wexpro II Agreement will result in a loss of regulatory authority and oversight by the Commission?

A: No. Under the Agreement, the Commission explicitly has the ability to either accept or reject a specific property that may be presented in the future. When a property is presented for Commission review, a proceeding will be initiated and all parties, consistent with Commission rules, will have access to the detailed analysis of any existing wells that are included in the purchase as well as any proposed drilling. If a property is approved by both Commissions for inclusion under the Wexpro II Agreement, it will be reviewed and monitored on an ongoing basis by the hydrocarbon monitor just as the current properties have been for the past 30 years. The hydrocarbon monitor has expertise in the area of well production and drilling activities and provides regular reports to the Division. This level of oversight by an expert third party working for regulators provides very specific and detailed oversight. As with any hedging transaction for future needs, regulatory review is properly focused on the prudence of the transaction at the time it is entered. Commission approval of Wexpro II properties allows for that. Unlike a more typical hedging transaction however, this Agreement allows for continued regulatory monitoring and some utility direction of the third-party's development of the interests. In those senses, the Wexpro II Agreement provides for additional modes of oversight.

Q: Do you agree that the approval of the proposed Agreement will be the last opportunity for the Commission to influence the process for acquiring new properties? (Beck Rebuttal, page 2, line 36)

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[1] Beck Rebuttal, p 2, lines 32-35.
[2] Beck Rebuttal, p. 3, line 57.

A: Yes, but in a much different way than Ms. Beck has presented. The current Wexpro I Agreement includes a finite set of properties and all parties agree that the current Agreement has been beneficial to ratepayers over the past 30 years.[3] The Wexpro II Agreement is being proposed because the current Wexpro I Agreement does not allow the addition of any new properties. Under the Wexpro II Agreement new properties could be added to the current cost of service producing properties which could potentially be beneficial to Questar Gas ratepayers in the future. Without the Wexpro II Agreement there is no mechanism to add new properties to the cost of service production. Ms. Beck has recommended that "a long-term view should be taken in evaluating any proposal".[4] The long-term cost of service gas production is the primary reason why the Wexpro II Agreement is being presented for consideration.

The proposed Agreement at issue is the one before the Commission for its review. The Commission can either accept the Agreement, or reject with recommendations. However, there is no guarantee that the parties will be willing and/or able to renegotiate the Agreement to reflect the suggested conditions

Q: Ms. Beck was critical of the Nucor transaction and identified some of the key differences between the proposed Wexpro II Agreement and the Northwest Natural joint venture with Encana Oil and Gas (NW Natural transaction). Do you agree with the assessment of these differences? (Beck Rebuttal, p. 6, line 108)

A: The NW Natural and the Nucor transactions were included in my Direct testimony to show that other entities are looking at the current market conditions and have negotiated long-term agreements to obtain an interest in gas producing properties.

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[3] Beck Direct Testimony, p. 1, line 22; Wheelwright Direct Testimony, p. 6, line 110; and McKay Direct Testimony, p. 2, line 28.

[4] Beck Rebuttal, p. 4, line 72.

I agree that there are differences between the Wexpro II Agreement and the NW Natural transaction. However the key differences identified by Ms. Beck should be carefully reviewed and it appears that some critical differences were omitted or misrepresented.

Q. Would you please elaborate?

A. Certainly.

1. In the NW Natural transaction, the cost of capital has been set at the authorized rate of return for NW Natural. By itself this appears to be more attractive than the Wexpro II Agreement. However, Ms. Beck fails to mention that as part of the agreement NW Natural will invest $251 million over the next five years to partially fund the drilling of natural gas wells in the Jonah Field located in the Green River Basin in Sublette County, Wyoming.[5] Contrastingly, the Wexpro II Agreement does not require Questar Gas to provide any initial investment money, but does allow a higher rate of return.
2. The NW Natural transaction is a commitment to pay a portion of the costs of drilling future wells, and unsuccessful drilling does not appear to be specifically addressed. This is a significant difference between the NW Natural transaction and the Wexpro II Agreement. In the Wexpro II Agreement the costs associated with unsuccessful drilling or non-commercial wells are borne by Wexpro and are not passed on to ratepayers.[6] In the NW Natural transaction, unsuccessful drilling could potentially be included in the cost of service gas paid by its ratepayers.

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[5] OCS Exhibit 1.1R, Northwest Natural Gas Company Stipulation, page 2, line 5.
[6] Wexpro II Agreement, II-6 (a); III-7 (c).

3. Under the Wexpro II Agreement, before any property would be presented to the Commission for consideration, Wexpro will have already purchased the property at its own risk after completing its due diligence. Furthermore, under the Wexpro II Agreement, if either the Utah Commission or the Wyoming Commission decides not to include a particular property, Wexpro will continue to own and develop the property at its own risk.
4. The NW Natural transaction requires periodic reporting to the Commission and will include the cost of service calculation. The cost of service includes depletion, operating expenses, midstream costs, severance and ad valorem taxes and the return on investment (carrying costs).[7] Parties to that transaction have agreed that the operating expenses and midstream costs are subject to ongoing prudence reviews. In the NW Natural transaction, it appears that the Oregon Commission staff will be responsible to determine if the costs are appropriate and comparable with the industry standards. The Wexpro II Agreement provides for a qualified and knowledgeable hydrocarbon monitor to review the operational activities and an accounting monitor to review the financial transactions on an ongoing basis. The third party monitors in the Wexpro II Agreement provide industry expertise as part of the review process.
5. Under the terms of the NW Natural transaction, NW Natural can either take its share of gas production in kind or it can elect to have Encana sell the company's share of the gas at the then current market price. I believe that Ms. Beck is incorrect in assuming that this provision will protect ratepayers from paying higher than market prices for the natural gas. While the provision allows NW Natural to sell the gas it

[7] OCS Exhibit 1.1R, Northwest Natural Gas Company Stipulation, p. 7, line 10.

does not take in kind, the decision to sell does not change the market conditions or the price of the cost of service gas. For example, if the cost of service gas is calculated at $5 and the market price is $4, NW Natural could take delivery of its gas production but would be paying the cost of service price of $5. The Oregon Commission Order states that "Parties agree that the cost of the Proposed Transaction should be recovered on an ongoing basis through NW Natural's annual PGA mechanism, including the deferral process for the commodity cost of gas."[8] If NW Natural sells its cost of service gas and then purchases replacement gas at a higher price, the Company is required to provide written notice to the parties within 14 days and review the specific transactions in the quarterly Gas Portfolio Review meeting.[9] While the purchase of any replacement gas is subject to prudence review by the Oregon Commission, the delivery of cost of service gas at higher than market price would be included in the annual PGA filing.

Q. In her Direct and Rebuttal testimonies, Ms. Beck seems to urge the Commission to modify the Wexpro II Agreement before it. Do you have any comment?

A. Yes. The Commission should make a decision on the agreement that has been presented for consideration. As stated above, the Commission can either accept the Agreement, or reject with recommendations. However, there is no guarantee that the parties would choose to or would be able to renegotiate the Agreement to reflect the suggested conditions. Indeed, much negotiation occurred to get to the current Agreement. The Commission should review the proposed Agreement and

[8] OCS Exhibit 1.1R, Public Utility Commission of Oregon, Order 11 140, p. 2.
[9] OCS Exhibit 1.1R, Northwest Natural Gas Company Stipulation, p. 10, line 7.

determine if having an option to potentially add properties to the cost of service production may be beneficial.

Q. Ms. Beck makes some other statements in her rebuttal testimony. Do you have comments on these?

A. Yes. To the extent that those statements pertain to legal principles, as a non-lawyer, I am not addressing them. Silence on my part with regard to the legal issues or other issues does not indicate agreement.

Q: Does that conclude your testimony?

A: Yes it does.