BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Questar Gas Company to Increase Distribution Rates and Charges and Make Tariff Modifications.	))))))))))	**DOCKET NO. 13-057-05** **Exhibit No. DPU 2.0-DIR** **Direct Testimony** **Eric Orton**

FOR THE DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH

Direct Testimony of

Eric Orton

October 30, 2013

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I. INTRODUCTION

Q: Please state your name.

A: Eric Orton

Q: By whom are you employed and in what capacity?

A: I work for the Division of Public Utilities (Division) as a Utility Analyst

Q: What areas will you be addressing in your testimony?

A: In the following order, I will address Questar Gas Company's (Company) proposal to:

- make the High Pressure Feeder Line Replacement Program (Program) permanent;
- include Intermediate High Pressure Feeder Lines (Beltline) within the Program;
- two cost of service and/or rate design issues:
    - Task Force, and
    - Interruption Testing.

II SUMMARY

1) Program - The original program that was approved in Docket No. 09-057-16 outlined pipe replacement guidelines for pre-1970 pipe, outdated welding practices, budgets and plans, etc. The Division's position is that the Program has deviated from this original scope. The Program needs to be modified if it is to continue and should only be approved with certain specifications outlined below.

2) Beltline – The Company should not be allowed to include beltline replacement costs within the existing Program.

3) Cost of Service

   a. Task Force – Requesting Commission Order

   b. TS Rate Class – Customers should cover full Cost of Service

   c. Interruption Testing – In line with tariff and practicality

III. INFRASTRUCTURE HIGH PRESSURE FEEDER LINE REPLACEMENT PROGRAM.

i. OVERVIEW

Q: What specifically is the Company asking for with respect to this Program?

A: The Company is asking that "this program … be continued on an ongoing basis and not as a pilot program."[1]

[1] QGC 13-057-05 Exhibit 1.0 lines 219-220

Q: What reasons did the Company give to support this proposal?

A: The Company gives two reasons. First, the Program has been in place for three years so the parties have relevant experience, and second, that there are other mechanisms like this. It also left the caveat that as long as "the Company is required to file a general rate case at least every three years the mechanism can be reviewed and analyzed just like any other general rate case item."[2] There are basically three legs to the Company's stool:1) that the regulators and the Company have some experience with the Program - since it started in the 09-057-16 rate case order and has continued as a pilot program since that time; 2) that the Program costs are open for challenge in general rate cases – as is everything; and 3) that there are other Local Distribution Company (LDC)'s that have similar mechanisms – there may be more now than there were when the Program began in 2010.

Q: Has the Division performed an in-depth a review of the Program?

A: Yes. The Division did a financial audit, which it submitted to the Utah Public Service Commission (Commission) on June 17, 2013. That audit looked at the financial transactions within the Program leaving open a final recommendation based on this review presented in the Company's general rate case. This testimony gives the Division's review of the rest of the Program.

[2] QGC 13-057-05 Exhibit 1.0 beginning on line 216

Q: Did the Division solicit an outside consultant to perform this review and recommend whether or not to continue the Program?

A: Yes. The Division issued a Request for Proposal (RFP) for an expert to analyze the Company's Program. However, there were no responses to the RFP. The Division reviewed the Program with its own staff. Below, using the Scope of Work[3] from the RFP as a guide, I present the Division's analysis of the Program.

Q: What is the result of the Division's examination?

A: The Company has expanded the Program beyond its original intent and, unless practices change, may no longer be in the public interest.

ii. SCOPE OF WORK

Q: Based on the RFP Scope of Work, please summarize the Division's activities and findings.

1.1 Conduct investigation in accordance with accepted engineering practices and industry standards.

Division staff with engineering backgrounds have been involved in this investigation. I have consulted with them in preparing this testimony and my conclusions reflect their input.

[3] DPU Exhibit 2.01

1.2 Analyze the reasonableness and technical accuracy of QGC's filed feeder-line replacement program.

It is reasonable for the Company to set up a systematically thorough regimen to maintain its system such that it can continue to operate in a safe and reliable manner, no matter what the cost recovery mechanism is. Also, in the Division's opinion a technically accurate High Pressure Feeder Lines (FL) replacement program would be one that would systematically replace FLs which fall within a certain definable criteria. Although when first proposed and approved the criteria were defined and the Program seemed reasonable, the actual work done by the Company has not adhered to that criteria.

1.3 Provide an analysis of compliance with Federal Safety Regulation CFR Title 49, part 192, subpart O and P.

The Company does not use its Transmission Integrity Management Plan (TIMP) or Distribution Integrity Management Plan (DIMP) risk model (Federal Safety Regulation CFR Title 49, part 192, subpart O and P) for risk ranking of feeder line work within the Program. There are some similarities, but the Company's prioritization and work schedule are not determined by the TIMP or DIMP rankings or risk criteria, but rather are based on a risk criteria developed for this Program of the Company's own making. The risk criteria/ranking used for this Program is neither as comprehensive nor inclusive of all risk factors as TIMP and DIMP and does not meet the requirements of CFR title 49, part 192 subparts O and P. While the Company's Program is not necessarily required to meet those CFR requirements, adhering to them could lead to more sensible prioritization.

1.4 Analyze the criteria used to determine the timing and priority of feeder line replacement.

The FL timing and prioritization changes so frequently that it is unclear which FLs will be replaced next. The Division is unable to state that the Company is managing the timing and priority of its Program in the most reasonable manner.

1.5 Analyze the criteria used to determine when a change to the diameter of the pipe may be necessary and appropriate.

The examples of the analysis the Company provided to determine a replacement pipe size seem reasonable within the Program, except for those pipe sizes that were chosen based on size regularity, system redundancy or the load a customer will sign up for.

1.6 Analyze the reasons and criteria used for changes to the proposed replacement schedule.

The reasons the Company listed for priority changes within the Program appear reasonable, but should be coordinated more closely with TIMP/DIMP. However, with the shuffling of FL rankings in the queue from one year to another, we are unable to determine if the reasons for changes to the proposed schedule outlined by the Company are the ones used by the Company. Therefore, as stated under 1.4 above, the Division is unable to determine whether or not the Program is being appropriately run.

1.7 Analyze and compare the Questar Gas feeder line replacement program to other feeder line replacement programs currently in progress with other utilities.

As discussed below, only seven other LDC's listed by the Company have programs like the Company's, not the 29 as stated in the application. Other programs are dissimilar. Also, it is clear that the focus of the NARUC resolution is on safety and reliability not aging infrastructure replacement. Incidentally, that focus on safety and reliability is further evidence of the usefulness of the TIMP and DIMP criteria guiding selection for replacement.

<u>1.8 Compare the actual expenses to forecast cost and provide commentary on the reasonableness of the cost and any significant variation from the forecast.</u>

Currently the total expected costs over the life of the Program are higher than the original expectations.

<u>1.9 Analyze additional issues raised by QGC or other parties to the case. Identify and discuss other issues that are important to consider in this portion of the case.</u>

These issues will be determined and discussed following the review of direct testimony filings by parties in this docket.

Q: Based on this summary is the Division recommending discontinuance of the Program?

A: No. However, the Program needs to return to its original Commission-approved mandate. The original proposal was to finance the replacement of approximately 20 lines, which were believed to be old, reconditioned pipe and the intent of this replacement Program was to avoid safety and/or operational issues that might arise as this old pipe, which is not in compliance with today's manufacturing standards, continues to age. A replacement plan to focus on this particular type of pipe seemed proper to the Division at that time. However, the Program has not functioned as we believe it should and has become something that was not contemplated by the Division. As we understood the Program, it was a plan to replace a specific list of FLs that were manufactured and put into service prior to the implementation of the Federal standards which took effect in 1970. It has not functioned as agreed to by the Division.

Q: What led the Division to this conclusion?

A: The financial conditions that the Company said instigated the need for the current Program are no longer applicable. The Program has morphed beyond its bounds as stated in the application and understood by the Division. The executions of the plans are too flexible. There is not a definitive plan to achieve a particular goal with a specific end-date.

In short, to remain reasonable and in the public interest, these types of expenditures should either fit precisely into the original intent of the Program; or be part of the regular utility system maintenance and integrity work.

Q. Please explain each of these points.

A. These points will be discussed in the "Scope of Work" section below.

IV <u>SCOPE OF WORK</u>

Q: Please describe the Division's Review of the Program.

A: The Division examined each of the Company's filings, its presentations at Technical Conferences, asked several rounds of Data Requests, and met with numerous Company representatives.

Q: Please describe some of the unexpected challenges the Division encountered in performing this review.

A: Several difficulties came to light that made a thorough examination more complicated than it needed to be.

1) The terminology is inconsistent. For example; "mains" are sometimes also called "intermediate high pressure feeder lines", or "feeder lines", or "feeder mains", or "large diameter feeder lines", or "distribution lines" or just "belts"; "high pressure feeder lines" (FL) are also called "feeder mains", or "mains" or "feeder lines", or "transmission lines" or "distribution lines"; and sometimes these titles are all used interchangeably.[4]

2) In addition to the Program there are numerous other construction 'projects', which may be pipe line replacements, extensions and/or upgrades to the Company's system. The "tracker' (i.e. the method of how the costs are recovered) is not a relevant topic to many Company

[4] There are only two types of lines in the Company's system: 1) High Pressure Feeder Lines and 2) everything else – no matter what they are called.

personnel who are doing the designing, engineering, planning, supervising of the actual replacement work. Therefore, asking questions and receiving answers from these personnel regarding the specifics of the Program is often confusing to both regulators and Company personnel.

3) Also, what may be classified as a particular feeder line number for replacement purposes in a regulatory setting, may, in reality be referring to the entire line, or a very small segment of that line and/or anything in-between or even an adjacent line or valve – likewise, all of these phrases are used interchangeably. There are no clear distinctions made between these terms. This made comparisons difficult, at best.

4) The Company's risk model is not consistent with either TIMP or DIMP.

5) Finally, the Company personnel involved in different aspects of the Program are varied and spread out such that it makes getting an answer to a question difficult and problematic. This is especially the case when Company personnel involved in the Program overlap in job function, and/or are mutually exclusive (that is, they have little coordinating interaction with one another), or they disagree with each other when answering our questions.

These challenges created much confusion and made it very difficult for the Division to get a clear picture of what was going on with the Program.

In this testimony, I endeavor to keep the nomenclature simple and consistent.

<u>Scope of Work 1.1:</u>
<u>Conduct investigation in accordance with accepted engineering practices and industry standards.</u>

Q: Did the Division perform its investigation in accordance with accepted engineering practices and industry standards?

A: The Division employs engineers in its Pipeline Safety section who have been involved with this investigation. They concur with the recommendations I present. Additionally, to be certain that we were analyzing the proper engineering documents we asked for copies of the work that the Company's engineers did to determine which FLs it would replace. In DPU 2.01 we asked for the engineering analysis for each segment of feeder line replacement within the Program "to justify the need for the replacement based on specific criteria such as the age, or condition of the pipe or other similar factors."[5]

Q: Did the Company provide the engineering analysis mentioned above?

A: No. What we were looking for was the analysis to show why a particular line, or segment of line, was chosen for replacement. We were expecting detailed analysis including a cost/benefit analysis, TIMP/DIMP risk criteria, age of pipe, safety concerns, leak history, samples of corroded pipe, or other such risk analysis, and why a particular line (or section of line) required replacement sooner than other pipes, or why other lines could be postponed (prioritization).

[5] DPU Exhibit 2.02 (76 pages)

Q: What did the information provided by the Company show?

A: It did not show the "specific criteria such as the age, or condition of the pipe or other similar factors." Nor did it provide similar analysis from which such information could be construed. It addressed why a particular size of pipe was chosen as the replacement pipe. This will be addressed in more detail in section 1.5 below.

Q: Was there no reasoning provided by the Company to justify the segments of FL replaced in response to the question?

A: There was one project (FL50) where, as part of the size justification, documents indicated that a large customer will be signing up for firm service which "will cover the cost difference from the minimum required system to the 6-inch replacements, which they did so through subscription to firm capacity." However, there was not the information that we expected (safety risk, leaks, corrosion, unreliability, etc.) that would require that this line (or the others) be replaced. A few other replacements mentioned expected growth, or the need for additional redundancies if a major FL were out of service on a peak day, or irregular pipe sizing, as justification for the size of the new pipe, but these are reasons the Division was not expecting as justification for inclusion in the Program. Redundancy, system capacity and growth are all regular utility work regarding system enhancements and/or system reliability when deciding on the size of pipe to install.

System integrity, pipe replacement and load work are what we would expect the engineers of a utility to undertake on its own initiative to maintain the load growth, safety and integrity requirements of its system. However, what we did not see were the engineering analyses as requested above.

The Division was unable to determine, for example, why FLs 4, 6, 7, 10, 13, 16, 21, 24, 26, 34, 42, 44, 46, 53, 64, 66, 68, 70, 71, 89, and 110 were replaced[6] without a corresponding pipe size engineering study.[7]

Likewise, the Division could not determine why FLs 4, 6, 7, 10, 13, 16, 21, 22, 24, 26, 34, 36, 41, 42, 44, 46, 64, 66, 68, 70, 71, 89 and 110 were replaced.[8] These lines apparently do not meet the initial criteria of Vintage of older than 1970 pipe.[9]

As a result of these and other discrepancies I mention later in my testimony, the Division was unable to determine that the Company used sound engineering analysis or industry standards to determine which FL it would replace.

Scope of Work 1.2:
Analyze the reasonableness and technical accuracy of QGC's filed feeder-line replacement program.

Reasonableness of the Program

Q: What are the results of the Division's review regarding the reasonableness of the Program?

[6] DPU Exhibit 2.03
[7] Compare the pipes listed in DPU Exhibit 2.02 to DPU Exhibit 2.03
[8] DPU Exhibit 2.04
[9] Compare DPU Exhibit 2.03 to DPU Exhibit 2.04

A: The Division believes that it is reasonable for the Company to set up a system to replace the pipes that it considers the most likely to fail first. If the initial criteria to qualify for that system uses the risk models in the TIMP/DIMP to determine highest risk pipelines for replacement then that is a reasonable starting point. Likewise, it is reasonable for the Company (and any LDC) to set up a systematically thorough regimen to maintain its system such that it can continue to operate in a safe and reliable manner no matter what the cost recovery mechanism is.

Q: Does that mean that the Company's current Program is unreasonable?

A: No. It simply means that the Company is responsible to properly maintain its system and that would include replacing some of its oldest pipes at times. This is independent of the cost recovery system in place, such as the tracker, in this case.

Q: The Program began in the 2009 rate case, but was presented to regulators prior to that time. When it was initially presented did it appear reasonable and in the public interest?

A: Yes. It appeared to be a reasonable plan and the Division supported the concept. At the time of this first presentation, the rate recovery tracker was not discussed. However, in an effort to be as thorough as possible and to determine the reasonableness of the current Program, we reviewed that initial presentation. I've attached several pages from the initial presentation in

February 2008. From these exhibits we see that that the Company replaced FLs 4, 5, 7, 11, 12, 18, 19 and 26 in 2007;[10] FL 4,5,11 in 2008;[11] other FL projects from 2002 through 2007;[12] and it shows the Company's plans for the next few years' upcoming projects.[13]

Q: What were the Company's plans for the next few years?

A: In 2009 it would replace FL 19; in 2010 it would work on FLs 12, 14, 18 and 29; in 2011 it would begin replacing FLs 21 and 25; finally in 2012 it would replace 28, 35 and 41.[14]

Q: Now that the time is past, did the Company follow its plans?

A: No. According to the Company's response to DPU 6.05[15] in 2009 it began to replace FL 12; in 2010 it replaced FLs 6, 7, 10, 16, 17, 18, 21, 23, 25, 34, 36, 44, 46, and 50; in 2011 it replaced FLs 13, 14, 22, 24, 26, 35, 41, 42, 53, 64, 66, 68, 70, 71, 89, and 110. The Division requested the information for 2012 through July 1, 2013, but to date no information has been provided for those time frames.

[10] DPU Exhibit 2.05.01
[11] DPU Exhibit 2.05.02
[12] DPU Exhibit 2.05.03
[13] DPU Exhibit 2.05.04
[14] DPU Exhibit 2.05.04
[15] DPU Exhibit 2.03

Q: Occasionally pipeline replacement projects might take longer than one calendar year. What dates did the Division use to order the FLs?

A: We used the start date.

Q: Were all of these replaced pipes listed above Vintage?

A: No.

Q: How accurate was the Company's forecast?

A: It was not accurate. Of the ten FLs listed in that plan, only one, (FL 18) started the year it was planned.

Q: Did the Company originally provide reasons for replacing particular FLs?

A: Yes. In that same presentation (February 2008) it also provided its "Factors in Replacing Pipelines".[16] This document listed the seven factors the Company said it uses to decide which FLs to replace including; 1) O&M history, 2) Integrity Management and 3) Age and/or performance of materials like vintage steels, seams, welds, coatings as well as other reasons. It further describes these three reasons separately.[17] In the first slide we see some of the Historical Context of the focus on the third bullet 'O&M history';[18] another slide is used to represent

[16] DPU Exhibit 2.06.01
[17] DPU Exhibit 2.06.02-04
[18] DPU Exhibit 2.06.02

the fourth bullet, 'integrity management';[19] while another is what the Company used to categorize its pipes into installation decades representing the 'Age' of its system representing the last bullet.[20]

Q: **These three reasons shown on DPU Exhibits 2.6.2 through 2.6.4 are representative of the Company's reasons when deciding to replace FLs. Do they give a complete picture?**

A: No. We think they are only meant to be illustrative. For example, only one line on DPU Exhibit 2.6.2 directly mentions the Program (Feeder Line Replacements – ongoing) while the others, we assume, must be more general in nature. DPU Exhibit 2.6.3 is referring only to transmission integrity management (some FLs are distribution lines and not transmission lines). Finally, DPU Exhibit 2.6.4, which is derived from the QGC Annual Transmission Report, certainly includes FLs[21] but is not limited to FLs.

Q: **Is it reasonable for the Company to systematically replace its aging infrastructure as outlined in the Program?**

A: It is difficult to say based on the Program because what it replaced was not exactly what the Company said it would replace. The Program does not set a standard to measure against and the Program's plan keeps changing. In other words, the Program itself is not defined well enough that a clear benchmark or

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[19] DPU Exhibit 2.06.03
[20] DPU Exhibit 2.06.04
[21] Transmission lines are not the same as FLs.

base standard by which to gage performance by cannot be determined. For example, to determine the scope of the entire project we tried to find the total miles of FLs there are within the Program. However, the numbers the Company gave vary considerably. One can look at the: "Pace of FL Replacement" from 2008, which shows the scope of the initial project at just under 57 miles (300,000/5280=56.82);[22] another Company presentation sums the pre-1970 miles to 303 miles;[23] if you refer to page seven of the 2012 presentation[24] the result is 414 miles, or page 32 of the same presentation we are told there are 250 miles;[25] or finally from the original schedule in the 09-057-16 docket those miles sum to 103.[26]

However ambiguous the Program (in terms of miles to replace), it is clear that it is the Company's responsibility to maintain its system so that it operates in a safe and reliable manner. Additionally, it is also clear that it does not need the Program to accomplish this task.

The Technical Accuracy of the Program

Q: What are the results of the part of the examination regarding the technical accuracy of the Program?

[22] DPU Exhibit 2.07
[23] DPU Exhibit 2.06.04
[24] DPU Exhibit 2.08
[25] DPU Exhibit 2.09
[26] DPU Exhibit 2.10

A: In the Division's opinion, a technically accurate FL replacement program would be one that systematically replaces FLs with the highest risk ranking score determined by the Company's TIMP[27]/DIMP.

Q: Have there been past statements from the Division on standards that would be helpful to refer to as a benchmark for a technically accurate Program?

A: Yes. In its Integrated Resource Plan (IRP) memo the Division stated:

> "The federal government continues to take an aggressive stance toward increasing pipeline safety for natural gas pipelines. The United States Congress and the U.S. Department of Transportation both continued to have a broad national agenda for increasing natural gas pipeline safety. The enactment of the "Pipeline Safety Improvement Act of 2002" and the "Pipeline Inspection, Protection, Enforcement, and Safety Act of 2006," resulted in rule changes and other related regulatory and non-regulatory initiatives. On December 4, 2009, the Pipeline and Hazardous Materials Safety Administration (PHMSA) issued the final rule titled: "Integrity Management Program for Gas Distribution Pipelines." This final rule became effective on February 12, 2010, with implementation required by August 2, 2011. The distribution integrity management rule requires operators to develop, write, and implement a distribution integrity management program. Increases in operating and capital expense will result from aspects of this aggressive federal agenda on pipeline safety, particularly as new distribution integrity management regulations are implemented."

Q: Is the Program Technically Accurate as defined by the Division?

A: Although the Company has provided its criteria in response to DPU 2.03[28] showing its prioritization of the lines replaced in its Program, these criteria

[27] DPU Exhibit 2.11

appear to have been developed relatively recently and seem to still be evolving.[29] There are other measures that can be incorporated and used. Age of the pipe is only one of the criteria to consider when planning on replacing pipes within a system. Attached is a copy of the Company's Appendix C in Questar Gas Pipeline Integrity Management Plan.[30] Also attached are the Company's Program risk criteria.[31] These are provided to show how the Company's Program's risk criteria compares to its TIMP criteria (DPU Exhibit 2.11 compared to DPU Exhibit 2.12 pages 10-16).

The Division believed that the reconditioned pipe, which was designated by the age of pipe (pre 1970 or Vintage), was the main criteria the Company would use as a bottom-line standard in its Program.[32] In the Company's risk analysis, much of the Vintage pipes are only a 'medium' risk, where pre-1955 pipes are 'high' risk.[33] This 'pre-1955', 'reconditioned' with 'no pressure tests found' threat category is where we would expect the Company to concentrate its efforts within High Consequence Areas (HCA) first.[34] We strongly recommend that the Company use the TIMP/DIMP risk ranking as a basis for this replacement Program. It is most important that the first pipes replaced be those which have the highest risk.

<u>Scope of Work 1.3:</u>

[28] DPU Exhibit 2.12 (53 pages)
[29] DPU Exhibit 2.13
[30] DPU Exhibit 2.11
[31] DPU Exhibit 2.12 pages 10-16
[32] DPU Exhibit 2.14
[33] DPU Exhibit 2.12 page 15
[34] There are about 58 miles (308,100 linear feet) of pipe that is 1955 or older.

Provide an analysis of compliance with Federal Safety Regulations CFR Title 49, part 192, subpart O and P.

Q: What did the Division investigate with respect to the Program compliance with Federal Safety Regulations CFR Title 40, part 192, subpart O and P?

A: The Division compared the ranking method that the Company uses to rank the priority of each FL in the Program to the Company's TIMP methodology incorporated to meet its requirements to the Federal Regulations listed above.

Q: What is the result of that investigation?

A: The Company does not use its TIMP or DIMP risk criteria to drive its Program work. There are some similarities, but its prioritization and work schedule are not determined by the TIMP or DIMP rankings or risk criteria.

Q: Are the high pressure FLs also "transmission lines" as defined by the Company's TIMP?

A: Some are and some are not. As defined by the DIMP or TIMP, the FLs within the Program contain both transmission lines and distribution lines.

Q: What does the Company use to determine replacement ranking if it doesn't use either the TIMP or DIMP criteria?

A: The Company uses a method it created which is a weighting of:

1) If the pipe was reconditioned or not;

2) If there is a record of a pressure test;

3) When the pipe was manufactured;

4) How the pipe was constructed; and

5) In-house expertise.

There have been significant resources put into developing these TIMP/DIMP risk ranking criteria standards and it seems like setting them aside to develop other risk criteria[35] is redundant at best.

Q: Is the Company following the CFR Title 49, part 192, subpart O and P?

A: Not for the replacement program. Based on discussions with the Division's Pipeline Safety engineers, the risk ranking methodology the Company is using for FL replacement does not appear to meet CFR Title 49, part 192, subpart O and P. This is not to say that the Company is not compliant with Part 192 for its intended purposes.

Scope of Work 1.4:
Analyze the criteria used to determine the timing and priority of feeder line replacement.

Timing

[35] DPU Exhibit 2.15

Q: What did the Division investigate with respect to the criteria used to determine the timing of the feeder line replacement?

A: In the Program application (Docket No. 09-057-16) the Company "identified approximately 20 feeder lines that are scheduled over the next decade. …Although the timing of each feeder-line replacement could vary from the schedule shown on QGC Exhibit 1.7 based on such factors as these, annual expenditures should remain approximately the same."[36] Its 'next decade' or ten year plan included the years 2009 – 2018.

Q: How does the timing of that ten year plan compare to today's plan?

A: Now the plan is set to continue through 2028.[37] It has changed from a ten year plan to a twenty year plan.

Q: Has it been a standard ten year plan for each year of Pilot?

A: It does not appear so. In a letter from the Company to the Chairman of the Commission in 2011, the Company implied that it "will spend $55 million per year from 2013 through 2016"[38] not through 2018. It is also interesting that in the Division's reply to the Commission's Action Request in Docket No. 11-157-14, the Division explained that "Exhibit 4 currently estimates that the feeder line replacement program will go through the year 2016 instead of 2018 as shown in Exhibit 1.7 of Mr. McKay's testimony. The Company has indicated the reason

[36] QGC 09-057-16 Exhibit 1.0 beginning on line 286
[37] DPU exhibit 2.16
[38] DPU Exhibit 2.17

for this acceleration in the feeder line replacement program is due to the lack of new customer growth, thereby allowing capital dollars, normally used to accommodate the new growth, to be diverted to the feeder line replacement program".[39] The Company never indicated that the Division's statement was inaccurate.

Q: In the ten year plan, how many FLs were expected to be replaced?

A: The original application had 18. However, if you add up the FLs listed on the Company's filed Schedules for each year, the number of lines sums to 35;[40] or from 'The Preliminary Schedule' presented in 2012[41] there are 27; if you reference page 32 of that same presentation you get 40-45 FLs;[42] and finally from the confidential response to DPU 10.06 you get 57[43] FLs. So, because these statements from the Company vary, it seems like there are somewhere between 18 and 57 FLs to replace, that the Division cannot accurately determine the answer to the question.

Q: Does each of the annual planned FL replacement schedules contain the updated listing of the ten years from the original plan?

A: No. There seems to be a start-from-scratch plan each year. In 2011 and 2012 the Company's schedule went out just four years with the remaining years

[39] DPU Exhibit 2.18
[40] DPU Exhibit 2.19 (6 pages)
[41] DPU Exhibit 2.20
[42] DPU Exhibit 2.21
[43] DPU Exhibit 2.22

"TBD".[44] This brings into question the solidity of the Company's ten year plan both in its original application and now.

Q: Can you list specific changes in the timing of FL replacements according to FL replacement schedules presented in the filings?

A: Yes. Representative examples include the following:

1) FL 50 was originally scheduled in 2017, but was moved forward five years;
2) FL 36 was not scheduled at all, then it was included ahead of many other projects that were already scheduled;
3) FL 29 was scheduled for 2012, then pushed back four years;
4) FL 28 was scheduled for 2014 then pushed back three years;
5) FL 11-1 was scheduled for 2012 then pushed back six years, then it was moved forward five years;
6) FL 23 was scheduled for 2012 then it disappeared from the schedule for two years, and then it reappears on the schedule apparently as a finished project in 2012.
7) FL 38 was not mentioned in the first two filings, then it was scheduled to be done in two years;

Q: Are you saying that the Company does not have reasons for changing the order of its work?

A: No. I am simply pointing out that the FL replacement schedules that the Division (and perhaps the Commission) relied upon as 'The Plan' were apparently considered by the Company to be only illustrative of what might

[44] DPU Exhibit 2.19 pages 4 and 5 (dockets 11-057-14 and 12-057-18)

occur. In any case, the Company apparently did not see it as requisite to adhere to the plans or schedules it presented to regulators.

Q: Please provide a comparison of a couple years that might be helpful to clarify the situation.

A: Certainly. If we take the FL replacement schedules for the years 2009, 2010 and 2011 and compare the proposed work for 2012, we see that not even one FL is shown on the schedule to be done in 2012 in all three years. In fact, only one FL scheduled for 2012 is mentioned two years in a row.

Q: Timing can also be interpreted to mean rapidity. Is it necessary for the Company to rapidly replace its FLs?

A: Not that the Division can determine. We see no reason, nor has the Company stated that it is under a time pressure to replace the FLs. Furthermore, while safety and reliability are reasonable considerations, given the Company's ranking methodology (and its apparent departure from the federal requirements for this program) and the frequent acceleration or delay or substitution in scheduled replacements, the Division is not able to articulate a clear objective of speed in the Company's FL replacement program.

Q: Is the Program necessary for the Company to replace FLs?

A: No. In DPU Exhibits 2.23 and 2.24 the Company listed some of its past Feeder Line Projects.[45] This shows that FL 7 was replaced in 2007, FL 10 and 16 were replaced in 2005-2006, FL 12 and 18 in 2006-2007 and that it took five years (2002-2007) to replace FL 26.[46] We see that the Company has had a FL replacement program since at least 2002; long before the Program began.

With that said, the Division does not oppose the Program as it was originally intended, namely, to identify and replace a finite set of FLs prioritized by an objective risk ranking over a specified period.

<u>Priority</u>

Q: What did the Division investigate with respect to the criteria used to determine the priority of the FLs to be replaced?

A: The Division initially looked to the 2008 slide entitled Factors in Replacing Pipelines.[47] In that presentation, the Company listed seven factors it considers when deciding to replace pipes. In the Company's testimony[48] it delineates the factors that would require a change in the schedule: "Pipeline-integrity testing, customer-growth patterns, highly populated areas, capacity restraints and proposed street-widening projects."

Q: Did the Company use those "Factors" when deciding which pipes to replace in the Program?

[45] DPU Exhibit 2.23
[46] DPU Exhibit 2.24
[47] DPU Exhibit 2.6.1
[48] QGC 09-057-16 Exhibit 1.0 beginning on line 289

A: The Division has not been able to determine that. At this same Technical Conference in February 2008 the Company also informed regulators that in 2007 it replaced FL 4, 5, 7, 11, 12, 18, 19, and 26.[49] According the Company's response to DPU 6.05[50] in 2007 the Company started FLs 4 and 11 but didn't finish any. It is unclear why this might be the case or what caused this large discrepancy.

Q: Does the Division expect the Company to doggedly stick to its planned schedules whether in this Program or its more general maintenance and repair/replacement projects, no matter what?

A: No. But the Division does expect the Company to develop a plan that prioritizes the replacement of its FLs based on objective criteria such as that specified in the TIMP/DIMP methods.

There may be valid reasons for some changes throughout the Program, but in general, the Division expects the Company to proceed by replacing FLs with the highest risk ranking first. Where changes are necessary, the Company should notify regulators of the expected changes along with the reasons for the changes prior to, rather than after, the work being performed. It should be noted that, in general, these projects do not have a quick turn-around. It can take years of planning and obtaining permits before any dirt is moved so changes should be known well in advance.

[49] DPU Exhibit 2.23
[50] DPU Exhibit 2.03

Q; The document you are referring to was given in a Technical Conference. Did the Division do a similar examination of Schedules the Company filed with the Commission?

A: The Division examined each "Feeder Line Replacement Schedule" filed by the Company: 2009 in Docket No. 09-057-16 – which was the initial application; 2010 in Docket No. 10-057-16 docket; 2011 in Docket No. 11-057-14; 2012 in Docket No. 12-057-18; and in this current application in 2013 in Docket No. 13-057-05. Therefore, there have been five filed schedules to examine and compare.[51]

Q: What did the Division look for in these filings?

A: The Division primarily looked to see if the Company's plan met its actual work. If there was a variance, whether the Company provided a reasonable explanation for that variance—preferably based on the criteria mentioned above. These schedules provide the basis for comparison. Regulators and customers need assurance that the Company has a clearly reasoned plan and that the Company is adhering to that plan as closely as possible.

<u>Original 20</u>

Q: In Docket No. 09-057-16, where the Division agreed with the Program premises, the schedule and the Commission-approved Program, the Company presented Exhibit 1.7 which was "a summary of the feeder lines

[51] DPU Exhibit 2.19

currently scheduled for replacement over the next decade". How well did the Company follow that schedule?

A: The Division's understanding was that those originally scheduled FLs were the ones that had the issues the Company talked about, such as welding, advanced age and were in highly populated areas. However, according to the Company's response to that question in DPU 6.11[52] of the five FL replacements scheduled in the early years of the original filing (09-057-16), only one began in the year it was planned. Likewise in DPU 2.04[53] two (FL 23 and 25) were not mentioned in the filed schedule in Docket No. 10-057-16, although work on both lines was apparently completed in 2011.

Q: Can the Division say that the Company is prioritizing the FL replacement program in a manner that is in the best interest of its customers?

A: The FL prioritization changes so frequently (at least annually) that it is unclear which FLs should be replaced first. The fact that this prioritization is not based on its TIMP/DIMP risk ranking and does not meet the CFR Title 49, part 192, subpart O and P only complicates the prioritization dilemma when focusing only on the Program.

Even the priority of the FL replacement listed in its application did not come to pass. For example; in the Company's response to DPU 10.06 it listed the ranking of its FLs to be replaced. We compared that to the Company's most current schedule (Exhibit 1.9 in this rate case filing) and found that of the first 15

[52] DPU Exhibit 2.25
[53] DPU Exhibit 2.26

in priority, eleven were scheduled in the next five years, and four were not, again aggravating the priority variation.

Q: Are all FLs scheduled to be replaced in High Consequence Areas (HCA)'s?

A: No.

Q: Please summarize the Division's timing and priority concerns.

A: The Division believes that the driving factor for replacement first and foremost should be the risk ranking of pipes based at least on the TIMP/DIMP risk model. The projects within the Program almost continually change such that we are unable to state that the Company is managing the timing and priority of its Program in the most reasonable manner.

With that said, the Division is not implying, and has found no evidence, that any of the work or costs that have been included in the Tracker to this point are imprudent or should be disallowed. The Division's objection is to the apparent lack of a well-defined scope of work approved by the Commission to include in the Tracker. Again the Division understood that, for safety and reliability reasons, there was a need to replace a finite set of vintage, pre-1970, FLs, which the Tracker would cover.

Given the metamorphosis from that finite set of FLs to an apparently larger ill-defined set of FLs and the frequent changes in the replacement schedules, the Division is concerned that current practice has exceeded the Program boundaries the Commission approved in Docket No. 09-057-16. Without further evidence supporting the inclusion of FLs other than pre-1970 FLs, the Division recommends that the Commission direct the Company to include in its Tracker only those high pressure FLs installed prior to 1970. The Company should make other prudent replacements outside of the Tracker in the ordinary course of its utility business.

If the Company has evidence that the Program should be expanded beyond the finite set of FLs, the Company should file such evidence with the Commission and seek approval for an expansion of the Program. The Division recommends that the evidence include:

1. A complete definition or description of all FLs that the Program would cover;
2. A detailed description of the risk ranking methodology that the Company intends to use to prioritize replacement of the included FLs; and
3. A multi-year plan for the replacements including, an ending date if applicable for the Program.

Other aspects of the Program as currently defined, such as reporting requirements, would remain in effect. Additionally, whether the program is restricted to pre-1970 FLs or is expanded to include others, the Division recommends that the Company report changes or variances in replacement schedules prior to or simultaneously with the beginning of construction.

Scope of Work 1.5:

Analyze the criteria used to determine when a change to the diameter of the pipe may be necessary and appropriate.

Q: Did the Division undertake a review to examine the Company's reasoning for choosing the size of pipe for each FL replacement project?

A: Yes. DPU 2.01 asked for the engineering analysis for each segment of feeder line replacement "to justify the need for the replacement based on specific criteria such as the age, or condition of the pipe or other similar factors." In response we received information pertaining to why the company chose a particular size of pipe (versus other size options) for several of those projects.

Q: Was the information the Company provided used as a factor in determining in justification to replace a feeder-line?

A: No. What the Division received was simply the Company's analysis determining the size of some of the pipes it chose to replace.

Q: When was the Company's pipe size analysis completed?

A: Most of the analyses provided to us were performed over two days in July 2012 which, in some cases at least, were after the work on a particular line had already started. For example, FLs 17, 18 and 23 had their analyses done July 12, 2012, but according to the Company's response to DPU 2.04 the projects were certainly started, and perhaps completed, prior to the analysis being done.

Q: Does that mean that the Company's analysis was faulty?

A: We have no reason to question the analysis the Company provided to justify the size of the pipes in the following projects: 12, 19, 18, 17, 14, 35, 11-1, and 41. It is interesting however, that the analysis for FL 12 was done in 2010 but work began on replacing the pipe at least as early as 2007.[54]

Q: What was the justification provided by the Company for replacing the pipes?

A: The analysis for FL 36 was for an expansion project not a replacement. FL 18 was replaced because the new pipe would be a more standard size (12" replacing 14"). The size for FL 50 was determined because a large customer may sign up for firm capacity. Statements like these bring into question the reason these projects were included under the Program, not necessarily the correctness of the size of pipe.

Q: Does the Division believe that the size of pipe replaced was appropriate for the relevant application?

A: We have no reason to believe otherwise.

<u>Scope of Work 1.6:</u>
<u>Analyze the reasons and criteria used for changes to the proposed replacement schedule.</u>

[54] Years before the Program was approved.

Q: Did the Division analyze the reasons and criteria used for changes to the proposed replacement schedule?

A: Yes. In order to examine the reasons and criteria for changing the schedules, we need to first have a basis to change from. The basis that seemed reasonable to us was to refer to the original application in Docket No. 09-057-16 because this is the docket where the Commission approved the Program. The Company stated, in that filing, some reasons that the feeder line schedule might "change depending on factors such as pipeline-integrity testing, customer growth patterns, highly populated areas, capacity restraints, proposed street-widening projects and other criteria".[55] So, we would expect that if the plans changed on these roughly 20 FL replacement projects, the reason for changing should be based on one of these four criteria or some other reasonable identified basis.

Q: What happened to those original 20 FLs the Company said it planned to replace compared with what actually happened in the Program so far?

A: Attached is the projected Schedule of FL replacement from the original filing.[56] You can see from this chart that the original 20 FLs (apparently taken to 20 for rounding purposes) were really 18 FLs (including one that was in Wyoming) to replace beginning in 2009 and ending in 2018. Comparing that chart to DPU 6.05,[57] which is a list of what the Company said was actually done, shows that they are not the same. None of the FL projects scheduled for the first three

[55] QGC 09-057-16 Exhibit 1.0 beginning on line 289
[56] DPU Exhibit 2.10
[57] DPU Exhibit 2.03

years occurred as scheduled. There are two other FLs (12 and 19) listed on the schedule that may have started when they were scheduled, but if so it was prior to the beginning of the Program.

Q: Are the changes based on the "factors such as pipeline-integrity testing, customer growth patterns, highly populated areas, capacity restraints, proposed street-widening projects and other criteria" as specified?

A: To some degree. According to the Company, the majority of changes were the result of "risk model analysis". However, other projects were moved forward five or six years because the Company had the resources and time to do the work because the originally scheduled projects were delayed. Other projects were delayed based on landlord difficulties.[58] Therefore, while risk modeling played a role in the majority of schedule changes, the Division has seen no evidence of the application of the other factors listed except the 'other criteria' factor.

Q: What can be determined by the Company's response to DPU 2.04?[59]

A: DPU 2.04 is the Company's response to the question, "Please provide an analysis and supporting reasons for any change from the proposed schedule to the actual projects that have been completed". The Company provided what it called a "summary of the requested information based on the 2010 proposed schedule". From it we learn that of those 17 on the FL replacement schedule

[58] DPU Exhibit 2.25
[59] DPU Exhibit 2.26

from 2010,[60] six were “on schedule”, three had “no significant change”; and of those FL replacement projects that were done sooner than planned, four (6, 8, 20 and 24) were considered to be a “higher risk” ranking based on input from employees, two others were moved up based on coordination with other construction projects, while the final two were moved up to fill available empty slots. Two FLs were not mentioned by the Company in the response to the Data Request (21 and 37) and eight (7, 4, 11, 23, 8, 6, 24, 21-50) were replaced according to the response to the Data Request, but were not on the schedule to be replaced.

Q: What can be determined by the Company’s response to DPU 6.11?[61]

A: DPU 6.11 is the Company’s response to a similar question based on the 2009 proposed schedule. From it we learn that of these pipes listed on the FL replacement schedule;[62] five (12-Phase 2, 17-A, 23, 7-Phase 2, and 25-A) were “on schedule”, and two (19-B and 19-C) had “no significant change”. Of those projects that were done sooner than planned; one (20) was considered to be a higher risk based on “risk model analysis”, four (17-B, 25-B, 35-A, 35-B) were move up based on coordination with other construction projects, while five (14 – Tooele, 41-A, 41-B, 50, 50-B) were moved up to fill available slots. Of those that were delayed, five (21-50, 22, 29, 28 and 14 phase 3) were delayed “due to risk model analysis”, two (11-1 and 14 phase 3) were delayed because of difficulties negotiating with the landlord. Of the final two, one is in Wyoming so it

[60] DPU Exhibit 2.19.2 (Schedule 10-057-16)
[61] DPU Exhibit 2.25
[62] DPU Exhibit 2.10 (Schedule from 09-057-16)

is not relevant to Utah, and one was “Delayed due to negotiations with Hillfield”.[63]

Q: Are the dates the only changes from the Schedules?

A: No. The plans for FL 35 goes from 46,000 linear feet (feet) to 75,000 feet; FL 41 was about 20,000 feet, then goes to 45,000 feet, then back to 16,000; FL 36 added 4,000 feet in a year; FL 21-50 began at about 1,000 feet, then went to 2,300 and finally to about 130,000 feet; FL 22 went from 3,000 feet to 58,600 feet; FL 29 was originally 1,500 feet then it became 102,000 feet; FL 21-13 began at 8,700 feet then dropped to 1,000 feet.

From conversations with the Company, the Division understands that a reasonable amount of variance in the liner feet between budgeted or planned replacements and actual replacements is to be expected. For example, planned replacement from point A to point B may include only a straight-line approximation of the linear feet involved, whereas, the linear feet from actual replacement might include incremental pipe necessary to cover changes in terrain or diversion around geographic or other obstacles. Some variances however, appear greater than would be expected.

Q: Are the reasons and criteria used for changes to the proposed replacement schedule appropriate?

[63] The ‘delay’ was from 2018 to 2014 – We presume that this is a typo because there is no such thing as a negative delay?

A: The reasons the Company listed for priority changes within the Program seem reasonable enough, but the Division believes that the overriding reasons and criteria should be based on TIMP/DIMP for risk ranking for FLs. However, with the shuffling of FLs ranking in the queue from one year to another, we are unable to determine if the reasons outlined by the Company as criteria for changing the order are the ones actually used by the Company.

<u>Scope of Work 1.7:</u>
<u>Analyze and compare the Questar Gas feeder line replacement program to other feeder line replacement programs currently in progress with other utilities.</u>

Q: What reasoning did the Company use to support its request that the Program "be continued on an ongoing basis and not as a pilot program."?[64]

A: The Company gave two reasons. One, that the Company and regulators have three years' experience, and two, "the general acceptance of these types of mechanisms nationwide". It also left the caveat that as long as "the Company is required to file a general rate case at least every three years the mechanism can be reviewed and analyzed just like any other general rate case item."[65]

Q: Is the pilot program's three years of existence reason enough to continue the Program?

[64] QGC 13-057-05 Exhibit 1.0 lines 219-220
[65] QGC 13-057-05 Exhibit 1.0 beginning on line 216

A: No. The pilot nature of the Program should be viewed more as a 'we are dating' announcement, not a wedding announcement. Although the recent practice has been that pilot programs become permanent, it is not the next necessary step.

Therefore, as previously discussed, the Division recommends one of two alternatives. First, the Program should be scaled to include only those pre-1970 FLs. Second, the Company may request an expansion of the Program to include other FLs. In either case, the Division recommends that the set of FLs included in the Program be explicitly defined and that the replacement selection criteria be specified and consistent with the DIMP/TIMP.

Q: Is the reason that costs can be challenged reason enough to continue this Program?

A: No. All costs can be examined and challenged in a general rate case; that is the very purpose of a general rate case. The ability to challenge the costs in a rate case does not change whether rate recovery outside a general rate case is warranted. That reason is irrelevant.

Q: Is the reason that more LDCs have trackers reason enough for continuance of the Program?

A: No. Simply because there are more LDCs using similar trackers, or even that there are any LDCs with roughly similar programs, is not a reason for continuing, or not continuing, the Program.

Q: How did the Division analyze and compare the Company's "feeder line replacement program to other feeder line replacement programs currently in progress with other utilities"?

A: We relied on the information provided by the Company in Exhibit 1.7 of this filing. The Division notes that from the Company's list, it is not clear that all of the companies have "feeder line replacement program[s]" as specified above." Rather it is more likely a list of LDC's that have (or have had) "Infrastructure Rate Adjustment Mechanisms," which are not necessarily the same as a "feeder line replacement program[s]".

Q: Can you make some observations from the list provided by the Company that may not lend itself to harmonious support for the Program and "the general acceptance of these types of mechanisms nationwide"?[66]

A: Yes. The Division determined that the Company's statement is not exactly what the exhibit shows. In our research, the Division sorted the examples in the Company's Exhibit 1.7 by type of project, based on the descriptions provided by the Company.

Q: What are the results of this sorting?

A: Twenty-one of the mechanisms are to replace cast iron and/or bare steel pipe.

[66] QGC 13-057-05 Exhibit 1.0 line 204

Q: How much cast iron/bare steel pipes does the Company have in its high pressure pipes?

A: None.

Q: Are those programs by other LDC's relevant to the Company's Program?

A: No.

Q: What else did you discover?

A: Four of these other programs were implicitly for public safety and operational reliability

Q: Has the Company had safety or operational issues resolved with this Program?

A: No. However, the Division believes that it was designed to avoid operational and safety issues.

Q: What else did you discover from "these types of mechanisms"?

A: Three were instigated to create jobs in the community (economic promotion); seven were approved for specific, time limited projects (similar to our MPA statute); two were used to true up estimates; and the other four were more miscellaneous and did not fit within a particular category. Therefore, of the 41 LDCs in the Company's list, 34 were implemented for reasons quite different than those used to justify the Company's current Program.

Q: What about the additional LDC's having "these types of mechanisms" approved since the Company's last rate case? What category do they fall in?

A: They are similar to the ones listed above.

Q: Which of these categories is most applicable for the Company?

A: The mechanisms that were for specific projects with specific dates. This category is most like the Company's approved Program. In other words, the Company first proposed this Program with a specific project list, with an estimated time window of ten years. Therefore, seven other LDC's have programs somewhat like the Company's.

In any case, the fact that other LDCs have, or do not have, mechanisms similar to the Program, is not a compelling reason for either continuing or discontinuing the Program.

<u>Scope of Work 1.8:</u>

Compare the actual expenses to forecast cost and provide commentary on the reasonableness of the cost and any significant variation from the forecast.

Q: Did the Division:

1) Perform an audit comparing the actual expenses to forecast cost;

2) Provide commentary on the reasonableness of the cost; and

3) Report any significant variation from the forecast as specified in this Scope of Work?

A: Yes. Parts one and three were previously performed and submitted to the Commission on June 17, 2013. The focus of this section will be part two – a commentary on the reasonableness of the cost. In Docket No. 09-057-16, the Company stated that it "is planning to spend approximately $40 million annually for feeder-line replacement."[67] At that time, the Company explained that it was replacing aging feeder lines and without the Program in place yet, those costs were naturally included in rates. The Company spent $50 million in 2007 and $47 million in 2008.[68] The Company also said, that it decided not to self-fund the project to that level in 2009 so, in 2009 it only spent $14-18 million.[69] It proposed the implementation of the Program to fund the project through rates, since it was apparently difficult for the Company to get money from the capital market.[70]

[67] 09-057-16 QGC Exhibit 1.0 line 332
[68] DPU Exhibit 2.27
[69] QGC 09-057-16 Exhibit 1 line 307
[70] QGC 09-057-16 Exhibit 1 line 308

Q: Is the "global economic downturn [which] caused the capital markets to dry up, which caused the Company to self-fund all of its capital projects"[71] still occurring?

A: No. The economy has changed considerably in the past four years. Just a few months ago, the Company issued an additional $150 million in new debt. So it certainly can get the money to fund its capital improvements by going to the market as it used to. Furthermore, the Company has increased its annual dividend payments from $28.2 million in 2009 to $33 million in 2012 and is on track to pay $35.4 million in 2013. At least from this high level view, the Company shows no indication of capital distress.

Although the Division's analysis shows that the tracker has had little impact on the Company's earnings (see DPU Exhibit 3), the Division is not suggesting that the absence of a tracker would never put a strain on the Company's finances. Rather, the Division is simply illustrating that a main reason for implementing the tracker, namely, liquidity in financial markets has apparently changed for the better.

Q: How much was planned to be spent on the Program?

A: The Company stated that it "is planning to spend approximately $40 million annually for feeder-line replacement."[72] Elsewhere, it stated that its plans were to spend $40-$50 million per year.[73] If approximately those amounts were to be

[71] QGC 09-057-16 Exhibit 1 line 308
[72] QGC 09-057-16 Exhibit 1.0 line 286
[73] QGC 09-057-16 Exhibit 1.0 line 295

kept throughout the life of the original program (decade) it would add $400 - $500 million to rate base.

Q: How have the planned amount and the increase based on the inflation factor changed that forecast?

A: The budget forecast has increased from approximately $40-$50 million to the current $67 million.[74] That is an increase of $22 million or 49% in the three years[75] of the program. That equates to approximately16% per year.[76]

The basis for this inflation factor—the Global Insight Distribution Steel Main Inflation Index (Index)—was agreed to and approved by the Commission. While the Division continues to support the use of the Index, it should be noted that its use has a significant impact on the trajectory (slope) of the costs of the original proposal.

Q: The proposal originally outlined a ten year plan. How does extending the program to 2028[77] affect expenditures if an average of $55 million were spent from 2009 – 2028?

A: That would change the original estimated expenditures from an average of $450 million to more like $ 1.1 billion.[78] That figure is without any inflation factor calculation, which could make a sizable addition.

[74] QGC 05-057-13 Exhibit 1.0 line 297
[75] $67-$45=$22
[76] 49/3=16.34
[77] DPU Exhibit 2.28

Q: How much does the Company spend to adhere to the "Pipeline Safety Improvement Act of 2002", the "Pipeline Inspection, Protection, Enforcement, and Safety Act of 2006," and the "Integrity Management Program for Gas Distribution Pipelines."?

A: The Company expects to expend approximately $6.4 million per year for 2013-2015[79] which is about 10% of its current expected expenses per year within the Program.

Q: Each year of the Program the Company has provided a listing of its expected projects and the associated dollars. What commentary does the Division have on those filings?

A: Initially the filings were more detailed than they have been in more recent filings. The information was given down to the detail of each FL and to the thousands of dollars. The practice has become less specific over time, to the level of only listing the FLs and an annual budget of $55 million. Also, in some filings the Company couldn't determine what it would spend the money on—it referred to "Misc., TBD or Other" categories—but that it would spend the money nonetheless.[80] That sort of vagueness should not be accepted in any regulatory filing in Utah.

[78] $55,000,000*20 years=$1,100,000,000
[79] May 31, 2013 IRP pages 4-21 through 4-32
[80] DPU Exhibit 2.19 (the 2010, 2011 and 2012 filings)

Q: The Company has been spending on average $200 to $500 per foot for the FL replacement. If the Company were to stick to that original schedule how much would the Company spend?

A: From the original schedule in Docket No. 09-057-16, the total footage (excluding Wyoming) was 516,000 linear feet. If you multiply the dollars per foot, the total we would expect the expenditures to be would be somewhere between $103 million and $258 million. Clearly this is markedly different from the current projected expenditures.

Q: Please provide a summary of the Division's views of the finances for this Program.

A: In the Docket No.10-057-16, the scheduled budget for each year of the Program was roughly $45 million. Due to the allowed ceiling, the amount contained in the budget in the next year's filing in Docket No.11-057-14 for the same budgeted years jumped to $55 million for each year. As can be seen above, like the Program itself, the total forecasted costs for the Program are dramatically higher than the original projections. To justify the continued recovery of these expenditures requires that the Program going forward be specifically defined as specified by the Division's recommendations as delineated later in this testimony.

<u>Scope of Work 1.9:</u>

Analyze additional issues raised by QGC or other parties to the case. Identify and discuss other issues that are important to consider in this portion of the case.

Other issues that are important to consider

- **Safe and Reliable Service**

Q: The Company states that the Program is necessary "to ensure public safety and provide reliable service".[81] Is it necessary for those reasons?

A: There is no evidence that the Company cannot provide safe, reliable service without the Program. As previously discussed, the presence of the Tracker has had little effect on the Company's earnings. While liquidity in the financial markets appears to have improved recently, it may be true that in the absence of a tracker, the Company would have had difficulty raising capital to support a replacement strategy on the same scale as the Program or would have filed more frequent rate cases.

Additionally, according to the response to DPU 2.02[82] the Company's entire system is currently compliant with federal safety regulations. The Company has provided no evidence that FLs present an imminent unsafe or unreliable situation. The Company could have, and did have at least the beginnings of, a replacement program prior to the implementation of the Tracker. Nevertheless, to the extent the Company can demonstrate a risk-based need for replacement

[81] QGC 13-057-05 Exhibit 1.0 line 189
[82] DPU Exhibit 2.29

in accord with the DIMP and TIMP analyses, the Division could support the continuation of a Tracker program.

- **Aging or Vintage FLs**

Q: The Company frequently uses the terms 'Aging or Vintage' to refer to FLs it wants to replace due to when the pipe was manufactured, how it was welded or when it was installed. Is aging pipe an appropriate determinant for pipe replacement?

A: To some extent. Everything is aging. The age of the pipe is only one of many factors to consider when deciding when to replace a pipe. The Division asked when the feeder lines installed prior to 1970 will be replaced. In that response, the company said that virtually all feeder lines on the schedule are pre 1970.[83] However pipes that have been replaced within the Program were installed more recently than the Vintage criteria as well and thus are not eligible to be included in the Program. For Example, if the confidential response to DPU 10.6[84] is compared to the most current information we have,[85] we find that of the 29 FL projects listed, 13 are not listed as Vintage lines. However, in the Commission's order in Docket No.11-057-11, it made it clear that the Program is to be used in "recovering costs associated with replacing aging infrastructure."[86]

[83] DPU Exhibit 2.30
[84] DPU Exhibit 2.22
[85] DPU Exhibit 2.31 (The Company's 2nd Quarter 2013 Feederline Update)
[86] DPU Exhibit 2.32

- **Perpetual Program**

Q: Did the Company previously envision that the Program would continue indefinitely or at least much longer than the original decade?

A: It does not appear so. From the Company's question we see that the Company was expecting the Program to come to an end.[87] In the same filing the Company again contemplated an end to the Program 'Tracker'.[88] From the Division's perspective, it is critical that there be an ending date lest the Program become uncontrollable. In the Division's reply to the Commission's Action Request in Docket No. 11-157-14 the Division explained that "Exhibit 4 currently estimates that the feeder line replacement program will go through the year 2016 instead of 2018 as shown in Exhibit 1.7 of Mr. McKay's testimony. The Company has indicated the reason for this acceleration in the feeder line replacement program is due to the lack of new customer growth, thereby allowing capital dollars, normally used to accommodate the new growth, to be diverted to the feeder line replacement program."[89] There was no objection from the Company pertaining to our statements.

- **Cost Recovery**

[87] QGC 09-057-16 Exhibit 1.0 line 372
[88] QGC 09-057-16 Exhibit 1.0 beginning on lines 388
[89] DPU Exhibit 2.33

Q: Are there other cost recovery alternatives the Company could use regarding a FL replacement program like this one other than the Tracker mechanism it has chosen?

A: Perhaps. The Major Plant addition statute, Utah Code § 54-7-13.4, possibly could be used to allow recovery of some replacement costs outside a general rate case.

However, in the Company's direct testimony in Docket No. 09-057-16 the Company argues, "The "major plant addition" statute, Utah Code § 54-7-13.4, does not lend itself to this type of pipe replacement. This is not one, neat, tidy project that can be identified and completed within the framework described in § 54-7-13.4. Replacing this type of aging infrastructure will take many years and will occur incrementally throughout that period. The Company does have some projects, like the St. George expansion, that may reasonably take advantage of the "major plant addition" option. But the nature of the ongoing replacement of aging infrastructure either calls for annual general rate cases or a tracker. After reviewing the issue, we believe a tracker is the better option." [90]

Q: Does the Division agree that replacing FLs would not fit well using the Major Plant Addition (MPA) statute?

A: Not necessarily. In the Division's opinion, some projects within the Program might fit within the confines of the statute. The Company is spending over $40 million above minimum statutory investment of 1% of plant. It seems appropriate that FL 26 which has taken years and consumed over $40.1 million

[90] QGC 13-057-05 Exhibit 1.0 beginning on line 313

possibly could be considered a major plant addition.[91] This is just one line. Certainly, a defined program comprised of multiple, at-risk lines, would meet the statutory threshold.

Q: Are there other considerations under the MPA statute?

A: Yes. While the statute says nothing about the plant addition being contiguous either geographically or on a set timeline, the statute does tie approval to proximity to the previous rate case. Specifically, the statute requires that the Company may file its application "if the commission has . . . entered a final order in a general rate case . . . within 18 months of the projected in-service date of a major plant addition." (Utah Code § 54-7-13.4(2)) Given this statutory restriction, qualifying a replacement project under the statute may be difficult. In other words, given the nature of the replacement projects, simultaneously qualifying a project under both the monetary threshold and the in-service date would be difficult.

Q: Is FL replacement contingent upon the Major Plant Addition or the Program approval?

A: No. The Company did have an 'ongoing replacement of aging infrastructure' program in place as early as 2002, some eight years before the current Program was adopted. In 2009 the Company said that it "is planning to spend

[91] DPU Exhibit 2.34

approximately $40 million annually for feeder-line replacement".[92] It did not say that spending this amount was contingent on approval of the Program. In 2008 it spent $47 million[93] and approximately $45 million in 2007 which would lead us to believe that the Company was doing major plant additions outside the MPA statute and the Program.

V CONCLUSION AND RECOMMENDATIONS

Q: What is the Division's conclusion?

A: The Program should not continue in its current form without further approval or direction from the Commission. Either the Program should be discontinued or be allowed one more pilot period of three years (or at the next rate case whichever is sooner) contingent upon adoption of the Division's recommendations below.

The Company's operation of the Commission-approved program has exceeded the bounds of that approval. This case provides the Commission an opportunity to refocus the Company's work to the program's original intent.

Q: From a broad view, what led the Division to this conclusion?

A: The financial conditions that the Company said instigated the need for the current Program are no longer applicable. It has morphed beyond its bounds as stated in the application and approved by the Commission, and understood

[92] 09-057-16 QGC Exhibit 1.0 line 332 and 286
[93] 09-057-16 QGC Exhibit 1.0 line 301

by the Division. The executions of the plans are too flexible. There is not a definitive plan to achieve a particular goal with a specific end-date.

In short, for these types of expenditures to remain reasonable and in the public interest, the Company should either:

1) Fit the Program precisely into its original intent

2) Replace the relevant infrastructure as part of the regular utility system maintenance and integrity work; or

3) Petition the Commission to expand the Program.

Q: If the Program continues, what does the Division recommend?

A: The Division recommends that:

1) Only pipe older than 1970 should be included in the Program.[94] Specifically, it should first focus on pre 1955 pipe, which the Company considers to be a higher risk;

2) If the Company wants to collect for major work it plans on doing not within the boundaries of this (restricted) Program, it should petition for an extended program.

In either case, the Commission should direct the Company to submit as soon as practicable a detailed description of the high pressure FLs intended to be covered by the Program with a multi-year replacement plan.

[94] QGC 13-057-05 Exhibit 1.10 page 4

3) Going forward, each filing within the Program should be for infrastructure identified using TIMP/DIMP risk analysis at a minimum.

4) Company's projects that do not fall within the guidelines of a Commission approved plan, would be included as part of the Company's regular capital expenditure – system maintenance – work that it has been doing for years and the costs reviewed and recovered in general rate cases.

5) Finally, slush funds, or "Miscellaneous" / "Other" / "To Be Determined" etc. or work on "small projects" should not be allowed within the Program.

Q: If these recommendations are not accepted what does the Division recommend?

A: As stated above, the Program should be discontinued in its entirety. Prudent replacement would then occur using standard recovery processes.

IV <u>INCLUSION OF THE INTERMEDIATE HIGH PRESSURE FEEDER LINE REPLACEMENT PROGRAM</u>

Q: What is the Company requesting with regards to its Intermediate High Pressure (IHP or Beltline) system?

A: For the past couple years the Company has been replacing what it calls its IHP system (it is also called the "Large Diameter Mains", "Mains", "Intermediate High Pressure Feeder Lines", "Feeder Lines", "Feeder Mains", "Large Diameter

Feeder Lines", "Distribution Lines", "Beltlines", or just "Belts") since at least 2011[95] spending $2 to $3 million per year. It now wants to accelerate its replacement plan to spend "approximately $10 million a year. The Company also requests that that this type of pipeline replacement be included in the Infrastructure Tracker".[96]

Q: What are the similarities in the Program and the Beltline?

A: Both seem to be roughly focused on eight inch diameter or larger, pre 1970 pipe.

Q: What are the differences between the Program and the Beltline system?

A: Pressure is the main difference. A Program pipe's rupture would likely be more catastrophic than the rupture of an IHP pipe. The potential impact radius of the IHP is less than half that of a High Pressure (HP) pipe (even operating at its lowest MAOP – 354psig).[97]

Q: Is the IHP system a separate and distinct part of the Company's system?

A: No. Pipe diameter can be a distinguishing factor, but it is not necessarily a distinguishing factor. The IHP is contained within the subset of 'everything not HP'. There are no 'low pressure' pipes, in the way the Company categorizes its

[95] QGC 13-057-05 Exhibit 1.0 beginning on line 272
[96] QGC 13-057-05 Exhibit 1.0 beginning on line 282
[97] DPU Exhibit 2.35 and DPU Exhibit 2.36

pipes. There is only HP and everything else. Mains (IHP) and Services are in this same category. Some of the IHP pipes are large (8" and over), but not all.

Q: Does the Company propose that the Program and this IHP replacement plans and plant are similar?

A: Yes.[98] Again, the overarching difference is pressure. However, the similarities to the Program are remarkable. Just as it did in the Program, the Company provided its plan, its miles of main, its time frame and projected cost.

Q: How confident is the Division that the projections and plans will be followed?

A: Given the history with the High Pressure Program documented above, the Division is not confident that the projections are accurate or that the plans will be followed.

Q: Can you give some examples from this initial application which would cause the Division to hesitate?

A: Yes. Let me give two.

1) The Company explained that, at its current rate of \$2 -\$3 million per year that it will take approximately 30 years to replace the entire IHP system.[99] Multiplying

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[98] DPU Exhibit 2.37

[99] QGC 13-057-05 Exhibit 1.0 beginning on line 276

this rate out suggests that the total cost to ratepayers of the Beltline replacement will result in between $60 million and $90 million being spent. According to the Company's response to DPU 2.10[100] the projected expenditures in the plan is between $100 and $115 million. The fact that these numbers are between $10 and $55 million different gives the Division cause for concern. The Company says it "proposes to spend a total amount of about $65 million per year, $55 million on high-pressure feeder line and $10 million on IHP (beltline) replacements combined."[101] Given the experience with the expected expenditures of the Program, the Division is uncomfortable with the variance in the projected budget already.

2) The Company's plan is to replace 70 miles of IHP[102]. When that number of miles (70) is compared to the response to DPU 10.2[103] it can be seen that the 70 mile standard is not the sum of all large diameter IHP miles put into service prior to 1970 as one would expect. Rather, to get to the 70 mile cutoff, only the IHP lines built prior to 1963 would qualify. According to the response from the Company there are approximately 94 miles of large diameter, Pre-1970 IHP pipes. The Division does not know why the remaining 24 miles are not included in the plan or if 1963 is any delineator. Based on the experience with the Program and its variations in planned vs. actual replacement miles, the Division is very concerned about the plans.

[100] DPU Exhibit 2.38
[101] QGC13-057-05 Exhibit 1.0 beginning on line 288
[102] DPU Exhibit 2.39
[103] DPU Exhibit 2.40

From these two small examples, it seems that this IHP plan is not off to a much better start than the Program. Since, as highlighted above, there are many, and in the Division's view, serious questions concerning the current Program, starting an additional and very similar program is at best premature. The Division opposes including IHP Beltline at this time

Q: What does the Division recommend?

A: The Division recommends that the Commission deny the Company's request to expand the High Pressure Feeder Line Replacement Tracker Program by including the Intermediate High Pressure Feeder Lines or any other lines.

V <u>COST OF SERVICE ISSUES</u>

TASK FORCE

Q: Were you involved in the Cost of Service Task Force?

A: Yes. I was actively involved in both the Docket No. 09-057-16 and the previous Cost of Service Task Force in Docket No. 02-057-02. At that time I was employed by what is now the Office of Consumer Services and participated on its behalf until I assumed my current position with the Division.

Q: Was a Commission order issued on Cost of Service and Rate Design issues reached in either task force?

A: No. The first task force resulted in providing parties much greater detail in calculating and categorizing the cost of service components. The second one focused more on what to do with that information. Although some parties agreed on different segments and a great deal of discussions occurred, a final agreement was not reached and submitted for Commission approval.

Q: Is it concerning to the Division that an agreement was not reached?

A: Not necessarily that an agreement was not reached. However, a pattern of stipulations between the parties on cost of service and rate design for the past decade is somewhat concerning.

Q: How is this problematic?

A: Although statute encourages stipulations and agreements between parties, the Division is of the opinion that these many relevant topics are ready for Commission determination. While each of the past stipulations was in the public interest when taken as a whole, their cumulative impact coupled with changing conditions has resulted in some perpetuation of rates being apportioned other than by cost.

Q: Did the Division hire an expert to assist it in the Cost of Service and Rate Design analysis?

A: Yes. The Division has hired Lee Smith of La Capra who will be addressing the Division's specific cost of service and rate design recommendations.

INTERRUPTION TESTING

Q: What is the Company proposing?

A: The Company wants to make sure that interruptible customers can be interrupted by performing a test following a 24 hour notice.

Q: What is the Division's position on this proposal?

A: For the initial phase of the testing the 24 hour notice will work to get the interruptible customers accustomed to interruptions and make the changes necessary in their operations. However, these customers should be prepared for the actual experience. Therefore, following the initial phase of testing, the Company needs to: 1) give two hour notices – as it states in the tariff; 2) make sure the interruption is a full interruption not partial; and 3) the interruption needs to last long enough that those supplies could be used to cover the firm customers load on the coldest part of the year.

Q: Does that conclude your testimony?

A: Yes.