Docket 13-057-07

Audit and Analysis of the Wexpro Agreements and Operator Service Fees 2005 through 2014

Submitted to:

Utah Division of Public Utilities

Submitted by:

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1. EXECUTIVE SUMMARY

Introduction

On June 2, 2015, the State of Utah issued Solicitation MP15044 and an accompanying Request for Proposals (RFP) for an Accounting Auditor for an audit and analysis of the Wexpro Agreement, to be conducted for the Utah Division of Public Utilities (DPU). On June 23, 2015, Overland Consulting (Overland) submitted a proposal in response to the RFP. Overland was selected to perform the audit and began work on July 15, 2015. The scope included an audit and analysis of the costs Wexpro billed to Questar Gas Company (QGC) under the Wexpro I and II agreements for the ten-year period 2005 through 2014, with an emphasis on detailed review and testing of amounts billed in 2014. Analysis of the nature of the costs and their trends focused on the entire ten-year period.

Prior to Overland's involvement in the audit, the Staff of the DPU began to analyze Wexpro's costs and cost trends in connection with DPU Docket 13-057-07. As part of this analysis, the Staff requested a significant amount of data from Wexpro. Initially, Overland requested and reviewed the data Wexpro had provided to the Staff, updated through the end of 2014. We also issued additional data requests. We received much of this initial data and began our technical analysis in mid-August.

We conducted an on-site review and interviews at Wexpro's business offices in Salt Lake City during the second week of September 2015. At this time we met with Mr. Douglas Wheelwright and Mr. Eric Orton of the Utah DPU Staff. We discussed our plans for on-site work and our expected schedule for the audit. During this meeting it was determined that a primary objective of the work would be to examine each cost component of the operator service fee (OSF) billed to QGC, placing emphasis on the components that increased most significantly during the ten-year audit period, with a goal of explaining the key factors contributing to the cost increases. It was also determined that specific emphasis would be placed on examining the component of Wexpro's general and administrative (G&A) costs charged or allocated to Wexpro by Questar Corporation.

We conducted on-site analysis and interviews from September 7 through 11, 2015. Our primary Wexpro contacts and interviewees included Mr. Brady Rasmussen, Executive Vice President and Chief Operating Officer; Mr. Gary Stidham, General Manager, Administration; Mr. Justin Woody, Vice President, Engineering and Geoscience; and Mr. John Yin, Director, Wexpro Accounting.

We issued a set of data requests at the end of our site visit, supplemented by additional requests as we completed our audit and analysis. We conducted a number of follow-up telephone discussions with Wexpro personnel to solidify our understanding of Wexpro's OSF calculations and operational history. We also conducted two telephone interviews of the Wexpro agreement's hydrocarbon monitor, Mr. David Evans.

We issued a total of 109 discovery requests for data and information between July 28 and December 3, 2015. Responses to 19 data requests issued between November 10 and December 3, 2015, were not received by the end of the year, and are therefore not considered in our analysis or this report. In addition to responses to our requests, we considered and incorporated responses to 95 DPU Staff data requests into our analysis.

The report is organized consistent with the scope of the audit and the components of Wexpro's OSF that we reviewed. In addition to this Executive Summary, it includes the following content:

- Chapter 2 – OSF Gas Expenses and Oil Sharing. This chapter covers operations and maintenance (O&M) expenses, general and administrative (G&A) expenses, and shareable income from oil sales. In addition to these OSF categories, it contains analysis of the Distrigas component of corporate allocations and Wexpro's employee compensation.
- Chapter 3 – OSF Investment-Related Costs. This covers the components of Wexpro's cost-of-service investment base, including net property, plant and equipment, accumulated deferred income tax, the general plant allowance, and the working cash allowance. It also covers the components of the OSF driven by the investment base, including return on investment, income tax, and depreciation expense.
- Chapter 4 – Benchmarking. This chapter compares Wexpro's costs, earnings, and its 2013 and 2014 average natural gas sales price, with those of a peer group of ten exploration and production companies whose production consists primarily of natural gas.

Overview of Audit and Analysis Findings

This discussion includes the key findings from our audit and analysis. The individual chapters listed above contain a more complete listing and discussion of significant audit and analysis findings.

Audit Trail and Compliance with the Wexpro Agreements

1. In general, we were able to reconcile the financial inputs in Wexpro's 2014 OSF calculations with the amounts recorded in Wexpro's books and audited financial statements. OSF inputs that we could not reconcile with financial statements include the following:
    - We were unable to completely reconcile the year end 2014 accumulated deferred income taxes (ADIT) balance in the OSF calculation package with Wexpro's financial statement balance. However, at the end of 2014, OSF and financial ADIT balances differed by only about 3%.
    - Although we understand the reason for the difference, we were unable to determine that depreciation expense on undeveloped Wexpro II reserves, included in the 2014 OSF but not included in 2014 financial depreciation, was authorized under the Wexpro II agreement.
2. Wexpro's 2014 monthly billings to QGC were generally consistent with its OSF calculations. We reconciled differences for the year to within less than $1,000. However, as explained below, we

could not find a basis in the Wexpro agreements for Wexpro's OSF treatment of negative oil income for 2014.

3. Wexpro's OSF calculations of expenses, investment base, rate of return, income taxes, and its allocation of investment and expenses between well categories appeared consistent with the requirements of the Wexpro I and II agreements and their supporting exhibits for the year 2014. However:

    - 2014 depreciation expense of acquisition property under Wexpro II was $8.7 million in the OSF calculation and $3.1 million as recorded on Wexpro's books. Wexpro offered the explanation that the difference consisted of depreciation on proven undeveloped reserves which they were permitted to take for OSF purposes but not for book purposes. Although it may have been intended by the parties, we can find no provision in the Wexpro II agreement supporting the inclusion of depreciation expense on undeveloped reserves in the OSF or for any depreciation in the OSF that is not recorded on the books.
    - Amounts charged through the OSF from Questar Corporation and affiliates approximately tripled between 2005 and 2014. There is nothing in the Wexpro agreements, agreement exhibits, or interpretive guideline letters that limits or in any way regulates the amount or types of cost charged by Questar Corporation into the OSF or the methods used to distribute the cost between Wexpro and other Questar subsidiaries.
    - The Wexpro agreement provides that income from the sale of oil and natural gas liquids, after subtracting expenses and reducing the result by Wexpro's agreement-based return on oil investment, is to be shared between QGC and its customers (54%) and Wexpro (46%). We tested the calculations of oil income sharing for each month and each well category in 2014 and traced the results forward into the OSF. Although Wexpro's 2014 calculations appeared consistent with the provisions of Wexpro I agreement, we were unable to find any support in the agreement or in guideline letters for Wexpro's OSF treatment of 2014's negative oil income[1], which differed based on well category. Wexpro removed most of the negative oil income associated with the Prior Wexpro and Development Oil well categories from the OSF with a $1.1 million adjustment (effectively not charging QGC for its share of the amount by which Wexpro's return on investment exceeded available oil income). However, for the Development Gas well category, Wexpro did the opposite, adding <u>all</u> of the negative oil income (both the QGC share and the Wexpro share) to the OSF in a separate adjustment that increased the OSF by $5.9 million.

Increases in OSF Costs

1. <u>Overall Increase in Costs.</u> Annual OSF costs increased from $126 million ($3.15 per Mcf) in 2005 to $350 million ($5.51 per Mcf) in 2014. 80% of the increase is attributable to development drilling

[1] Because of falling oil prices, 2014's oil revenue was insufficient to cover both oil-assigned expenses and Wexpro's agreement-entitled return on investment (17% for most oil investment) and, therefore, left a negative, rather than positive, shareable income amount.

capital expenditures and the investment-related costs of return, income tax, and depreciation expense. Most of the remaining OSF cost increase is attributable to higher O&M and G&A expenses.

Table 1-1 – Summary of Wexpro's Operator Services Fee, 2005-2014

Summary of the Wexpro's Operator Services Fee, 2005-2014 $ Amts in 000s											
Category	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Avg. Annual Pct. Increase
Operating and Maintenance	$ 9,201	$ 12,844	$ 14,287	$ 19,515	$ 18,129	$ 17,289	$ 19,368	$ 22,071	$ 21,852	$ 24,136	**11.3%**
General and Administrative	9,129	10,294	13,361	11,959	14,987	17,564	20,772	22,752	22,635	26,260	**12.5%**
Depreciation	25,006	31,068	29,132	46,037	56,276	58,501	58,953	70,211	76,955	98,683	**16.5%**
Production Taxes	29,760	28,462	19,227	34,077	17,858	24,382	22,292	17,848	23,623	33,069	**1.2%**
Royalty interest adjustments	2	9	(67)	37	(82)	14	23	5	33	14	**24.1%**
Return on Investment and Income Tax	59,412	69,038	82,780	102,045	121,741	126,678	134,810	144,465	148,784	165,462	**12.1%**
Less: Excess cost over market	31	(1,014)	(2,011)	(2,324)	(3,313)	(2,777)	(2,923)	(3,341)	(1,989)	(967)	
Adjustment	(498)	(556)	(1,145)	(2,339)	(642)	(1,638)	152		2,747	3,048	
Subtotal	$132,043	$150,145	$155,564	$209,007	$224,954	$240,013	$253,447	$274,012	$294,641	$349,705	**11.4%**
Less: Oil Revenue Sharing	6,139	5,491	4,887	6,082	1,038	1,082	3,300	2,527	596	(113)	
Net Billed to QGC	$125,904	$144,654	$150,677	$202,925	$223,916	$238,931	$250,147	$271,485	$294,045	$349,818	**12.0%**
Production Volumes (Bcf)	40.0	38.8	34.9	46.1	48.2	50.2	50.5	57.5	59.2	63.5	
Cost per Mcf (1)	$ 3.15	$ 3.73	$ 4.32	$ 4.40	$ 4.65	$ 4.76	$ 4.95	$ 4.72	$ 4.97	$ 5.51	**6.4%**
Sources: Response to data request DPU 4.1 (update provided April 20, 2016), OSF DPU 4.1 Other DPU OSF.xls and Questar Forms 10K.											
Note 1: Based on production volumes in Bcf as reported in Questar's 10Ks. Not intended to reflect average sales price or cost per Mcfe.											

2. Increased OSF O&M Expenses. Approximately $15 million, or 7%, of the increase in OSF costs between 2005 and 2014 was caused by higher O&M expenses. Apart from general cost inflation, the primary reasons for higher O&M expenses include:

   - Gas production shifted from older, larger wells to smaller, more resource-intensive wells developed using newer, more expensive hydraulic fracturing techniques. This was done as incremental and replacement production was brought on line. In general, the newer wells decline faster and require more frequent operator intervention (workovers and recompletions) to extend productive lives, and in some cases, to extract proven developed reserves.
   - Water disposal and trucking and freight expenses provide examples of the increasing resource-intensity of Wexpro's recently-drilled wells. Water is a primary resource in the hydraulic fracturing process. Due at least in part to the increasing use of this production technique, water disposal expenses increased six-fold during the ten-year audit period. Along with water disposal, trucking and freight expenses more than quadrupled, reflecting the increased transportation costs associated with moving equipment, supplies, and waste in and out of production areas.
   - O&M expenses per Mcf were higher than they otherwise would have been because of a downward revision of 55 Bcf to proven developed reserves.[2] [redacted]

[2] At $4 per Mcf, 55 Bcf is worth $220 million.

[redacted]

- Wexpro's O&M employee force level increased from 56 at the end of 2005 to 86 at the end of 2014. Although this explains part of the overall increase in O&M expenses, it does not explain the increase in expense per Mcf, as O&M force levels increased slightly less than overall production volumes.
- Compensation per O&M employee (salary, incentive, and other) increased from $68,600 in 2005 to $97,600 in 2014, an average increase of 4.0% a year.

3. Increased OSF G&A Expenses. Approximately $17 million, or 8%, of the increase in OSF costs between 2005 and 2014 was due to increased G&A expenses. In order of significance, the primary reasons for higher G&A expenses include the following:

    - Cost allocations and assignments for shared services, primarily from Questar Corporation, approximately tripled between 2005 and 2014. Much of the increase occurred following the 2010 spin-off of Questar Market Resources (QMR), of which Wexpro was formerly a subsidiary. A significant percentage of total corporate expenses were distributed to Wexpro using the size-based Distrigas allocation formula. Our analysis of the formula showed that it resulted in higher percentage distributions to Wexpro than a test formula based on similar inputs with data drawn from Form 10Ks.[3]
    - Compensation paid to G&A employees increased at an average rate of 8.2% per year, approximately double the rate of increase for O&M employees. Total compensation (salary, incentive, and other) per G&A employee increased from $94,000 in 2005 to $192,000 in 2014, peaking at $275,000 in 2012. Salary per employee increased from $73,000 to $103,700. Incentive compensation per employee increased from $20,800 to $84,900. The increase in incentive compensation was weighted toward stock-based compensation and employees at the Director level and above.
    - 90% of Wexpro's stock compensation was paid to fewer than 20 employees, of which half was paid to the to the Executive Vice President (EVP) position. In 2012, the retiring EVP's compensation accounted for approximately 25% of Wexpro's total G&A expense.
    - The number of G&A employees increased by 60%, from 38 at the end of 2005 to 61 at the end of 2014. During this period, Wexpro added Administration and Regulatory Affairs departments. It also added employees to various other departments. The Geology Engineering department increased from four employees at the end of 2005 to 13 at the end of 2014. Some of the added functions and employees can be attributed to the spin-off of QMR in 2010 and the transfer of functions to Wexpro.
    - As discussed above for O&M expenses, [redacted], and to a smaller extent possibly other factors, caused Wexpro to reduce proven developed reserves by 55 Bcf, which increased G&A expense on a per Mcf basis.

[3] We were unable to obtain the information necessary to examine the inputs to the Distrigas formula or to examine the overall corporate charging and allocation process.

4. Increased OSF Investment Base. Wexpro's OSF investment base, upon which it is allowed to earn a return and pass income tax and depreciation expense through the OSF, increased from $183 million at the beginning of 2005 to $656 million at the end of 2014. The significant reasons for the higher investment base include the following:

    - Wexpro added a little over $1 billion to its gross development drilling plant investment between the beginning of 2005 and the end of 2014. This was approximately double the amount of plant investment added during Wexpro's entire operating history prior to 2005.[4] The new investment replaced gas production from older, depleted wells and expanded production from 40 Bcf in 2005 to 63.5 Bcf in 2014. However, it was significantly more expensive, on a per-Mcf basis, than the investment it replaced. Apart from general cost inflation, the primary reasons for higher capital investment costs per Mcf include:
        - Significantly higher "finding" (development) costs per Mcf due to the shale formations in which the newer gas is found and the more expensive production techniques required to exploit it.
        - [redacted]
    - Approximately $105 million ($96 million net at the end of 2014) of Wexpro's added investment consisted of in-place production property acquired in 2013 and approved for OSF recovery beginning in 2014 under the new Wexpro II agreement. This 2014 rate of return on the property is 7.65% (the Utah allowed rate of return). This lower rate of return reduced Wexpro's overall rate of return on investment base from an average of 19.9% for the years 2005-2013 to 17.9% in 2014.
    - Under the Wexpro I and II agreements, Wexpro is permitted to add a 6.3% general plant allowance to all amounts added to gas property, plant, and equipment (including Wexpro II acquisition property). Separately, investment base includes Wexpro's actual general plant. We were unable to establish that there exists any actual investment supporting the general plant allowance. To the extent this is the case, the allowance serves to increase the effective rate of return on actual investment in gas PP&E by 6.3% (e.g., a 20% rate of return effectively becomes a 21.3% rate of return).

5. Increased OSF Investment-Related Costs. Approximately $180 million, or 80%, of the increase in the annual OSF between 2005 and 2014 was due to higher investment-related costs, which include return on investment, income tax, and depreciation expense. In general, these costs increased on per-Mcf basis because, for reasons discussed in the previous finding, Wexpro's investment base per Mcf increased. An added reason for the increase in depreciation expense was a higher average rate of depreciation, as newer wells with shorter production lives came on line. Notwithstanding the increase in investment base, Wexpro's investment-related costs are significantly higher per dollar of

[4] Based on information in 2004 through 2014 Wexpro Forms 10K.

investment than they would be for a regulated utility that added the same amount of plant to its rate base. The reasons for this include:

- Primarily because the Wexpro agreements provide for rate of return premiums intended to compensate Wexpro for the risks of development drilling, its permitted equity rate of return on development gas investment is approximately double the equity rates typically authorized for regulated utilities. However, more than 97% of Wexpro's development drilling investment qualified for OSF investment base treatment. In other words, during the audit period, there was very little business risk incurred by Wexpro to support the premium component of the Company's equity return.
- Wexpro earns an equity rate of return on its entire qualified investment base, whereas regulated utilities typically earn an equity return on approximately half their rate base, because utility capital structures are usually composed of about 50% debt.[5]
- Because all of Wexpro's return is equity-based, income tax is calculated and owed on the entire amount of return, leading to approximately double the income tax per dollar of investment compared with a utility, as interest expense is deductible for tax purposes.
- The depreciation rate on Wexpro's investment is much higher than that of a typical distribution utility. This is primarily because Wexpro's business is exploration and production, not energy distribution. However, Wexpro's depreciation expense per Mcf is higher than in the past because more recently drilled wells not only cost more to develop (i.e., they have higher "finding" costs), but also because, with production-based depreciation, they have a higher average rate of depreciation than the larger, older wells that Wexpro relied on in past decades. Some of Wexpro's recently drilled wells have declining balance depreciation rates exceeding 1% per *month*. In contrast, a typical gas utility's distribution plant has an average rate of depreciation around 2.5% to 3% per *year*.[6]

The following table illustrates the impact of these factors by comparing a hypothetical $10 million investment by Wexpro with a regulated distribution utility.[7] Over five years following an investment, Wexpro's investment-related costs are more than double those of a typical utility.

[5] However, under Wexpro II, the Utah allowed rate of return of 7.65% on acquisition property implicitly includes a debt component, which is why it is significantly lower than the 10% equity return rate typically authorized for utilities in the current environment.

[6] Declining balance depreciation on a specific unit of plant, such as a well, becomes smaller as the well becomes depleted. However, Wexpro's older wells with longer production lives and lower depreciation rates are being replaced by wells with shorter production lives and higher depreciation rates. As long as this trend continues, the average rate of depreciation will tend to increase.

[7] For the distribution utility, the example assumes an infrastructure replacement program in which the utility is given rate base and expense treatment of new investment as it is completed. This is comparable to Wexpro's immediate pass-through of investment-related costs at the time production begins. In most cases, utilities must wait for a rate decision to begin recovering the costs of new rate base investment. This is known regulatory lag, and it is theoretically factored into a utility's equity rate of return. Wexpro does not experience regulatory lag.

Table 1-2 – Comparison of Investment Costs for Hypothetical $10 Million Investments

Comparison of Investment Costs for Hypothetical $10 Million Investments By Wexpro and a Regulated Distribution Utility						
Wexpro						
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**5 Yr. Total**
Beg. of Year NBV Plant	$ 9,700,000	$8,341,000	$7,172,000	$6,167,000	$5,303,000	
Avg. NBV Plant	9,020,489	7,756,691	6,669,582	5,734,985	4,931,511	
Avg. General Plant Allowance	568,291	488,672	420,184	361,304	310,685	
Avg. Accumulated Deferred Tax	(4,740)	(220,700)	(552,950)	(734,780)	(817,140)	
Average Earnings Base	9,588,792	8,245,160	7,089,679	6,096,305	5,242,196	
Return	1,917,758	1,649,032	1,417,936	1,219,261	1,048,439	$ 7,252,426
Tax	1,044,615	898,262	772,369	664,138	571,092	3,950,477
Depreciation	1,359,022	1,168,619	1,004,836	864,030	742,979	5,139,484
Total Investment Costs	$ 4,321,395	$3,715,912	$3,195,140	$2,747,429	$2,362,510	$16,342,387
Utility						
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**5 Yr. Total**
Beg. of Year NVB Plant	$10,000,000	$9,700,000	$9,409,000	$9,127,000	$8,853,000	
Avg. NBV Plant	9,850,000	9,554,500	9,268,000	8,990,000	8,720,000	
Avg. Accum. Deferred Tax	(13,130)	$ (51,710)	$ (101,870)	$ (150,530)	$ (197,730)	
Average Rate Base	$ 9,836,870	$9,502,790	$9,166,130	$8,839,470	$8,522,270	
Return	836,134	807,737	779,121	751,355	724,393	3,898,740
Tax	264,839	255,844	246,780	237,986	229,446	1,234,895
Depreciation	300,000	291,000	282,000	274,000	266,000	1,413,000
Total Investment Costs	$ 1,400,973	$1,354,581	$1,307,901	$1,263,341	$1,219,839	$ 6,546,635

The assumptions built into the comparison include the following:

Table 1-3 – Wexpro/Utility Investment Costs Comparison - Assumptions

Wexpro / Utility Investment Cost Comparison - Assumptions			
Ln. #	**Item**	**Wexpro**	**Utility**
1	Initial Investment	$ 10,000,000	$10,000,000
2	Pct. Qualifying for Investment or Rate Base	97%	100%
3	General Plant Allowance	6.3%	N/A
4	Initial Investment or Rate Base (L1 x L2 x [1+L3])	$ 10,311,100	$10,000,000
5	Equity Return (2)	20%	10%
6	Cost of Debt	N/A	7%
7	Capital Structure	100% Equity	50% Equity
8	Cost of Svc Rate of Return	20%	8.5%
9	Depreciation Method	Unit of Prod., Declining Balance	Straight Line
10	Annual Depreciation Rate	15%	3%
11	Tax Rate	35%	35%
Note 1: The Wexpro agreement allows Wexpro to add a general plant allowance to qualified investment, raising the effective rate of return on actual investment by 6.3%. In this case, a 20% rate of return effectively becomes a 21.26% rate of return.			
Note 2: Wexpro earned an average of approximately 20% on investment base during the audit period.			

Wexpro's Equity Rate of Return and Business Risks

Years 2005-2014

During the years 2005 to 2014, Wexpro earned an equity rate of return that averaged approximately double the equity rates authorized for regulated distribution utilities.[8] Overland estimates that approximately 25% of the total OSF collected over the ten years 2005 through 2014, or about $580 million, consisted of equity return and income tax over and above what Wexpro would have collected had the OSF been based on an equity return rate typically granted to a utility.[9]

Wexpro's production investment during the years 2005 through 2013 was focused primarily on the development gas well category.[10] Most of this investment carries an 8% rate of return risk premium.[11] Under the Wexpro I and II agreements, Wexpro is entitled to a rate of return premium based on the premise that gas development investment is risky, in relation to regulated utility investment, and unproductive wells could adversely affect earnings. However, during the review period more than 97% of Wexpro's development investment qualified for investment base treatment, with less than 3% classified as non-commercial and unrecoverable through the OSF.[12] Once the qualified portion of development investment was adjusted with the 6.3% general plant allowance, Wexpro's OSF gas investment base actually exceeded 100% of the amount the Company directly invested.[13] As a result of being able to place more than 97% of its development investment into the investment base, Wexpro experienced almost no earnings volatility from its development drilling investments. This can be demonstrated by the overall rates of return reported by Wexpro in its Form 10Ks.

[8] Based on equity rates of return authorized for U.S. electric utilities between January 1, 2005, and March 31, 2014. Source: Edison Electric Institute Q1 2014 Financial Update, Rate Case Summary. Electric utilities were used as a proxy for utilities in general because the information on electrics was readily available and because electric utilities are generally authorized somewhat higher equity returns than gas utilities (making a comparison with Wexpro conservative).

[9] About $450 million of this amount is attributable directly to Wexpro's 8% rate of return risk premium on gas development (D24) property and 5% premium on oil production property. The remaining $130 million consists of the amount by which Wexpro's base rate of return exceeded average utility equity return rates. Most of this second component is attributable to the fact that the base rate of return Wexpro is entitled to under section I-44(b) of the Wexpro I agreement is approximately 1.6% higher than the average equity return rates for the 20 utility companies that Wexpro uses as a base rate of return benchmark. Some of the additional return is embedded in shared oil revenue calculations and is not directly visible on the OSF Summary.

[10] In 2014, Wexpro also acquired production in place under Wexpro II. Because it presents no development risk, acquired production plant does not include a risk premium. Wexpro earned a 7.65% return (the Utah allowed rate of return) on this investment in 2014.

[11] The portion of development gas investment allocated to oil production earns a 5% risk premium.

[12] Some of the wells classified as non-commercial were produced even though not added to the OSF investment base because the investment cost was sunk and incremental revenues were expected to exceed incremental operating expenses. Wexpro collected and kept the revenues from these non-commercial wells.

[13] In addition, while development plant is under construction, Wexpro receives an allowance for funds used during construction (AFUDC), which also serves to increase the investment base. AFUDC is commonly granted to utilities as well.

Table 1-4 – Wexpro's Annual Rates of Return on Average Investment Base

Wexpro's Annual Rates of Return on Average Investment Base									
2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
20.4%	19.9%	19.9%	20.0%	19.8%	19.8%	20.0%	19.9%	19.7%	17.9%
Source: Questar Forms 10K, 2005-2014.									

The fact that Wexpro's earnings show it did not absorb the business risks does not mean that the Company's investment and operating activities did not produce unexpected outcomes or costs. Rather, it means that any unexpected costs were transferred to QGC's customers through the OSF. For example:

- The additional investment costs per Mcf of marginally-commercial wells (those not meeting the fully commercial classification standard but projected by Wexpro to recover at least 50% of their investment cost) were included in the OSF investment base and paid for by QGC customers through the OSF. Although projected to produce less than a 10% return on investment at market prices, for the most part the investment costs of marginal wells produced returns for Wexpro of between 17% (oil) and 20% (gas). The difference was paid for by QGC's customers.
- [redacted]
- All but a small fraction of higher operations, maintenance, and general and administrative expenses per Mcf were paid by QGC's customers within a month or two of having been incurred by Wexpro. For example, a significant increase in costs allocated by Questar Corporation following the spin-off of QMR was completely passed on to QGC's customers and had no impact on Wexpro's earnings.

Although Wexpro's business risks were effectively transferred to QGC's customers through the OSF, there was nothing in our analysis (apart, perhaps, from Wexpro's treatment of negative oil income and extra Wexpro II depreciation expense discussed above) to suggest it was not consistent with requirements of the Wexpro agreements. However, in order to ensure that the costs of sub-commercial wells are not passed along through the OSF, we believe that the DPU should closely examine the procedures and controls over the treatment of new development drilling investment to ensure that all new wells Wexpro deems to meet the standard for investment base recovery are properly classified.

Opportunity Risk

Given that nearly all gas operations, maintenance, general, administrative, and depreciation expenses are passed directly through the OSF (apart from a small percentage allocated to non-commercial wells), Wexpro's earnings are almost entirely dependent on its investment base and the rates of return permitted for different investment categories by the Wexpro agreements. With its relatively high depreciation rate, Wexpro's future ability to maintain its earnings will depend on its ability to continue to develop new gas investment that can generate a return by being placed into its investment base. Investment base treatment requires that Wexpro is able to classify new wells as at least marginally commercial (expected to recover 50% or more of investment cost under market-based prices). It also

depends in part on natural gas prices, because well classifications are based on economic projections using five-year forward market prices. We did not examine well classification procedures in detail, and we do not know how difficult it will be for Wexpro to implement additional development investment in the current environment of low gas prices. To the extent Wexpro cannot at least maintain the development portion of its investment base at current levels, its earnings will decline. As such, Wexpro has a significant incentive to add new return-generating investment, at the least to replace what is "lost," rather quickly, through depreciation.

Well Classification

The classification of a new or recompleted development well as fully or marginally commercial or as non-commercial determines whether the well is placed into the OSF investment base and earns a premium rate of return. Under the Wexpro agreements, fully and marginally commercial gas development wells produce returns ranging from about 17% (for the 10% allocated to oil) to 20% (for the 90% allocated to gas). These returns may be far above the returns available if the production was sold at today's market prices, especially for higher-cost wells classified as marginally commercial.[14] As such, the line between marginally commercial and non-commercial wells is important. Although well classifications are reviewed after-the-fact, by the Wexpro agreement's hydrocarbon monitor, the classification process itself is conducted and controlled by Wexpro, which has an obvious incentive to classify the wells as meeting the standard for inclusion in the OSF investment base.

A review of Wexpro's well classification procedures and production forecasts was beyond the scope of our audit and analysis. However, from our interviews with the hydrocarbon monitor, we understand that the point in time after initial stimulation at which well production readings are taken and the decline curve is projected is important to an accurate forecast of expected production. For a number of years, the hydrocarbon monitor has recommended that Wexpro extend the forecast measurement point from its current 30 days after stimulation to 90 days. We understand that this is because, using production techniques that rely on shale fracturing, pressures (and production) drop more quickly after initial stimulation, and a more accurate forecast of production over the life of the well can be obtained by waiting 90 days. Accurate forecasts and proper classifications are particularly important given that all development well investment, once classified as at least marginally commercial, is recoverable through the OSF with rates of return of between 17% and 20%, regardless of what the wells produce.

Benchmarking

Using data from Scotia Howard Weil, we compared Wexpro's costs, earnings, and its 2013 and 2014 average sales prices with a group of ten peer companies whose average gas production during the audit period accounted for 75% or more of total energy production. Significant findings include the following:

[14] If a well is classified as non-commercial, it cannot be placed into the OSF investment base, and the only return available to Wexpro is what can be obtained by selling its product at market prices.

- Wexpro moved from the second-lowest cost producer among 11 in 2005 to fourth highest among 11 in 2014.
- For the period 2005 to 2014, Wexpro's earnings, at $1.56 per Mcfe, ranked second among 11 companies (EQT Corporation averaged $2.00 per Mcfe). Median earnings for the 11 company peer group were $0.69 per Mcfe.
- For the years in which average sales price data was available for Wexpro (2013 and 2014), Wexpro's average price per Mcf was third highest (in 2013) and second highest (in 2014) among 11 companies.

Recommendations

During the years 2005 through 2014, the Wexpro agreements operated in such a way that the costs associated with most of Wexpro's business risk were effectively transferred into the OSF. A rate of return premium, intended to compensate Wexpro for business risk, was also passed through the OSF. The recommendations below do not address this issue, as it goes to the basic structure of the Wexpro agreements, something that is beyond the scope of this audit. Instead, the recommendations deal with the specific costs Wexpro incurred during the audit period. With respect to our recommendation concerning the general plant allowance, we recognize that it may or may not be within the DPU's power to negotiate a change to that aspect of the agreement should it be deemed warranted.

1. Examine Wexpro's well classification procedures and consider whether there is sufficient internal control in place to ensure that the wells added to the OSF investment base meet a marginal commercial standard. Over 97% of the amount invested in development drilling during the audit period was determined to be fully or marginally commercial and placed into the OSF investment base. Given Wexpro's obvious incentive to classify wells as commercial, control over the classification process is critical to ensuring that QGC's customers are appropriately charged for the gas Wexpro produces. We recommend the DPU consider whether the procedures currently in place, including the hydrocarbon monitor's post-hoc review of well classifications, are sufficient to ensure that wells deemed by Wexpro to be marginally or fully commercial are appropriately classified. Once the cost of a development well goes into the investment base, it remains there until the investment is fully depreciated. If it produces less than the forecast upon which its classification was based, whether due to well interference or to an unreasonably optimistic production decline curve, its costs, including higher per-unit depreciation and operating expenses, nevertheless get fully passed on through the OSF.
2. Review the basis for the general plant allowance, which adds 6.3% to all Development Gas investment qualifying for investment base treatment, and consider whether its continued inclusion in the investment base is appropriate. Wexpro's investment base includes "general plant." In addition, in accordance with the terms of the Wexpro agreements, the Company is entitled to add 6.3% to its development gas investment as a "general plant allowance." We requested information to review general plant and the potential that the allowance actually covers plant that is: 1) either already specifically and directly included in Wexpro's investment base, or 2) is intended to cover

costs that were, during the audit period, incurred by Questar Corporation and charged to G&A expense as corporate rent or other office overheads.[15] To the extent the general plant allowance is already compensated in the OSF through other means, we recommend the DPU consider negotiating its removal from the Wexpro agreement. To the extent it does not reflect a real cost incurred by Wexpro that increases as a percentage of investment, it is, in effect, a 1.3% addition to the rate of return on gas development plant (20% x 6.3%).

3. Review and consider the appropriateness of the activities and costs charged by Questar Corporation, and consider whether the internal controls over corporate and affiliate charges are sufficient to ensure that costs passed to QGC customers through the OSF are appropriate. Questar's corporate allocations and charges to Wexpro increased significantly during the audit period, and in particular, following the spin-off of Wexpro's parent, QMR. Apart from descriptions of the basis for allocation (e.g. the components of Distrigas formula used to allocate some corporate costs are described), we were unable to obtain the data and information necessary to evaluate the appropriateness of the costs charged by Questar to Wexpro, either in total or relative to other Questar subsidiaries.[16] Most large utility holding companies are subject to the Public Utilities Holding Company Act and must provide detailed shared services and cost allocation information in a public report filed annually with the Federal Energy Regulatory Commission. Further, as an internal control to segregate services shared by regulated and unregulated affiliates from other corporate activities, companies subject to the Act must conduct shared activities through a dedicated shared services company. As a holding company with utility operations limited to one state, Questar is exempt from the Public Utilities Holding Company Act and its reporting and organization structure provisions. Wexpro is the only Questar subsidiary that may directly and immediately pass its corporate charges on to someone else (QGC's customers), and it is the only subsidiary for which corporate charges do not affect earnings (because they are passed straight through the OSF). To the extent the DPU sets forth rules on allocation procedures or on the types or amounts of corporate cost that may be billed through the OSF, we recommend that such rules be documented in a Wexpro agreement guideline letter.

4. Consider the extent to which Wexpro's incentive compensation should be passed through the OSF; in particular, the annual management incentive plan (AMIP) for key employees and stock-based compensation paid primarily to higher-level management employees. The amount of incentive compensation (cash and stock) charged through the OSF grew dramatically between 2005 and 2014. Most of the increase is attributable to payments to a relatively small group of management employees. For example, stock-based pay grew from $16,000 in 2005 to $3.7 million in 2014, with half of the 10-year total of $19.3 million paid to two employees who held the Executive Vice President position. Although we were unable to review Wexpro's incentive compensation plans directly[17], we note that compensation under such plans is usually based primarily on earnings. Wexpro's key employee AMIP and stock-based incentive compensation are based at least partly on

[15] This information was requested in data requests 11-02 (October 27, 2015), 14-03 and 14-04 (November 30, 2015). As of December 31, 2015, we had not received responses.

[16] A complete evaluation of such information would have been beyond the scope of our audit; however, a cursory review of the most significant charges and allocations would have been possible had data been provided.

[17] Cash and equity based incentive plans were requested in data request 7-40, but were not provided.

parent company Questar's earnings relative to its peers. QGC's customers fund nearly all of Wexpro's earnings directly through the OSF. As such, we recommend the DPU consider whether Questar's shareholders, the direct beneficiaries of the earnings, should fund the incentive compensation paid to key Wexpro managers to achieve the earnings. We did not review the "market competitiveness" of the AMIP or stock-based compensation paid to these managers; however, to the extent it may be argued that by paying significantly higher incentive compensation Wexpro is only maintaining parity with its peer companies, it should be noted that Wexpro is the only company among its peers whose earnings are part of a contract-based "cost of service," and it is unique among its peers in that can its pass an entitled level of earnings through to customers in the price of its service, notwithstanding the market price of gas.

5. Determine whether additional OSF depreciation on undeveloped Wexpro II reserves, not recorded on Wexpro's books, is reasonable, and if so, document it in the Wexpro II agreement or in a guideline letter. The 2014 OSF contains approximately $5.7 million in depreciation not recorded on Wexpro's books. Wexpro explained that this is depreciation expense on the undeveloped portion of Wexpro II reserves that it is permitted to record in the OSF. We cannot find anything in the Wexpro II agreement that documents this representation. To the extent the additional OSF depreciation is permitted, we recommend the DPU require Wexpro to document this understanding, either in the agreement itself or in a guideline letter.

6. Determine and document the intended OSF treatment of negative oil income. As discussed in Chapter 2, although Wexpro appears to be calculating shareable oil income in accordance with the Wexpro agreement, its OSF treatment of 2014's negative oil income[18] was different than its treatment of positive oil income. In addition, its treatment of the negative oil income differed based on well category. For the Prior Wexpro and Development Oil categories, Wexpro effectively reimbursed QGC's customers for most of their share of the negative income by adjusting it out of the OSF. However, for the Development Gas category, Wexpro not only added QGC's 54% share of negative oil income to the OSF, it also added the 46% share assignable to Wexpro. We did not find documentation in the Wexpro agreement or in guideline letters supporting these procedures. We recommend that the DPU determine whether the procedures were correct; and, if so, document them as an additional language in the Wexpro agreements or in guideline letters interpreting the agreements. We also recommend the DPU give consideration to the fact that in addition to increasing the price of gas, any negative oil income passed through the OSF represents a transfer of oil price risk from Wexpro to QGC's customers, risk that Wexpro is ostensibly already compensated for through the rate of return risk premium on most of its oil investment.[19] As oil prices have continued to decline since the end of 2014, the issue of how negative oil income should be treated

[18] Negative oil income occurs when, due to low oil prices, oil revenue is insufficient to recover oil expenses and Wexpro's agreement-entitled return on oil investment.

[19] It is also important to note that negative oil income is the result of removing both oil expenses and Wexpro's agreement-based 17% return on investment. In other words, by the time the shareable amount of oil income is determined (whether positive or negative), a 17% return on oil investment has already effectively been put into escrow for Wexpro. This risk-adjusted return is only reduced to the extent that Wexpro, rather than QGC's customers, absorbs any negative oil income.

in the OSF is likely to have become significantly more important than it was during most of the audit period.

7. Wexpro should provide the DPU with an annual benchmarking analysis that compares Wexpro's performance with peers with respect to earnings, average sales price, and costs per Mcfe. We recommend the DPU ask Wexpro to provide an annual analysis similar to what is documented in Chapter 4 of this report, covering the same metrics, and based on a peer group that includes companies whose production is focused primarily on natural gas. We also recommend the DPU ask Wexpro to provide the data and documentation supporting the results of its analysis.

2. OSF GAS EXPENSES AND OIL INCOME SHARING

The Wexpro agreements provide for the recovery of the following categories of operating expense through the operator service fee (OSF):

- Operations and maintenance (O&M) expenses
- General and administrative (G&A) expenses

Wexpro also recovers production taxes through the OSF. On a per-Mcf basis, production taxes declined during the audit period. In addition to operating expenses and production taxes, Wexpro produces oil as a byproduct of its gas production operations. Although Wexpro seeks to produce gas for Questar Gas Company (QGC), some of its wells produce primarily oil, while certain wells that produce mainly gas also produce some oil. Wexpro sells its oil byproduct into the market. After deducting the operating and depreciation expenses and income taxes, and subtracting Wexpro's agreement-based return on investment allocated to oil, net oil income is split 54/46 between the OSF (QGC customers) and Wexpro, respectively.

During the audit period, operating expenses and production taxes, minus the OSF (customer) share of oil revenue, increased at an average annual rate of 8%. This equates to an annual increase of 2.6% per Mcf. Relatively large increases in O&M and G&A expenses and a reduction in shared oil revenue were mitigated by a much smaller average annual increase in production taxes.

Table 2-1 – Operator Service Fee Operating Expenses, Production Taxes and Shared Oil Income

Wexpro OSF Expenses, Production Taxes and Shared Oil Income
$ Amounts in 000s

Item	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Avg. Annual Pct. Increase
Operating and Maintenance Exp.	$ 9,201	$ 12,844	$ 14,287	$ 19,515	$ 18,129	$ 17,289	$ 19,368	$ 22,071	$ 21,852	$ 24,136	11.3%
General and Administrative Exp.	9,129	10,294	13,361	11,959	14,987	17,564	20,772	22,752	22,635	26,260	12.5%
Production Taxes	29,760	28,462	19,227	34,077	17,858	24,382	22,292	17,847	23,623	33,069	1.2%
Shared Oil (Income) / Loss	(6,139)	(5,491)	(4,887)	(6,082)	(1,038)	(1,082)	(3,300)	(2,527)	(596)	113	
Net Total Expense	$ 41,951	$ 46,109	$ 41,988	$ 59,469	$ 49,936	$ 58,153	$ 59,132	$ 60,143	$ 67,514	$ 83,578	8.0%
Production Volumes (Bcf)	40.0	38.8	34.9	46.1	48.2	50.2	50.5	57.5	59.2	63.5	5.3%
Cost per Mcf	$ 1.05	$ 1.19	$ 1.20	$ 1.29	$ 1.04	$ 1.16	$ 1.17	$ 1.05	$ 1.14	$ 1.32	2.6%
Total OSF billed to QGC	$125,904	$144,654	$150,677	$202,925	$223,916	$238,931	$250,238	$270,457	$293,370	$349,818	12.0%
Expenses, Prod Taxes, Oil Sharing Pct of OSF	33%	32%	28%	29%	22%	24%	24%	22%	23%	24%	

Source: Response to data request DPU 4.1.

Audit and Analysis Summary

Our review of O&M and G&A expenses and oil sharing included the following major steps.

1. Through on-site interviews and telephone discussions with Wexpro's employees, responses to data requests, and review of OSF calculation details included in "OSF calculation packages," we gained a detailed understanding of how Wexpro's O&M and G&A expenses translate to OSF expenses billed to QGC and its customers. We analyzed detailed OSF calculations from 2007 through 2014 to determine Wexpro's compliance with the requirements of the Wexpro I and II agreements.
2. We tied O&M and G&A expense from OSF calculation detail (calculation packages) to Wexpro's general ledger detail and monthly financial statements for the year 2014. We reconciled and obtained explanations for amounts that did not directly tie. We tied O&M, G&A, and shared oil proceeds from OSF calculation detail to OSF summaries and from OSF summaries to OSF billings to QGC for 2014.
3. Using general ledger detail, we analyzed O&M expenses for the audit period by DPU expense category and at the general ledger account level. We documented an understanding of the nature of the costs and causes of significant increases during the years 2005 through 2014.
4. We analyzed general ledger detail for G&A expenses and developed a functional categorization of the expenses. We analyzed G&A expenses at the general and detailed functional levels. We documented the nature of the costs and the causes of significant increases during the years 2005 through 2014.
5. Almost half of G&A expenses originate at Questar Corporation. We attempted to analyze the process through which Questar Corporation charged and allocated costs to Wexpro. A meaningful analysis of corporate allocation processes and the types of corporate costs allocated to Wexpro was not possible because much of the information we requested was not provided.
6. Using publicly available data from Questar's Forms 10K, we analyzed the components of the size-based Distrigas formula used to allocate a significant amount of G&A expense from Questar Corporation to Wexpro during the audit period.
7. We analyzed the major components of Wexpro's employee compensation (salary, benefits payments to employees, incentive compensation, and other compensation). We compared 2014 Wexpro salaries to regional and national market-based data to determine how closely Wexpro's salary levels conform to the market for similar positions.
8. We analyzed Wexpro's calculation of shared oil proceeds and expenses for the year 2014 and determined compliance with requirements of the Wexpro agreement.

Summary of Audit and Analysis Findings

1. We found Wexpro's detailed OSF calculations, reflected in "OSF calculation packages," to be in compliance with the requirements of the Wexpro agreements to the extent the agreements address O&M expenses, G&A expenses, and oil sharing. We note, however, that neither the Wexpro

agreements and their exhibits, nor guideline letters that amend and interpret the agreements, address any of the issues that led to significant O&M and A&G expense increases during the audit period. For example, Wexpro's G&A expenses charged by Questar Corporation increased significantly after Questar's spin-off of its E&P subsidiary in 2010. None of the methods used to distribute corporate costs to Wexpro are addressed in the Wexpro agreements, exhibits, or guideline letters, even though the cost distribution procedures may have a material impact on the amount of Questar corporate cost passed through the OSF. Further, the Wexpro agreements, exhibits, and guideline letters do not address the types or amounts of cost incurred by Wexpro that may be recovered through the OSF. For example, incentive compensation, particularly stock-based compensation tied to corporate earnings, grew substantially during the audit period and was passed through the OSF. Stock-based incentive compensation paid to Wexpro's EVP comprised as much as 14% of Wexpro's total G&A expense (in 2012). Amounts related to executive supplemental retirement pay were passed through the OSF, as were relatively small amounts of contributions and donations expense.

2. We successfully reconciled detailed OSF calculations with Wexpro's billings to Questar Gas Company (QGC) for the year 2014. We examined detailed OSF calculations for the period for which calculation packages were available (2007 to 2014). We tied and reconciled the detailed calculations to Wexpro's OSF billings to QGC for the year 2014 and reconciled differences to within $849. This reconciliation is summarized below. Although 2014 OSF calculations were reconciled with billings to QGC, as discussed below we did not find support for Wexpro's treatment of "negative" oil sharing.

Table 2-2 – Wexpro Billing to OSF Calculation Package Tie-Out for 2014

Wexpro Billing to OSF Calculation Package Tie-Out for 2014	
Reconciling Items	**Balance**
Wexpro I Billings	323,654,894
Wexpro II Billings	26,162,883
Total Wexpro Billings to QGC	349,817,777
Total OSF from Calc Package Cover Sheets	353,829,595
Variance to Reconcile (OSF exceeds billings to QGC)	4,011,818
Breakout Reconciling Items:	
Billing Adjustment components not included in OSF Calc Packages (1)	(2,869,345)
Prior Wexpro & Development Oil Sharing Billing Adjustment not included in OSF Calc Packages	(1,141,969)
Total Adjustments Not in OSF Calculation Packages	(4,011,314)
Remaining Variance	504
Sources: Response to data requests 4.01 (OSF Summary), 7.13 (OSF Calc Packages), 7.18 (OSF Billings) Note 1: The total billing adjustment from the OSF Summary is a $3,048,000 addition to the OSF billing. Removing negative Development Gas oil sharing, which is not a reconciling item because it is in both the billing and calculation package amounts, yields a remaining reduction to OSF billings of $2,869,345 that is not included in the OSF Calc Package cover sheet amounts.	

3. We compared OSF O&M expenses, G&A expenses, and production taxes with financial statement amounts for the year 2014 and obtained explanations for the small O&M and G&A differences. The small financial statement-OSF differences for O&M and G&A expenses were due to non-commercial wells expenses recorded on the books but not included in the OSF. We have not explained the difference between OSF and financial statement production taxes; however, like O&M and G&A, at least some of it is attributable to taxes on non-commercial wells excluded from the OSF. These comparisons are summarized below.

Table 2-3 – 2014 OSF Operating Expense to Financial Statement Reconciliation

2014 OSF Operating Expense to Financial Statement Reconciliation					
OSF Component	**Per OSF**	**Per Form 10K**	**Difference**	**Amount Explained**	**Amount Not Explained**
Operating Expenses	$ 28,908,542	$ 29,200,000	$ (291,458)	$ 291,458	$ -
General & Administration	$ 30,523,589	$ 30,800,000	$ (276,411)	$ 276,411	$ -
Production Taxes	$ 36,408,005	$ 37,300,000	$ (891,995)	$ -	$ (891,995)
Sources: Response to data request 7-13, "OSF Calc Packages", Wexpro Forms 10K and discussions					

4. The primary reason O&M expenses per Mcf increased is that Wexpro's gas production shifted from larger "parent" wells, some of which had been producing for decades, to smaller, more resource-intensive "daughter" wells produced with more expensive hydraulic fracturing techniques. Wexpro's O&M expenses consist of labor, materials, supplies, equipment, and transportation employed in operating and maintaining its gas production in the field. These expenses increased at an annual rate of about 11% overall and 5.7% per Mcf. Based on our review and discussions with Wexpro, the primary reason Wexpro experienced higher O&M expense per unit, even as its production increased, is that the nature of its production shifted toward new, more expensive production techniques. Wells drilled in recent years are more costly to operate and maintain for the following reasons:

    - On average, they produce less gas than Wexpro's older wells. They also decline faster than the larger, older wells and more frequently require intervention by the operator (workovers or recompletions) to maintain production. As such, they are more resource-intensive, requiring more equipment, transportation, and labor per Mcf to operate and maintain.
    - They require certain processes, materials, and supplies that were not required in significant quantities prior to the predominance of hydraulic fracturing as a method of production. For example, Wexpro's water injection and disposal expenses increased six-fold from 2005 to 2014. On a per-Mcf basis, water expenses increased nearly 17% per year. This can be attributed to expansion of hydraulic fracturing as a production method for more recently drilled wells.

5. [redacted]. Wexpro revised

its developed reserves downward by a net 55 Bcf during the audit period. [redacted]

6. Compensation paid to employees working in field operations functions charged primarily to O&M expense and capital increased from $4.0 million in 2005 to $7.5 million in 2015. Much of the increase is attributable to an increase in the O&M force level, from 56 employees at the end of 2005 to 86 employees at the end of 2014. Average compensation for O&M employees increased at a rate of 4.0% annually, from $68,600 in 2005 to $97,600 in 2014. Compensation per O&M employee increased modestly in comparison with compensation per G&A employee. The increase in Wexpro's O&M labor expenses, as reflected in the O&M account category Field Employee Wages, Salaries and Benefits, appears consistent with the increases experienced by the Company's joint operators, as reflected in the O&M account category Labor, Pumper and Associated Costs. The increase in the number of O&M employees is roughly consistent with the increase in production. Between 2005 and 2014, the number of O&M employees increased by 54%, while production volumes increased by 59%, from 40 Bcf to 63.5 Bcf annually.[20]
7. Wexpro's total G&A expenses increased three-fold during the audit period, from $9.96 million in 2005 to $30.8 million in 2014. The significant causes of the increase include: 1) an increased number of Wexpro G&A employees; 2) significantly higher compensation per G&A employee, particularly in the category of incentive compensation; 3) an increase in the cost of services charged and allocated to Wexpro by Questar Corporation following the spin-off of Questar Market Resources (QMR); and 4) an increase in facilities rent as Wexpro moved G&A employees into Questar's new headquarters building. The findings below discuss each of these causes separately.
8. The number of Wexpro employees in G&A functions increased from 38 at the end of 2005 to 61 at the end of 2014. G&A expenses incurred directly by Wexpro and categorized in Wexpro's general ledger accounting detail as compensation paid to employees in departments charging primarily G&A accounts increased from $3.4 million in 2005 to $11.8 million in 2014, an average annual increase of nearly 15%. Roughly a third of the increase can be attributed to increased G&A headcount. Along with additions to labor, benefits, and labor-related overhead expenses, the additional employees caused Wexpro to incur increased office overheads, such as information technology, office supplies, rent, and employee travel expenses.
9. Compensation (salary, incentive compensation, and other) paid to Wexpro employees in G&A functions increased from an average of $94,300 in 2005 to $192,400 in 2014. Total compensation per employee in the G&A functions increased at an average annual rate of 8.2%. In contrast, compensation per O&M employee increased rage annual rate of 4.0%. The difference between O&M and G&A employees was due primarily to the growth G&A incentive compensation, which increased from $20,800 per employee 2005 to $84,900 in 2014, and peaked at $130,700 per employee in 2012. In comparison, incentive compensation per O&M employee increased by about 3.8% per year, from $11,800 in 2005 to $16,500 in 2014.

[20] However, Wexpro's production is operated and maintained by more than just Wexpro employees. Thus, a comparison of Wexpro O&M employee forces levels with total Wexpro production levels is not a meaningful indicator of the productivity or the cost per Mcf of Wexpro's O&M employees.

10. Much of the increase in Wexpro's G&A incentive compensation was an increase in stock-based compensation paid to a relatively small group of management employees. Total stock-based compensation, recorded primarily in G&A expense, grew from $16,000 in 2005 to $2,071,000 in 2010, peaking at $5.7 million in 2012. During that year, the retiring Executive Vice President – General Manager was awarded $3.8 million in stock-based compensation. Stock compensation averaged $3.1 million per year in 2013 and 2014. Approximately half of total stock compensation was paid to the two employees in Wexpro's top management position (the EVP position). Stock compensation also included the payment of nearly $1 million over a six-year period to an employee with the position title Assistant Manager – Engineering and $563,000 to an employee with the position title Staff Development Geologist.
11. When all types of compensation are considered, the EVP – General Manager's 2012 compensation exceeded 25% of Wexpro's total G&A expense for the year. The EVP – General Manager's total compensation package in 2012 was slightly less than $7 million, comprising more than 25% of Wexpro's total $27 million in G&A expense for the year. It consisted of the following components:

Table 2-4 – Wexpro EVP – General Manager's 2012 Compensation

Wexpro EVP_General Manager's 2012 Compensation	
Category	**Amount**
Salary & Paid Time Off	$ 382,337
Management Incentive	395,021
Restricted Stock	38,471
Stock Options, Share Distribution & Related Tax Payment	3,806,507
Supplemental Executive Retirement FICA Tax	2,342,663
Financial Planning	750
Total	$6,965,749
Source: Response to data request 9.02, Attachment.	

12. Corporate and shared services G&A expenses approximately tripled, from $5.1 million in 2005 to $14.7 million in 2014. Corporate charges increased significantly with Questar's spin-off of QMR in May 2010. We requested, but were unable to obtain, details showing the types of costs included in corporate charges and how they were allocated. Because Questar is exempt from the reporting requirements of the Public Utility Holding Company Act, we were also unable to obtain detailed shared services organizational, financial, and cost allocation data that would normally be available publicly in the annually-filed FERC Form 60. It is our understanding that a large percentage of corporate charges are distributed between Wexpro and other subsidiaries using the size-based "Distrigas" formula.
13. Wexpro's rent quadrupled between 2005 and 2014, as Questar 's space needs increased with additional employees and when it moved into Questar's newer, more expensive headquarters building. G&A rent expense increased from $248,000 in 2005 to $589,000 in 2010, as Wexpro added

administrative and engineering employees.[21] In 2012 Wexpro moved into the new headquarters building, causing total rent to increase to approximately $1 million annually. In 2005, 26 Wexpro employees occupied 12,637 square feet in the Questar building at a cost of between $15.57 (for storage) and $20.00 (for common and office space). By 2014, 46 Wexpro employees occupied [redacted] square feet of at a cost estimated to be about [redacted] a square foot (based on rent expenses shown in general ledger detail).

14. A test of Questar's "Distrigas" formula using data from Questar's Forms 10K showed that the formula distributed a larger share of corporate costs to Wexpro than our test calculation. Our test calculation ran between 1.2% (in 2007) and 7.0% (in 2013) of total allocable cost *lower* than Wexpro's cost distribution using the Distrigas allocator. One of the key reasons may be that the Distrigas allocator limits the input for the revenue component for Questar Gas Company to margin, rather than revenue, while Wexpro's revenue component of the allocator is based on total revenue.[22] We cannot precisely quantify the OSF impact of the calculation differences; however, the differences between the two calculations (Distrigas and the test calculation) appear to have a maximum impact on Wexpro's G&A expense of about $700,000 per year.[23] The components and calculation methods used for size-based allocators like the Distrigas formula are not based on cost-causation and are inherently arbitrary. As such, they are subject to being designed, within a range of arguable reasonableness, to achieve desired results. Wexpro is the only cost objective among Questar's three major subsidiaries (Questar Gas Co., Wexpro, and Questar Pipeline) that can obtain complete and almost immediate reimbursement for the corporate costs distributed to it through the formula.
15. Growth in Wexpro's average employee compensation levels contributed to increases in both O&M and G&A expenses during the audit period; however, compensation per employee grew much faster for G&A employees than it did for O&M employees. Growth in compensation for Wexpro employees is summarized below for G&A and O&M/Capital employees. The fastest growing significant component of compensation expense was incentive compensation paid to G&A employees. As discussed above, this is largely due to the growth in stock-based compensation paid to a relatively small subset of these employees. However, as discussed in the next finding, it appears that Wexpro's 2014 salaries were consistent with salaries for similar oil and gas E&P companies in the market place. We did not examine the market basis for Wexpro's incentive compensation.

[21] Based on amounts categorized as "rent" in general ledger accounting detail provided in response to data request 8.01, Attachment.

[22] We do not know this with certainty because data that we requested to support the Company's Distrigas allocation was not provided.

[23] Calculated as follows: Data provided by Wexpro shows that total "corporate charges" were $12,406,737 in 2014, the highest amount for the audit period (response to data request 2.19). The difference between Wexpro's share of Distrigas and our allocator for 2014 was 5.6%. If all of this was distributed using Distrigas, 5.6% of $12,407,000 is $695,000.

Table 2-5 – Wexpro Compensation Per Average Employee By Category

Wexpro Compensation Per Average Employee, By Category Amts in $000s											
G&A Employees	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Avg. Annual % Increase**
G&A EE Salaries	$73.0	$ 75.7	$ 78.1	$ 83.9	$ 86.1	$ 88.6	$ 92.4	$ 98.1	$101.6	$103.7	
G&A EE Incentive Comp.	20.8	26.1	38.7	29.6	72.7	43.8	79.2	130.7	73.1	84.9	
G&A EE Other Comp	0.6	5.1	0.8	1.0	1.4	2.8	1.8	46.1	1.2	3.8	
Avg. Comp per G&A EE	$94.3	$106.8	$117.6	$114.4	$160.1	$135.2	$173.4	$274.9	$175.9	$192.4	8.2%
O&M Employees	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Avg. Annual % Increase**
O&M / Capital EE Salaries	55.5	57.0	57.5	60.1	60.2	66.0	70.1	68.6	76.0	77.9	
O&M /Cap. EE Incentive Comp.	11.8	9.6	10.0	11.2	14.6	14.5	15.3	13.9	15.2	16.5	
O&M /Cap. EE Other Comp.	1.3	4.1	1.3	1.3	1.1	2.3	1.2	0.7	1.4	3.1	
Avg. Comp per O&M / Cap. EE	$68.6	$ 70.7	$ 68.9	$ 72.6	$ 75.9	$ 82.7	$ 86.6	$ 83.1	$ 92.7	$ 97.6	4.0%
Sources: Responses to data requests 9.01 Att. & 9.02 Att. 1											

16. Using market data compiled by Effective Compensation Incorporated (ECI), 2014 salary levels for Wexpro's employees appear to align with salaries for similar positions in oil and gas E&P companies in Wexpro's regional and the national market. Our test of Wexpro's inflation-adjusted salary levels against regional and national market data provided by Wexpro showed that 2014 salary levels were slightly below the average of market-based salaries. Wexpro stated that its goal is to provide salary compensation to its employees that falls with the range of 95 to 105 percent of the median based on the market.[24] Our review of 2014 salary compensation suggests that it did.
17. Wexpro's 2014 calculations of Wexpro and QGC oil income sharing appear consistent with the requirements of the Wexpro I agreement. However, we did not find support in the Wexpro agreement or in guideline letters for Wexpro's OSF treatment of negative oil sharing in 2014. Wexpro's calculations of shared oil income are generally consistent with the provisions of the Wexpro I agreement and the example calculation in Exhibit B of the agreement. However, for the Prior Wexpro and Development Oil well categories, Wexpro removed most of the negative oil income attributable to QGC from the OSF, while for the Development Gas category, Wexpro included both the 54% QGC share and the 46% Wexpro Company share of negative oil sharing in the OSF. Not only are these two procedures at odds with one-another, they are not the same treatment given when shareable oil income is positive. For example, the entire amount of the oil income deficit (added cost) for the Development Gas category was passed through to customers, while most of the much smaller amount associated with Development Oil and Prior Wexpro was retained by Wexpro. The total net amount of negative oil income added to the OSF in 2014 was approximately $6.0 million.

[24] Interview with Questar Manager of Compensation, 9/15/15.

Operations and Maintenance Expense

Operations and Maintenance (O&M) expenses include the direct costs of operating and maintaining wells and related equipment and facilities.[25] They are the costs of operating Wexpro's production in the field. O&M expenses consist primarily of labor and labor-related expenses for employees producing gas and oil, and that of their immediate supervisors; outside services incurred for the operation of some producing areas by third parties, and the maintenance and repair of producing facilities and equipment. O&M expenses also include operating materials and supplies, transportation and employee expenses.

The following table summarizes O&M, including total O&M, O&M allocated to gas production and charged directly through the OSF, and O&M allocated to non-commercial wells and shared oil, much of which was indirectly charged through the OSF.

Table 2-6 – Wexpro Total and Direct O&M Expenses

Wexpro Total and Direct O&M Expenses $ Amounts in 000s											
Item	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Avg. Annual Pct. Increase
Total O&M Expense	$11,239	$14,706	$16,514	$23,517	$21,207	$20,241	$22,279	$26,848	$27,271	$29,203	11.2%
O&M Expense Allocated to Shared Oil & Non-Comm Wells	2,038	1,862	2,227	4,002	3,078	2,952	2,911	4,777	5,419	5,067	10.6%
Direct (Gas) OSF O&M Expense	$ 9,201	$12,844	$14,287	$19,515	$18,129	$17,289	$19,368	$22,071	$21,852	$24,136	11.3%
Production Volumes (Bcf)	40.0	38.8	34.9	46.1	48.2	50.2	50.5	57.5	59.2	63.5	5.3%
Direct OSF O&M Exp. per Mcf	$ 0.23	$ 0.33	$ 0.41	$ 0.42	$ 0.38	$ 0.34	$ 0.38	$ 0.38	$ 0.37	$ 0.38	5.7%
Source: Response to data request 2.10U.											

Wexpro's O&M costs increased at an annual rate of about 11% overall. Expenses charged directly to OSF gas production increased by 5.7% per Mcf. Based on our review of O&M expenses and discussions with Wexpro, one of the key reasons that O&M expenses increased on a per-Mcf basis (in other words, the reason that Wexpro realized *diseconomies* of scale as annual production increased) appears to be that production shifted from older, larger "parent" wells, to smaller "daughter" wells that are produced with hydraulic fracturing and are more resource intensive. Newer wells that rely on hydraulic fracturing:

- On average, produce smaller volumes of hydrocarbons per well than Wexpro's older wells. They require more equipment, transportation, and labor resources per unit of production.
- They require certain processes, materials, and supplies that were not formerly required.

Summary of O&M Expense by DPU Expense Category

Wexpro's O&M expenses are classified into Utah Division of Public Utilities (DPU) expense categories. O&M expenses by DPU account category are summarized below. These amounts reflect total O&M

[25] Response to data request 1.10.

expenses, before allocation between gas and oil and to non-commercial wells.[26] In comparison, the O&M expenses in table above are those expenses allocated directly to the OSF.[27]

Table 2-7 – Wexpro Total O&M Expenses by DPU Category

Wexpro Total O&M Expenses by DPU Category $ Amounts in 000s											
DPU Expense Category	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Avg. Annual Pct.
Contract Services Performed on-site	$ 2,527	$ 3,258	$ 1,312	$ 1,230	$ 1,681	$ 1,608	$ 1,499	$ 1,471	$ 1,529	$ 1,732	-4.1%
Equipment/Other Rentals	544	458	605	435	384	304	240	333	475	580	0.7%
Expense AFE (Larger Repairs & Workovers)	1,781	2,709	1,970	6,425	4,796	4,026	1,646	2,775	4,575	5,877	14.2%
Field Employee Benefits	587	752	901	1,019	1,203	1,489	1,638	1,916	2,094	1,849	13.6%
Field Employee Wages & Salaries	799	1,268	2,703	3,522	4,107	4,146	3,759	3,590	4,151	4,631	21.6%
Fixed Rate Overheads (Net)	(805)	(1,395)	(1,690)	(2,412)	(2,654)	(1,978)	(877)	(423)	(388)	181	
Labor/Pumper/Associated Costs	1,361	1,861	3,859	4,508	3,966	4,284	5,495	5,761	4,370	4,188	13.3%
Repairs and Maintenance of Equipment	1,885	2,517	3,120	3,795	2,329	1,853	2,972	2,618	2,284	1,222	-4.7%
Trucking/Freight	618	621	962	1,308	1,259	1,453	2,009	3,316	3,101	2,698	17.8%
Water Injection and Disposal	510	415	723	969	1,781	1,280	1,059	2,189	2,092	3,256	22.9%
Well Services	161	285	199	150	154	190	233	366	549	619	16.1%
Treating Supplies	907	1,359	1,786	1,964	1,393	1,292	1,317	1,377	1,447	1,434	0.05222
Other Expenses	364	598	64	604	808	294	1,289	1,559	992	936	11.1%
Total Operating Expenses	$ 11,239	$ 14,706	$ 16,514	$ 23,517	$ 21,207	$ 20,241	$ 22,279	$ 26,848	$ 27,271	$ 29,203	11.2%
Production Volumes (Bcf)	40.0	38.8	34.9	46.1	48.2	50.2	50.5	57.5	59.2	63.5	
Cost per Mcf	$ 0.28	$ 0.38	$ 0.47	$ 0.51	$ 0.44	$ 0.40	$ 0.44	$ 0.47	$ 0.46	$ 0.46	5.6%
Source: Response to data request 2.17U Attachment. Before allocation between OSF well categories, oil revenue sharing and non-commercial wells											

O&M expenses overall increased at a nominal annual rate of 11.2% and at a rate of 5.6% per Mcf. At this rate, per-Mcf expense doubles approximately every 13 years.

Wexpro provided brief descriptions of the expenses included in some of the more significant DPU categories shown above.[28] In addition, Overland analyzed account-level detail to obtain an understanding of the underlying expenses. This information is summarized below. The amounts reflect expenses over the 10-year audit period.

Contract Services Performed On-Site

Contract services include a variety of services provided by outside companies, including services that are also included in other O&M categories. The expenses in this DPU category declined slightly from 2005 to 2014. However, it appears that the services reflected in th account "LOE Other Contract Services" may overlap with other DPU categories and accounts containing expenses for services from some of the same vendors. As such, we cannot infer very much from the slight downward trend.

[26] There are various allocations of O&M expense. They include allocations between well classification categories (commercial & non-commercial), between Wexpro agreement/OSF well categories (development gas, development oil, prior company), between production categories (oil and gas), and, as described in the response to data request 2.03, at finer levels, such as between wells in a field and within a well pad and between producing formations within a wellbore. In this report, we are concerned primarily with allocations of total O&M necessary to derive costs for calculation of the OSF.

[27] Expenses allocated directly to the OSF exclude expenses allocated to shared oil revenue and non-commercial wells.

[28] Response to data request 2.15.

Table 2-8 – Wexpro O&M Expenses – Contract Services Performed On-Site

Wexpro O&M Expenses - Contract Services Performed On-Site Amounts in $000s										
Wexpro Account Desc.	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
LOE Other Contract Services	$ 474	$ 996	$1,311	$1,230	$1,681	$1,608	$1,499	$1,471	$1,529	$1,732
Wexp Cont Well Operators	654	1,052	-	-	-	-	-	-	-	-
Wexp Serv Assoc Co Lab O Head DNU	113	132	0	-	-	-	-	-	-	-
Wexp Serv Asscoc Co Lab DNU	437	617	0	-	-	-	-	-	-	-
Wexp Serv Assoc Co Trans Equip DNU	85	103	0	-	-	-	-	-	-	-
Wexp Serv Outside Oper Fld	712	278	(1)	(0)	(0)	(0)	-	-	-	-
Other	53	80	2	-	-	0	-	-	-	-
Total On-Site Contract Svcs	$2,527	$3,258	$1,312	$1,230	$1,681	$1,608	$1,499	$1,471	$1,529	$1,732
Source: Response to data request 2.17U Attachment.										

A review of 2014 account detail associated with this DPU category shows that the most significant vendors were Chevron, $443,000, associated with operations in Birch Creek; and QEP, $201,000, associated primarily with operations in the Mesa and Stewart Point fields. The specific nature of contract services reported in this category (as opposed to outside services in other DPU categories discussed below) is unclear.

Expense AFE

AFE stands for Authorization for Expenditure. This DPU category includes expenses for well maintenance and repair projects that must be authorized before the expenditure is made.

Table 2-9 – Wexpro O&M Expenses – Expense Authorizations for Expenditure

Wexpro O&M Expenses - Expense Authorizations for Expediture Amounts in $000s										
Wexpro Account Desc.	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
LOE AFE COMPRESSION EXPENSE	$ -	$ 0	$ 14	$ 449	$ 68	$ 767	$ 127	$ 83	$ 34	$ 133
LOE AFE CONTRACT HELP / LABOR	-	239	464	880	319	664	222	656	760	879
LOW AFE DOWNHOLE EQUIP RENTAL	-	8	55	84	209	118	20	74	127	419
LOE AFE FREIGHT & TRUCKING	-	22	37	171	130	121	58	130	148	245
LOE AFE MATERIALS & SUPPLIES	-	35	138	547	568	302	236	210	351	596
LOW AFE SNUBBING COIL TUBING N2	-	30	69	274	219	68	159	92	262	369
LOE AFE SURFACE EQUIP RENTAL	-	37	95	213	275	135	97	65	264	357
LOE AFE WELL WORKOVERS	-	-	54	873	639	222	57	440	369	96
LOW AFE WORKOVER RIG & SWABBING	-	142	497	1,382	1,350	635	158	441	1,033	1,360
NAFE CONTR WELL OPERATORS	530	368	-	-	-	-	-	-	(0)	-
NAFE OTHER CONTR SERV	304	382	12	-	-	-	-	-	-	-
NAFEWOP COMPLETION RIG	384	208	-	-	-	-	-	-	-	-
Other	564	1,238	535	1,552	1,020	994	512	584	1,227	1,424
Total AFE Expense	$1,781	$2,709	$1,970	$6,425	$4,796	$4,026	$1,646	$2,775	$4,575	$5,877
Source: Response to data request 2.17U Attachment.										

A review of 2014 transaction detail shows that about $257,000 out of a total of $5.9 million consists of Wexpro company labor and related overheads. For the remaining non-labor transactions for which a vendor is indicated, the larger vendors include [redacted], $973,000 for rig workovers; [redacted],

$477,000, for equipment rental; [redacted] $275,000, for contract labor and materials and supplies; [redacted] $190,000, for contract labor; and [redacted], $175,000, for road repair. Expenses also include charges from dozens of other vendors for contract labor, materials and supplies, freight and trucking, and various other expenses.

Field Employee Wages, Salaries and Benefits

Most, but not all, of Wexpro's company O&M labor costs are assigned to the DPU expense categories Field Employee Wages and Salaries and Field Employee Benefits.

Table 2-10 – Wexpro O&M Expenses – Field Employee Wages, Salaries & Benefits

Wexpro O&M Expenses - Field Employee Wages, Salaries & Benefits Amounts in $000s										
Wexpro Account Desc.	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Field Employee Wages & Salaries										
LOE LABOR / SALARIES	$ 771	$ 744	$ 779	$ 851	$ 872	$1,715	$2,848	$3,061	$3,310	$3,523
LOW AC LABOR/SALARIES	-	167	1,229	1,847	2,048	1,394	26	8	10	12
LOE CONTRACT HELP / LABOR	3	0	12	53	79	65	28	56	193	301
LOE / WEXPRO ECP ACCRUALS & PMTS	24	311	402	319	587	627	848	466	638	795
Other Wages & Salaries	-	45	280	453	521	344	8	(0)	-	-
Subtotal Field Employee Wages & Salaries	799	1,268	2,703	3,522	4,107	4,146	3,759	3,590	4,151	4,631
Field Employee Benefits										
LOE PAY OVHD BENEFITS	287	383	353	315	391	634	940	1,156	1,263	990
LOE PAY OVHD TAXES & INS	289	314	261	296	313	537	674	758	825	842
LOE AC PAY OVHD BENEFITS	-	11	136	233	277	167	(0)	0	-	-
LOE AC PAY OVHD TAXES & INS	-	30	143	167	190	151	22	2	2	6
Other	11	13	8	8	32	0	2	1	4	11
Subtotal Field Employee Benefits	587	752	901	1,019	1,203	1,489	1,638	1,916	2,094	1,849
Field Wages, Salaries & Benefits Total	$1,387	$2,019	$3,604	$4,541	$5,311	$5,635	$5,397	$5,506	$6,245	$6,480
Source: Response to data request 4.1-2.17U Attachment.										

The wages and salaries category includes salaries and incentive pay. The relatively small expenses associated with contract labor are small and appear to be temporary employees hired by Wexpro.

Fixed Rate Overhead Charges & Credits

Fixed rate overheads (FROHs) are charges for overheads incurred by a well operator. The rules for charging fixed rate overheads are based on model accounting procedures of the Council of Petroleum Accountants Societies (COPAS), but specific FROH charges are governed by the joint operating agreement between the operator and other parties with ownership interests in a well. Wexpro is on both the receiving and paying end of these charges, depending on whether it is the well operator. The table below summarizes the charges and credits in the FROH DPU account category during the audit period.

Table 2-11 – Wexpro O&M Expenses – Fixed Rate Overhead Charges & Credits

Wexpro O&M Expenses - Fixed Rate Overhead Charges & Credits Amounts in $000s										
Wexpro Account Desc.	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Fixed Rate Overhead Charges										
LOE ADMIN OVERHEAD COMPANY OP	$ -	$ -	$ (73)	$ (1)	$ 9	$ 73	$ 54	$ 63	$ 23	$ 71
LOE JOINT INTEREST OVHD	-	218	1,193	1,596	1,738	2,065	2,767	3,073	-	-
WEXP ADM O HEAD OUTSIDE OP FLD	1,548	1,341	-	-	-	-	-	-	-	-
WEXP JOINT INTEREST OVHD	2,016	2,205	2,339	2,841	3,453	3,405	3,178	3,758	4,446	4,611
WEXP JOINT INTEREST OVHD	-	-	-	-	-	-	-	-	-	-
LOE JOINT INTEREST OVHD NON OP	-	-	-	-	-	-	-	-	3,560	4,104
Subtotal FR OH Charges	3,564	3,764	3,459	4,436	5,200	5,543	5,999	6,894	8,029	8,786
Fixed Rate Overhead "Credits"										
WEXP JOINT ACCT O HEAD CR 100%	(4,369)	(5,159)	(5,149)	(6,847)	(7,854)	(7,521)	(6,877)	(7,318)	(8,417)	(8,605)
Subtotal FR OH "Credits"	(4,369)	(5,159)	(5,149)	(6,847)	(7,854)	(7,521)	(6,877)	(7,318)	(8,417)	(8,605)
Total Net FR OH Charges / (Credits)	$ (805)	$ (1,395)	$ (1,690)	$ (2,411)	$ (2,654)	$ (1,978)	$ (878)	$ (424)	$ (388)	$ 181
Source: Response to data request 4.1-2.17U Attachment, amended by Wexpro in May, 2016.										

It is not clear why Wexpro has included chemical supply accounts in this DPU category, which do not appear to have anything to do with FROHs. In addition to the charges shown in the table above, FROH charges also appear in the Labor/Pumper/Associated Costs DPU category, and it is not clear why this is so.

Joint interest fixed overhead rates are adjusted for inflation using escalation factors set by COPAS. The following table summarizes the escalation rates in effect during the audit period. The escalations take effect on April 1 of each year.

Table 2-12 – COPAS Fixed Rate Overhead Escalation Rates 2005-2014

COPAS Fixed Rate OH Escalation Rates 2005-2014	
As of April 1:	**Pct. Esc.**
2005	3.5%
2006	5.1%
2007	6.4%
2008	7.7%
2009	7.5%
2010	1.9%
2011	-0.7%
2012	6.1%
2013	7.4%
2014	2.5%
Source: www.COPAS.org	

Labor/Pumper & Associated Costs

This DPU expense category includes Wexpro's share of the costs of wells operated by companies other than Wexpro. The table below provides an account-level breakout of these expenses.

Table 2-13 – Wexpro O&M Expenses – Labor/Pumper & Associated Costs

Wexpro O&M Expenses - Labor / Pumper & Associated Costs Amounts in $000s										
Wexpro Account Desc.	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
LOE PUMPER	$ -	$ 561	$ 3,232	$ 3,671	$ 3,173	$ 3,418	$ 4,181	$ 4,454	$ 3,033	$ 2,570
LOE TRAINING	-	-	2	7	13	11	3	2	12	14
LOE TRANS, TOOLS, WORK EQUIP	209	299	563	747	668	748	1,165	1,127	1,133	1,192
WEXP OUTSIDE LABOR	1,150	988	-	-	-	-	-	-	-	-
WEXP LABOR ACCRUAL	-	-	-	-	-	-	-	-	-	173
Other	2	13	62	83	112	107	146	178	192	239
Total Labor / Pumper & Assoc. Costs	$ 1,361	$ 1,861	$ 3,859	$ 4,508	$ 3,966	$ 4,284	$ 5,495	$ 5,761	$ 4,370	$ 4,188
Source: Response to data request 2.17U Attachment. Amounts amended by Wexpro, May, 2016										

Wexpro described Labor/Pumper & Associated expenses as "salaries and wages paid to switchers, pumpers, roustabouts, welders, electricians or other Company employees engaged in the operation and maintenance of leases." However, a review of general ledger detail shows that approximately half the cost is joint interest overhead and that the category contains only a small amount of Company labor, limited to an accrual in 2014. In fact, most of the labor, recorded in the accounts Wexpro Outside Labor (prior to 2007) and LOE Pumper (after 2006), appears to be associated with operators other than Wexpro. LOE Pumper expenses for 2014 are summarized by vendor (operator) below.

Table 2-14 – 2014 LOE Pumper Costs by Vendor

2014 LOE Pumper Costs by Vendor Amounts in $000s	
Vendor / Operator	Amount
[redacted]	$ 1,101
[redacted]	500
[redacted]	569
[redacted]	116
[redacted]	96
[redacted]	51
[redacted]	51
Others	86
Total	$ 2,570
Source: Resp.to data request 2.01U At. 2.	

Outside labor expense approximately doubled during the audit period, from $1.35 million in 2005 to $2.6 million in 2014, and that transportation, tools, and work equipment has six-fold, from $209,000 in 2005 to $1.2 million in 2014. It is unclear why a significant component of the expense in this category is joint interest overhead, why it is not classified with other joint interest overhead in the Fixed Rate Overhead DPU category, and why the overhead increased from $0 in 2005 to $4.1 million in 2014. However, the joint interest overhead expense is associated with the same joint operators in the Labor

Pumper costs shown above. For example, of the $4.1 million in joint interest overhead for 2014, approximately $2.1 million was billed by [redacted] and $1.2 million was billed by [redacted].

Repairs and Maintenance of Equipment

Expenses in the Repairs and Maintenance DPU category are detailed by account in the table below.

Table 2-15 – Wexpro O&M Expenses – Equipment Repairs & Maintenance

Wexpro O&M Expenses - Equipment Repairs & Maintenance Amounts in $000s										
Wexpro Account Desc.	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
LOE FACILITIES EXPENSE	$ 41	$ 517	$ 432	$ 675	$ 737	$ 760	$ 474	$ 206	$ 188	$ 33
LOE OTHER MTLS & SUPPLIES	-	206	1,178	1,344	870	1,149	1,372	1,170	1,452	787
LOE REPAIRS AND MAINTENANCE	-	419	1,299	1,101	642	336	326	447	348	362
LOE REPAIRS & MAINT SUPPLIES	345	77	-	-	-	-	-	0	(0)	(16)
LOE REPAIRS AND MAINT LABOR	283	132	-	-	-	-	-	2	(0)	-
WEXP EQUIP REPAIRS	-	-	-	-	-	(718)	326	391	(0)	-
WEXP JOINT ACCOUNT PPE CREDIT	254	-	(2)	-	(255)	73	91	91	0	(901)
WEXP OTHER O M SUPPLIES EXP	416	540	0	-	-	-	-	-	-	517
WEXP RECOMPLETE/RECONDITIONING DNU	211	223	-	-	-	-	-	-	-	-
WEXP TRANS TOOL WRK EQUIP DNU	222	224	0	-	-	-	-	-	-	-
Other	112	178	212	674	335	252	383	310	296	441
Total Equip. Repairs & Maintenance Exp.	$1,885	$2,517	$3,120	$3,795	$2,329	$1,853	$2,972	$2,618	$2,284	$1,222
Source: Response to data request 2.17U Attachment.										

Wexpro describes these expenses as "the cost of cleaning out and working over wells in the same producing horizon and the cost of pulling rods and tubing in oil and gas wells when charges are small." This appears to contain the same types of expenses as the category Expense AFE, but which are associated with smaller projects that do not require individual expense authorization. The largest accounts include LOE Other Materials and Supplies ($9.6 million for the audit period), LOE Repairs and Maintenance ($5.3 million), and LOE Facilities Expense ($4.1 million), all of which appear to be expenses initially incurred by other operators, such as [redacted] and billed to Wexpro.

Trucking & Freight Expense

Trucking and freight consists primarily of the costs of hauling of waste, supplies, and equipment in and out of production areas. The expense increased from 1.5 cents per Mcf in 2005 to a peak of 5.8 cents per Mcf in 2012. It then declined to 4.2 cents per Mcf in 2014. The increases generally parallel increases in other non-labor expenses.

Table 2-16 – Wexpro O&M Expenses – Trucking and Freight Expense

Wexpro O&M Expenses - Trucking and Freight Expense Amounts in $000s										
Wexpro Account Desc.	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
LOE FREIGHT & TRUCKING	$ -	$ 40	$ 424	$ 506	$ 472	$ 543	$ 914	$ 1,386	$ 426	$ 264
LOE HAULING FLUIDS/TRASH F/LOC	-	71	528	802	787	911	1,095	1,930	2,675	2,434
WEXP CONTR HAULING WATER	609	497	9	-	-	-	-	-	-	-
Other	9	13	0	-	0	-	-	-	-	-
Total Trucking & Frieght Exp.	$ 618	$ 621	$ 962	$ 1,308	$ 1,259	$ 1,453	$ 2,009	$ 3,316	$ 3,101	$ 2,698
Source: Response to data request 2.17U Attachment.										

Water Injection & Disposal

Wexpro spent $14.3 million on water disposal during the audit period. As shown in the table below, during this period annual water disposal expenses increased six-fold. On a per-Mcf basis, water expenses increased from 1.5 cents per Mcf to 5.1 cents in 2014.

Table 2-17 – Wexpro O&M Expenses – Water Injection & Disposal

Wexpro O&M Expenses - Water Injection & Disposal Amounts in $000s										
Wexpro Account Desc.	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
LOE SALT WATER DISP EXP	$ -	$ 137	$ 1,271	$ 1,598	$ 2,202	$ 1,856	$ 2,298	$ 2,910	$ 3,598	$ 4,520
LOE SALT WATER DISPOSAL FEES	-	(84)	(492)	(613)	(527)	(727)	(1,207)	(731)	(1,510)	(2,139)
LOE WATER GATHERING QEP	111	175	-	-	120	183	-	-	-	871
WEXP FRESH WATER DISP REV	(60)	(51)	-	-	-	-	-	-	-	-
WEXP SALT WATER DISP REVENUE	(50)	(327)	-	-	-	-	-	-	-	-
WEXP SALT WATER DISP SERV	510	576	2	-	-	-	-	-	-	-
Other	-	(11)	(57)	(16)	(14)	(32)	(32)	10	5	5
Total Water Inj. & Disposal Exp.	$ 510	$ 415	$ 723	$ 969	$ 1,781	$ 1,280	$ 1,059	$ 2,189	$ 2,092	$ 3,256
Source: Response to data request 4.1-2.17U Attachment.										

Wexpro attributes the increase in water disposal to new wells added in 2012, even though costs had already tripled between 2005 and 2011. We would attribute it more generally to the increase in the use of hydraulic fracturing to produce gas and oil that occurred between 2005 and 2014. Wexpro noted that it "completed 22 wells in Trail field, 9 wells in Powder Wash field, 19 wells in Pinedale field, and 27 wells in Canyon Creek field [in 2012]." It further explained that "[w]ells in Trail and Canyon Creek have higher water disposal costs per Mcf produced than other wells."[29] Wexpro stated that it "installed evaporation ponds in Trail and Canyon Creek fields to address the high water disposal costs in these two fields."[30] We note that, notwithstanding installation of evaporation ponds, water disposal costs continued to increase in 2013 and 2014, and were 55% higher in 2014 than in 2012. In addition, it is noteworthy that the evaporation ponds carry their own return, depreciation, income tax and possibly remediation costs, costs which might even *exceed* the disposal costs avoided.

[29] Response to data request 2.18.
[30] Id.

General and Administrative Expense

General and Administrative (G&A) expenses include labor, labor-related, outside services, and office overhead expenses of Wexpro's executive management, administration, and management of and support for gas and oil operations and production. Administrative functions include accounting, reporting, compliance, environmental and safety, human resources, treasurer, legal, information technology, and facilities management. Operations and production management and support functions include drilling, field operations and operations management, production development, production engineering, and regulatory affairs. The following table summarizes Wexpro's total G&A expense, the amounts allocated to gas production, charged directly through the OSF, and amounts allocated to non-commercial wells and shared oil, much of which was indirectly charged through the OSF.

Table 2-18 – Wexpro Total and Direct G&A Expenses

Wexpro Total and Direct G&A Expenses $ Amounts in 000s											
Item	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Avg. Annual Pct. Increase
Total G&A Expense	$9,961	$11,357	$14,718	$13,663	$17,050	$20,531	$24,205	$27,015	$27,995	$30,804	13.4%
G&A Expense Allocated to Shared Oil & Non-Comm Wells	832	1,063	1,357	1,704	2,063	2,967	3,433	4,263	5,360	4,544	20.8%
Direct (Gas) OSF G&A Expense	$9,129	$10,294	$13,361	$11,959	$14,987	$17,564	$20,772	$22,752	$22,635	$26,260	12.5%
Production Volumes (Bcf)	40.0	38.8	34.9	46.1	48.2	50.2	50.5	57.5	59.2	63.5	5.3%
Direct G&A OSF Cost per Mcf	$ 0.23	$ 0.27	$ 0.38	$ 0.26	$ 0.31	$ 0.35	$ 0.41	$ 0.40	$ 0.38	$ 0.41	6.8%
Source: Response to data request DPU 1.27U											

Summary of G&A Expenses by Function

Unlike O&M expenses, Wexpro does not classify its G&A expenses into DPU expense categories. To facilitate an understanding of the expenses and the types of costs that increased most during the audit period, Overland conducted an analysis of Wexpro's general ledger detail and classified G&A expenses by the source of the expense (Wexpro or Questar Corporation) and by major and detailed function. The following table summarizes G&A expenses by major function. The amounts reflect G&A expenses before allocation between gas OSF and other production categories.[31]

[31] As with O&M expenses, the G&A expenses in this summary table and the tables follow are before allocation between the OSF, are allocated between OSF well categories, shared oil revenue and non-commercial wells.

Table 2-19 – Wexpro Total G&A Expenses By Function

Wexpro Total G&A Expenses By Function $ Amounts 000s											
Functional Category	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Avg. Annual Pct. Increase**
Accounting, Reporting & Compliance	$2,196	$ 2,029	$ 1,913	$ 1,715	$ 1,858	$ 2,296	$ 3,398	$ 3,272	$ 3,321	$ 3,118	4.0%
Administration	1,618	2,214	2,916	2,244	2,056	2,098	2,839	4,239	5,153	4,789	12.8%
Engineering & Operations	2,229	2,802	3,974	4,709	5,481	5,622	5,469	5,802	6,493	5,987	11.6%
Executive Management	450	693	736	1,004	1,057	1,294	1,197	1,459	3,885	5,726	32.7%
Unclassified	3,467	3,620	5,180	3,992	6,597	9,221	11,302	12,244	9,142	11,183	13.9%
Total Operating Expenses	$9,961	$11,357	$14,718	$13,663	$17,050	$20,531	$24,205	$27,015	$27,995	$30,804	13.4%
Production Volumes (Bcf)	40.0	38.8	34.9	46.1	48.2	50.2	50.5	57.5	59.2	63.5	
Cost per Mcf	$ 0.25	$ 0.29	$ 0.42	$ 0.30	$ 0.35	$ 0.41	$ 0.48	$ 0.47	$ 0.47	$ 0.49	7.7%
Source: Response to data request 8-01, Attachment, and Overland analysis using accounting detail from responses to data requests 8-01 and 9-01. Before allocation between OSF well categories, oil revenue sharing and non-commercial wells											

Overall, Wexpro's total G&A expenses increased at an annual rate of 13.4% during the audit period, a rate higher than the 11.2% annual increase in O&M expenses. On a per-Mcf basis, total G&A expenses increased at an average annual rate of 7.7% (a doubling every 9.3 years), compared with an overall 5.6% per Mcf average annual increase for total O&M expenses.

The G&A category includes expenses incurred directly by Wexpro and expenses billed by Questar, either through direct charges, or through cost allocations. The following table breaks out Wexpro's G&A expenses by source of incurrence (either Wexpro or Questar). As the table shows, nearly half of Wexpro's G&A expenses during the years 2005-2014 were billed or allocated by Questar Corporation.

Table 2-20 – Wexpro Total G&A Expenses by Source

Wexpro Total G&A Expenses by Source Amounts in $000s											
Incurred Directly by Wexpro / By Function	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Avg. Annual Pct. Increase**
Accounting, Reporting & Compliance	$1,471	$ 1,416	$ 1,587	$ 1,354	$ 1,572	$ 2,068	$ 2,986	$ 3,216	$ 2,430	$ 2,294	5.1%
Administration	214	491	586	534	545	498	515	432	25	173	-2.4%
Engineering & Operations	1,970	2,118	2,505	2,377	2,541	3,708	5,414	5,713	6,482	5,926	13.0%
Executive Management	373	633	690	826	926	1,207	1,153	1,420	3,768	5,000	33.4%
Unclassified	371	949	2,039	1,681	3,218	3,639	3,029	3,185	900	1,044	12.2%
Total G&A Expense Directly Incurred by Wexpro	$4,399	$ 5,608	$ 7,408	$ 6,772	$ 8,802	$11,121	$13,097	$13,965	$13,605	$14,435	14.1%
Charged or Allocated from Questar / By Function	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Avg. Annual Pct. Increase**
Accounting, Reporting & Compliance	725	613	326	361	286	227	412	57	891	825	1.4%
Administration	1,404	1,722	2,329	1,710	1,511	1,600	2,324	3,807	5,128	4,617	14.1%
Engineering & Operations	259	684	1,469	2,332	2,941	1,914	56	89	11	61	-14.8%
Executive Management	78	60	46	178	131	87	44	39	117	726	28.2%
Unclassified	3,096	2,671	3,141	2,311	3,378	5,582	8,274	9,059	8,242	10,139	14.1%
Total Charged or Allocated by Questar	5,562	5,750	7,310	6,892	8,248	9,410	11,109	13,051	14,390	16,369	12.7%
Total Wexpro G&A Expense	$9,961	$11,357	$14,718	$13,663	$17,050	$20,531	$24,205	$27,015	$27,995	$30,804	13.4%
Source: Response to data request 8-01, Attachment, and based on Overland analysis using accounting detail from responses to data requests 8-01 and 9-01. Before allocation between OSF well categories, oil revenue sharing and non-commercial wells.											

A significant proportion of the total expense originating from Questar in the Unclassified functional category is the Distrigas allocation of corporate costs not identified at a functional level prior to allocation. These costs and the Distrigas allocation are discussed in detail below.

The following discussion covers each functional category of G&A costs, and breaks the cost into detailed functions based on analysis.[32] It is not possible to draw conclusions about increases in the costs of specific G&A functions by simply comparing total functional G&A expenses from year to year. However, looking at the increase in G&A expenses in aggregate over the audit period, and in conjunction with similar increases in O&M expense and capital spending, it is obvious that like these other categories, the costs of Wexpro's general and administrative functions and departments increased substantially over the audit period.

Accounting, Reporting and Compliance

The following table itemizes the Accounting, Reporting and Compliance functional category into detailed functions. Overall, this category showed the smallest overall increase during the audit period (averaging 4.0% annually). It is the only functional category in which G&A expense per Mcf actually declined slightly (from 5.5 cents to 4.9 cents) during the audit period.

Table 2-21 – Wexpro G&A Expense – Accounting, Reporting & Compliance

Wexpro G&A Expense - Accounting, Reporting & Compliance Amounts in $000s											
Detailed Function	**Source**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Controller	Questar Corp.	$ 222	$ 230	$ 70	$ 98	$ 76	$ 83	$ 361	$ 47	$ 602	$ 495
General Accounting	Wexpro	465	472	544	460	570	652	728	637	539	576
	Questar Corp.	350	293	153	175	154	115	51	9	11	(0)
Property Accounting	Wexpro	404	358	405	358	375	464	639	795	598	573
	Questar Corp.	-	-	-	-	-	-	-	-	126	135
Revenue Accounting	Wexpro	468	475	496	409	483	668	1,192	1,282	690	691
	Questar Corp.	-	-	-	-	-	-	-	-	-	14
Royalty & Tax Accounting	Wexpro	135	112	143	127	144	284	427	501	603	453
	Questar Corp.	4	-	-	-	-	-	-	-	152	156
Other	Questar Corp.	149	90	103	88	56	30	-	-	-	24
Total Accounting, Reporting & Compliance G&A Expense		$2,196	$2,029	$1,913	$1,715	$1,858	$2,296	$3,398	$3,272	$3,321	$3,118
Source: Response to data request 8.01, Attachment, and Overland analysis using accounting detail from responses to data requests 8.01 and 9.01. Before allocation between OSF well categories, oil revenue sharing and non-commercial wells											

[32] The analysis should be considered in the context of the following: 1) G&A expenses classified at the functional level in the analysis should not be assumed to reflect the total costs of the functions or departments discussed. Rather, they reflect the expenses assigned by Wexpro's accountants to a set of cost centers (that we aggregated at a functional level) and to accounts in the G&A expense category. For many of the departments that compose these functions, there were additional costs (some capitalized, some charged to O&M expense accounts, and some assigned to Wexpro at the company level, rather than the departmental level) that were attributable to the cost centers and functions but are not included as G&A expense in the tables. 2) During the period 2005-2014, Wexpro and Questar made changes in the way they classified G&A expenses and the types of cost classified at the cost center level. 3) Questar also made changes in cost allocation methods and cost pools. For example, in the last few years of the audit period, they began allocating certain expenses that had previously been lumped into the Distrigas allocation using methods more directly linking the cost of the Questar Corporate function with cost objectives (Wexpro and other Questar subsidiaries). Notwithstanding these changes, the total amount of Questar Corporation expense allocated and otherwise charged to Wexpro increased substantially.

The Accounting, Reporting & Compliance G&A category consists of the following detailed functions.

- Controller and Assistant Treasurer – This is a Questar corporate function, and the expenses shown were charged to Wexpro. Over half the expenses, and most of the expenses in 2013 and 2014, are described as "corporate allocations" and consist of labor and labor-related expenses. In fact, the labor expenses appear to have been directly assigned, rather than allocated.[33] Most of the remaining expenses, and a majority of the expenses in the years prior to 2013, consist of "financial and bank services" which also appear to have been directly assigned by the Controller's function to Wexpro.
- General Accounting – Costs incurred directly by Wexpro in this function consist primarily of the labor and labor-related expenses of Wexpro's General Accounting department (cost center 8130). Expenses charged by Questar Corporation are from Questar's Manager of General Accounting department (cost center 8105). Much of the expense from the corporate department appears to have been directly charged to Wexpro. It is noteworthy that the corporate charges tapered off to small amounts in the last few years of the audit period. It is not clear from review of accounting detail why this occurred.
- Property Accounting – This consists primarily of the salaries and labor-related expenses of Wexpro's Property Accounting (Asset Management) department (cost center 8140) which had four accounting employees as of the end of 2014.[34] In 2014, approximately $126,000 from this same cost center, consisting of labor, labor-related expenses, employee expenses, training, and supplies, is described as a corporate allocation, although we believe this may be misclassified and may instead reflect expenses incurred directly by Wexpro.
- Revenue Accounting – This expense consists almost entirely of the salaries, labor-related expenses, and non-labor expenses of Wexpro's Revenue Accounting department which had six employees at the end of 2014.[35]
- Royalty and Tax Accounting – This consisted primarily of the salaries and labor-related and non-labor expenses for Wexpro's Royalty and Tax department (cost center 8145). Wexpro's general ledger detail also identifies approximately $150,000 in each of the years 2013 and 2014 as corporate allocations, consisting primarily of labor and labor-related expense. The corporate allocations are also identified with the cost center 8145.

Administration

For analysis purposes, we grouped a large number of administrative functions other than accounting into the G&A category Administration. Expenses increased annually by an average of 12.8% during the audit period. Most administration expenses appear to have been incurred by Questar Corporation on behalf of Wexpro or were directly charged to by the corporate administrative departments to Wexpro. Separately, and in addition to the expenses classified in the Administration category, costs for many of these same corporate departments were allocated to Wexpro through the Distrigas formula. Distrigas

[33] Based on the lack of appearance of the Corporate Controller in the list of departmental allocations provided in response to data request 7.06, Attachment 2, it appears these labor expenses and related overheads were directly assigned to Wexpro.

[34] Response to data request 9.01, Attachment.

[35] Response to data request 9.01, Attachment.

cost allocations are included separately under the functional category "Unclassified." The detailed functions of the Administration category are shown in the table below.

Table 2-22 – Wexpro G&A Expense – Administration

Wexpro G&A Expense - Administration Amounts in $000s											
Detailed Function	**Source**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Environmental & Safety	Questar	$ 69	$ 140	$ 167	$ 159	$ 138	$ 122	$ 254	$ 422	$ 527	$ 471
Human Resources	Questar	102	196	129	114	91	55	8	(1)	114	94
Information Technology	Wexpro	79	218	258	283	304	307	135	124	(0)	-
	Questar	366	226	246	246	201	309	902	1,169	1,636	1,292
Leases, Insurance & Contracts	Questar	244	284	324	226	218	137	36	288	331	331
Legal	Questar	257	434	930	319	232	430	730	950	847	567
Office Space & Services	Wexpro	44	89	113	80	75	88	76	114	64	85
	Questar	290	325	433	586	591	503	358	976	1,256	1,141
Treasurer	Questar	5	1	9	3	2	21	33	3	214	399
Other	Wexpro	91	185	215	171	166	104	304	193	(39)	88
	Questar	72	118	91	57	38	24	2	-	204	323
Total Administration G&A Expense		$1,618	$2,214	$2,916	$2,244	$2,056	$2,098	$2,839	$4,239	$5,153	$4,789
Source: Response to data request 8-01, Attachment, and Overland analysis using accounting detail from responses to data requests 8-01 and 9-01 Before allocation between OSF well categories, oil revenue sharing and non-commercial wells											

The Administration category consists of the following detailed functions.

- Environmental & Safety – Expenses in this function are charged from Questar Corporation and are primarily from the Environmental and Safety department (cost center 8070). The expenses charged to Wexpro from cost center 8070 consist mainly of salaries and labor-related expenses, which may consist of labor expenses for time directly charged to Wexpro.[36] Beginning in 2014, approximately $227,000 of the total $471,000 charged originates from corporate cost center Q-1566 (also called Environmental, Health and Safety). Corporate allocations information provided by Wexpro[37] shows that amounts from cost center Q-1566 are allocated among Questar's subsidiaries based on employees. Wexpro's share of this allocation ranged from 7.9% in 2011 to 8.2% in 2013; however, according to accounting detail the allocation was not employed until 2014. There may be additional Environmental and Safety charges to Wexpro through the Distrigas allocation, discussed below under Unclassified – Corporate Allocations.
- Human Resources (HR) – Expenses in this function consist entirely of charges from corporate cost center 8010 – Personnel. Approximately two-thirds of the expenses consist of labor and labor-related expenses that appear to have been directly charged by the corporate department to Wexpro. The remainder consists of employee expenses, office supplies, outside services, and similar expenses typically incurred by an administrative department. It is likely that these expenses, which total approximately $900,000 for the audit period, represent only the direct component of corporate HR costs charged to Wexpro and that other Human Resources charges are part of the Distrigas allocation (discussed below under Unclassified – Corporate Allocations).

[36] The information Wexpro provided on cost allocations in response to data request 7.06, Attachment 2, does not show any allocations associated with cost center 8070. As such, it appears likely that the expenses are directly charged.

[37] Response to data request 7.06, Attachment 2.

- Information Technology (IT) – This consists of expenses for computer hardware, software, data storage and processing, and IT labor and labor-related costs. Wexpro does not have its own IT department. The 20% portion of expenses classified as incurred by Wexpro in the previous table consists primarily of computer software and some hardware that may have been purchased by employees of Questar Corporation's IT department on behalf of Wexpro. The 80% portion classified as corporate charges appears to have been directly charged to Wexpro by the corporate IT department. The bulk of expenses consist of employee labor and labor-related expenses (about $2.5 million for the audit period), communications system charges (about $1.7 million for the audit period), and computer hardware, software and related maintenance (about $1.4 million for the audit period). The remainder consists primarily of other office-related overheads such as employee expenses and supplies. In addition to the corporate charges shown in the previous table, there may be additional corporate IT charges allocated on the basis of subsidiary size through the Distrigas allocation.
- Leases, Insurance and Contracts – Expenses in this function are associated primarily with corporate cost center 8340 – Manager, Titles, Leases, Insurance and Contracts. Of the $2.4 million that appears to have been directly charged to Wexpro during the audit period, $2.3 million is described as "insurance and bonding." Most of the remaining expenses are corporate labor and labor-related expenses.
- Legal – Expenses charged to Wexpro during the audit period consist of approximately $4.7 million charged by Questar Corporation's Legal department (cost center 8040) and approximately $700,000 from several cost centers set up to track the outside consultant costs of various lawsuits (cost centers 70XXX). Of the $4.7 million charged from the Legal department, approximately $2.3 million was Legal department labor and labor-related expenses. $1.3 million was professional and other outside services and approximately $320,000 is described as "financial service," most of which was incurred in 2012. Remaining Legal department expenses charged to Wexpro consisted primarily of office overheads (employee expenses, supplies and similar costs).
- Office Space and Services – This consists primarily of rent and building-related expenses (utilities, labor and labor-related expenses) incurred by Questar Corporation cost center 8330, Building Services, and charged to Wexpro. There were also lesser charges for rent expense directly incurred by Wexpro for office space in Rock Springs and Westgate. As shown in the table, G&A expenses categorized as "rent" increased substantially beginning in 2012.

Table 2-23 – Wexpro G&A Expense Categorized as "Rent"

Wexpro G&A Expense Categorized as "Rent" Amounts in $000s										
CostCenterName	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
BUILDING SERVICES	$247	$282	$387	$545	$547	$442	$349	$ 936	$ 993	$ 973
COMPANY ORGANIZATION BUDGET	1	38	55	84	120	144	94	98	1	
COORD. DATA PROCESSING									39	22
DATACENTER										21
DEVELOPMENT OPERATIONS							14			
Other	-	-	(3)	(3)	1	3	10	(2)	8	3
Total	$248	$320	$439	$626	$668	$589	$467	$1,032	$1,041	$1,019
Source: G&A expense GL detail, response to data request 8-01.										

As explained by Wexpro, "[i]n 2012, all Questar subsidiaries moved to the new office building where each subsidiary of Questar Corporation pays the same rate."[38] In 2005, there were 26 Wexpro employees occupying office space in the Questar Building at a cost of between $15.57 and $20.00 per square foot.[39] As of 2014, there were 46 Wexpro employees in the *new* Questar office building at a cost of approximately [redacted] per square foot.[40] This largely explains why Wexpro's G&A rent quadrupled between 2005 and 2014.

- Treasurer – Expenses of the Corporate Treasurer charged directly to Wexpro consist primarily of what are described as "bank/financial services" or just "financial services." Direct charges to Wexpro from this corporate function were insignificant prior to 2013. It is likely that most Corporate Treasurer expenses charged to Wexpro during the audit period were allocated through the Distrigas formula.
- Other Administration Expenses – Expenses directly incurred by Wexpro include telephone, communications, utilities, and "miscellaneous" expenses.[41] Expenses charged to Wexpro by Questar Corporation include labor, labor-related expenses, and office overheads, primarily from Questar Corporation's Land and Leasing (cost center 8015), Government Affairs (cost center 8008), Vice President & Secretary (cost center 8020), and "Customer Service" (cost center Q-1451) departments.

Engineering and Operations

Most of the G&A expenses in this category consist of support for Wexpro's drilling and production operations in the field. Wexpro's Engineering and Operations G&A expenses were incurred primarily by Wexpro rather than charged by Questar Corporation's shared services departments (the reverse of the Administration G&A category discussed above). During the audit period, they increased at an average annual rate of 11.6%. The expenses are summarized by detailed function in the following table.

[38] Response to data request 2.27.
[39] Response to data request 8.03g.
[40] Responses to data request 8.03a, b, f & g. [redacted] per square foot calculated as follows: Monthly office space rental in 2014 averaged appx. $80,000 (per accounting detail provided in response to request 8.01, Attachment), divided by [redacted] square feet occupied (per response to 8.03-f) - [redacted] per s.f.
[41] Although classified by Overland as "other," some of these costs might be better classified in the Administration category of Office Space and Services.

Table 2-24 – Wexpro G&A Expense – Engineering & Operations

Wexpro G&A Expense - Engineering & Operations Amounts in $000s											
Detailed Function	**Source**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Drilling	Wexpro	183	268	533	583	627	822	1,080	1,126	727	557
	Questar Corp.	(0)	-	-	1	2	2	-	-	0	-
Field Operations	Wexpro	276	302	355	330	416	369	387	362	999	1,055
	Questar Corp.	(0)	1	(0)	-	-	1	16	9	9	7
Operations Manager	Wexpro	338	319	411	450	462	726	1,186	1,009	775	597
	Questar Corp.	-	-	(0)	(1)	-	-	8	17	-	45
Production Development	Wexpro	696	684	919	833	910	1,588	2,310	2,584	2,681	2,037
	Questar Corp.	0	-	(0)	(2)	-	-	31	59	2	10
Production Engineering	Wexpro	337	398	125	21	1	27	235	420	736	1,042
	Questar Corp.	-	-	-	-	-	25	-	-	-	-
QST Employee Services, Inc. (Market Resources)	Wexpro	-	-	-	-	-	-	-	-	-	-
	Questar Corp.	258	682	1,467	2,334	2,938	1,885	-	-	-	-
Regulatory Affairs	Wexpro	118	125	132	114	122	172	193	128	499	573
	Questar Corp.	-	0	-	(0)	-	-	-	-	-	-
Other	Wexpro	22	23	30	44	3	5	23	85	65	64
	Questar Corp.	2	1	1	0	1	2	0	4	-	-
Total Engineering & Ops G&A Expense		$ 2,229	$2,802	$3,974	$4,709	$5,481	$5,622	$5,469	$5,802	$6,493	$5,987
Source: Response to data request 8.01, Attachment, and Overland analysis using accounting detail from responses to data requests 8.01 and 9.01. Before allocation between OSF well categories, oil revenue sharing and non-commercial wells											

- Drilling – This consists of the labor, labor-related, and office overhead expenses for the three employees of Wexpro's Drilling department (Manager, Superintendent, and Foreman, cost center 8610). 95% of the $6.3 million in audit period expense is labor and labor-related expense. According to organizational data supplied by Wexpro, the department had three positions throughout the audit period. As such, it is likely that significant variances from year to year in the amounts charged to G&A expense (as low as $183,000 and as high as $1,126,000) are due, at least in part, to the proportions of total department cost assigned to capital and expense. It is likely that in the years with relatively low levels of G&A expense, a higher share of the cost was capitalized based on drilling activities during those years.
- Field Operations – G&A for this function includes labor, labor-related, and office overhead expenses for Production Foreman and District Manager positions in Wexpro's Field Operations departments (cost centers 8771 through 8793). The quadrupling of G&A expense in this function is likely due to multiple factors, including:
    - Increases in employee compensation,
    - Changes in the split of expenses between O&M and G&A (depending on how the employees coded their time),
    - An increase in the number of Foreman and District Manager positions charging G&A expense.[42]

[42] Accounting detail for 2014 shows labor costs for seven different cost centers (foremen and a District Manager), while the accounting detail for 2005 shows labor costs for only five cost centers (four foremen and one "Bruff area.") At the end of 2005, Wexpro had 53 employees in Field Operations cost centers. At the end of 2014, it had 75 employees in Field Operations cost centers.

- Operations Manager – Accounting detail shows that this function includes the G&A labor, labor-related, and office overhead expenses of Wexpro's Manager of Operations department (cost center 8750). This department had two positions at the end of 2005 and the end of 2014. There was significant variability in the amounts this department charged to G&A expense. Some of this may be due to shifts in the way employee time was coded (for example, between G&A and O&M). Some of it may also reflect the fact that employees other than the two shown as working in this cost center may have charged their time to the cost center.[43]
- Production Development – G&A expense for this function includes the labor, labor-related, and office overheads associated with Wexpro's Geology Engineering department (cost center 8620). 87% of the G&A expense recorded during the audit period was labor or labor-related. In 2005, the cost center had four employees and recorded $225,000 in labor and labor-related expense. In 2014, the cost center had 13 employees and recorded $1.8 million in labor and labor-related expense. The increase in G&A expense during the audit period is likely due to the following three factors:
    - The relative percentages of time in each year Geology Engineering employees were working on production development projects that were capitalized,
    - Increases in the number of Geology Engineering employees (from four to 13 employees between 2005 and 2014).
    - Changes (primarily increases over time) in compensation levels.
- Production Engineering – G&A for this function includes the labor, labor-related, office overhead, and consulting engineering expenses of Wexpro's Completion and Production Engineering department (cost centers 8615 and 9062). 95% of the G&A expense is labor or labor-related. This department had two employees and recorded $337,000 in labor and labor-related G&A expense in 2005. It had five employees and recorded $1,024,000 in labor and labor-related G&A expense in 2014. Factors explaining the increase in G&A during the audit period are likely the same as those for the Production Development function discussed above.
- QST Employee Services (Market Resources) – This function includes the labor and labor-related expenses and reimbursed employee expenses, charged to Wexpro for services provided by Questar Market Resources prior to its 2010 spinoff by Questar.[44] The factors created the variability in this expense from year to year are unclear, as this function reflects an affiliate transaction and cannot be analyzed in terms of Wexpro's organization or accounting data in the same way as some of the other Engineering and Operations functions discussed above.

[43] Although we cannot be certain, it appears the variability in Operations Manager G&A expense is partly a function of the number of positions whose labor was charged to cost center 8750 (notwithstanding the fact that organizational data shows the same two positions for the entire audit period). For example, in 2005, when the total amount of G&A expense was $338,000, the only labor-related G&A expense were some employee benefits overheads. It is likely that the two employees in this cost center charged their salaries to O&M expense in 2005. In contrast, in 2011, when G&A expenses peaked at $1,186,000, labor and labor-related G&A expenses totaled $1,175,000, with salaries alone totaling $626,000. Unless the base salaries for the Operations Manager and District Manager averaged over $310,000 each, and unless they charged only G&A expense in 2011, it appears that some of the expense categorized as labor, at least in 2011, includes expense relating to positions other than just the two employees assigned to the cost center according to Wexpro's organizational data.

[44] Although we have identified the expenses for this function with Questar in the table above, they may have been billed to Wexpro by Questar Market Resources rather than Questar Corp.

- Regulatory Affairs – This function includes G&A expenses associated with Wexpro's Regulatory Affairs and Administration department (cost center 8690). G&A in this function includes labor and labor-related expense and office overheads. 90% of the expense recorded during the audit period was labor or labor-related. The department had six employees at the end of 2005 and six employees at the end of 2014. Office overheads consist primarily of charges for computer software, most of which was recorded in 2013. G&A labor and labor-related expense averaged just $129,000 per year for an average of five employees during the years 2005 through 2012. In 2013 and 2014, labor and labor-related expenses averaged $462,000 per year for six employees. Given that this department appears to be responsible for what is primarily an administrative function, it is unclear why the labor costs recorded for the years 2005 through 2012 were so low, although it is possible that employees in the department charged both capital and expense or charged affiliates other than Wexpro, such as other operations within Questar Market Resources.
- Other Engineering and Operations G&A Expenses – G&A expenses that don't fit into the functions discussed above include labor, labor-related, and outside services expenses associated SCADA and Automation (cost center 8320) and the General Manager – Denver Exploration & Production (cost center 8800).

Executive Management

Executive Management G&A consists primarily of the expenses of Wexpro's executive positions. It also includes supplemental executive retirement pay (SERP) expense for these executives, which is assigned at an organizational, rather than a cost-center level, and it includes expense from Questar Corporation's President & CEO's cost center directly charged to Wexpro. Based on our analysis of general ledger detail, it appears that the key reasons for the increase during the audit period in G&A expense in this category include: 1) an increase in the amount of compensation paid to Wexpro's top executive (General Manager prior to 2013, and EVP/COO since 2013), and 2) the addition of Wexpro VP Administrative department and its 12 employees (including the VP Administration) to Wexpro's organization in 2013.

Table 2-25 – Wexpro G&A Expense – Executive Management

Wexpro G&A Expense - Executive Management Amounts in $000s											
Detailed Function	**Source**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Executive Supplemental Retirement Expense	Wexpro	-	37	125	157	133	203	115	168	242	159
	Questar Corp.	-	-	-	-	-	-	-	-	-	-
Questar President & CEO	Wexpro	-	-	-	-	-	-	-	-	-	-
	Questar Corp.	38	27	23	140	73	46	44	39	80	625
Questar / Wexpro VP Administration	Wexpro	3	2	7	2	1	127	161	(3)	1,332	1,839
	Questar Corp.	39	33	18	38	59	40	-	-	(1)	58
Wexpro EVP & COO	Wexpro	-	-	-	-	-	-	-	-	2,194	3,001
	Questar Corp.	-	-	-	-	-	-	-	-	38	44
Wexpro General Manager	Wexpro	369	594	558	668	791	877	877	1,254	0	-
	Questar Corp.	0	-	5	(1)	-	-	-	-	-	-
Total Executive Management G&A		$450	$693	$736	$1,004	$1,057	$1,294	$1,197	$1,459	$3,885	$5,726
Source: Response to data request 8-01, Attachment, and Overland analysis using accounting detail from responses to data requests 8-01 and 9- Before allocation between OSF well categories, oil revenue sharing and non-commercial wells											

- Executive Supplemental Retirement Expense – This consists of Supplemental Employee Retirement Expense (SERP) assigned at an organizational, rather than a cost-center level. It appears to be attributable to Wexpro's executives.[45] For the period 2005 through 2012, Wexpro SERP expense was $938,000 (average $117,250 per year), most likely associated with one executive – the General Manager – Wexpro. For the years 2013 and 2014, SERP expense was $401,000 (average $200,500 per year). This expense was probably attributable to two Wexpro executives – the Wexpro Executive Vice President & COO and the Wexpro Vice President – Administration. The cost centers associated with both of these are discussed below.
- Questar President & CEO – This G&A expense consists of what appears to be direct charges to Wexpro from Questar's President and CEO (cost center 8000). Of the $1.1 million charged during the audit period, approximately two-thirds is labor and labor-related expense. The remaining one-third consists of a variety of non-labor charges, including insurance, communications, computer hardware & software, and contract services. Over half the total expense for the audit period was charged in 2014. The nature of the 2014 expenses is different than the other nine years. Whereas most of the expenses in the years 2005-2013 are labor and labor overheads, the 2014 charges include a variety of non-labor expense and a management incentive plan accrual that does not appear to relate to 2014 salary and payroll overhead charges, which raises questions about why the expenses emanate from the President – CEO's cost center. These 2014 expenses are summarized below.

[45] SERP usually consists of expenses for "non-qualified" company contributions to retirement plans for executives. The contributions are over and above what is typically permitted under an ERISA "qualified" plan, and are normally not deductible for tax purposes.

Table 2-26 – Questar President – CEO Direct Charges

Questar President -CEO Direct Charges to Wexpro - 2014	
Expense Type	**Amount**
Salaries and Payroll Overheads	$ 18,691
Management Incentive Plan Accrual	208,149
SERP	25,724
Insurance	108,609
Communication Expense	98,485
Computer Hardware & Software	49,583
Contract Services	55,729
Other Expenses	59,947
Total	$ 624,919
Source: Data response 8.01, Attachment	

- Questar/Wexpro VP – Administration – G&A expense in this function consist of two parts: Prior to 2013, the expenses included the labor, labor related, and office overheads directly charged to Wexpro from the corporate level by the Vice President of Administration (cost center 8300). 97% of the $526,000 charged to Wexpro during this eight-year period was labor or labor-related expense. After 2012, the cost center is renamed Wexpro Administration and its 12 employees appear to have moved from Questar Corporation to Wexpro.[46] The total expense directly incurred by Wexpro rose substantially, from an average of $66,000 annually (prior to 2013) to an average of $2.6 million annually for 2013 and 2014. Over 90% of the $3.2 million incurred by Wexpro in 2013 and 2014 appears to be labor and labor-related expense for cost center 8300's 12 employees. The remaining non-labor expenses consisted primarily of contract services, computer software, employee travel expense, and employee training.
- Wexpro EVP & COO – This cost center (8005) replaced the Wexpro General Manager cost center in 2013. It currently includes two employees: the EVP – COO and an Administrative Assistant. Salary, incentive compensation (including share-based compensation), and labor overheads for 2013 and 2014 total $5.1 million. Non-labor expenses during this period totaled $148,000 and consisted primarily of pass-through of employee expenses, contract and legal services, and directly-incurred and corporate-allocated office supplies. The table below summarizes these expenses for 2013 and 2014. The most significant component of expense for the EVP – COO was stock-based incentive compensation. It was attached only to cost center 8005. It composed 4.5% of Wexpro's total G&A expense in 2012 and 7.0% of Wexpro's total G&A expense in 2013.[47] The stock compensation may be associated with more than just the EVP-COO position.[48]

[46] Response to data request 9.01, Attachment.

[47] Prior to 2013, share-based compensation was assigned at the Wexpro organizational level, and not to the specific cost-center 8005. However, it is likely that the majority of stock-based compensation, which averaged $1.5 million per year for the years 2005-2012, was nevertheless attributable primarily to the EVP-General Manager, cost center 8005, during these years.

Table 2-27 – Wexpro EVP – COO Cost Center 8005 2013-2014 G&A Expenses

Wexpro EVP-COO Cost Center 8005 2013-2014 G&A Expense		
Cost Type	**2013**	**2014**
Labor	$ 486,809	$ 466,474
Labor Overheads	312,217	241,913
Cash Incentive Comp	97,975	106,088
Stock Incentive Comp	1,267,237	2,150,277
Employee Expenses	10,051	9,581
Other	58,272	70,280
Total	$ 2,232,562	$ 3,044,613
Source: Data response 8.01, Attachment		

Wexpro EVP – General Manager – Prior to the creation of the EVP – COO position, Wexpro's top management position was the EVP – General Manager (also cost center 8005). Prior to 2013, cost center 8005 included as many as five positions: the EVP – General Manager, an Administrative Assistant, the Director of Administration, the Director of Joint Operations and Regulation, and a Planning and Development Analyst. In 2013, the Director and Analyst positions were moved to cost center 8300, and two of its employees appear to have been promoted (to VP Administration and to General Manager of Business Development).

G&A Expenses Unclassified as to Function or Department

This category includes G&A expenses that were assigned at the Wexpro company level (primarily cost center 8011 or special centers designated for Wexpro corporate allocations). We could not classify these expenses into the functional G&A categories discussed above because they were not assigned to departmental cost centers (at least not in the general ledger detail provided to Overland). The primary G&A expenses in this category include corporate allocations and corporate direct charges to Wexpro that were not further assigned to the departmental cost center level. Other unclassified G&A expenses include incentive compensation (primarily stock-based compensation), bank and financial services, other outside services, and contributions (donations).[49] The following table summarizes Wexpro's functionally unassigned G&A expenses.

[48] Although the general ledger detail provided in response to data request 8.01 shows the EVP-COO's cost center charged with $3.4 million in stock compensation for 2013 and 2014, compensation data provided in response to data request 9.02 shows a total of $2.5 in stock-based compensation charged to the EVP-COO for these years.

[49] Contributions were not necessarily significant in terms of amount. They are discussed as a separate category because when a utility or a cost pass-through operation such as Wexpro charges donations through rates or cost-based billings, it is the customer, rather than the company, that actually makes the donation. For this reason, contributions are normally excluded from revenue requirements when establishing utility rates.

Table 2-28 – Wexpro G&A Expense Not Classifiable by Function or Department

Wexpro G&A Expense Not Classifiable by Function or Department Amounts in $000s											
Detailed Function	**Source**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Bank & Financial Services	Wexpro	91	91	241	213	323	171	7	7	7	7
Contributions	Wexpro	1	1	41	67	249	172	1	25	0	-
Corporate Allocations	Questar	2,887	2,399	2,887	1,848	2,855	5,146	7,111	7,175	8,292	9,927
Direct Corporate Charges	Questar	247	183	37	24	24	188	1,412	1,716	0	-
Incentive Compensation	Wexpro	187	629	1,237	766	1,984	2,410	2,450	2,428	747	580
	Questar	-	64	112	457	590	242	-	-	-	-
Outside Services	Wexpro	8	59	231	393	348	284	446	285	0	-
Other	Wexpro	84	169	288	242	314	602	126	440	146	457
	Questar	(38)	26	104	(18)	(90)	5	(249)	168	(50)	213
Total G&A Expense Unclassified by Function		$3,467	$3,620	$5,180	$3,992	$6,597	$9,221	$11,302	$12,244	$9,142	$11,183
Source: Response to data request 8-01, Attachment, and Overland analysis using accounting detail from responses to data requests 8-01 and 9-01. Before allocation between OSF well categories, oil revenue sharing and non-commercial wells											

- Bank and Financial Services – These expenses consist of amounts charged to accounts such as "GA Bank Service Charge," "G&A Bank/Financial Services," or "G&A Financial Services." Prior to 2011 they were assigned at the Wexpro company level. After 2010 they were assigned at the departmental level, primarily to the Legal and Treasurer functions.
- Contributions – This includes amounts charged to accounts "G&A Contributions" or "GA Contributions Donation." Wexpro recorded $640,000 in G&A contributions/donations expenses over the 10-year audit period. The table above reflects $557,000 that was not assigned at the departmental level. An additional $83,000 (above what is shown in the table) was incurred and assigned to Wexpro functions and cost centers, including the VP Administration, the Development Operations cost center, the Wexpro EVP – COO and Wexpro EVP – General Manager cost centers, and Questar Corporation's President & CEO cost center.
- Corporate Allocations – This is the largest single component of Wexpro's G&A expense, totaling $50.5 million over the 10-year audit period. It consists primarily (and perhaps entirely) of Questar Corporation's Distrigas formula allocations to Wexpro. Distrigas allocations do not appear to be assigned beyond the Wexpro Company-level to Wexpro departments.[50] The Distrigas formula distributes certain corporate costs among Questar subsidiaries based on three measures of relative subsidiary size: subsidiary revenues, gross payroll, and "general plant." Wexpro's overall share of allocations more than doubled during the audit period, from 9.4% in 2005 to 23.5% in 2014.[51] Most of the increase occurred with the spin-off of Questar Market Resources in 2010. As a result of the spin-off, Wexpro's share of Distrigas costs increased from 8.8% to 21.5% within the year 2010.[52] The Distrigas formula and other corporate allocation issues are discussed in more detail below.

[50] Depending on the year, they were assigned to cost center 8011 – Company Organization Budget, cost center "Allocus" – Allocation Distrigas QMR Companies, cost center Q-8011 - Company Organization Distrigas Allocation or Q-8012 – Distrigas Allocation HR Allocation.

[51] Response to data request 2.08.

[52] Response to data request 2.08.

- Direct Corporate Charges – Unclassified direct corporate charges consist primarily of labor and labor overheads charged by Questar Corporation prior to 2013. This category also includes corporate director fees and corporate data processing charges, both primarily in 2005 and 2006.
- Incentive Compensation – Unclassified incentive compensation consists of G&A expenses of the management incentive plan, employee incentive plan, and executive stock compensation plan. A majority of incentive compensation consists of stock-based compensation which Wexpro has not identified with recipient cost centers. The remainder is associated primarily with the management incentive plan. Incentive compensation is discussed more extensively in the section below covering Wexpro's employee compensation.
- Outside Services – This includes various outside services charged at the Wexpro Company level rather than to specific departments in the years immediately after the QMR spin-off. It also includes amounts charged primarily to "G&A Other Contract Services," "G&A Professional Services," and "Temporary Help" accounts. Of the $2.1 million incurred during the audit period, $1.54 million consisted of what the general ledger detail describes "G&A professional services", and most of the remainder consisted of "G&A other contracted services." Whatever the services were, it appears that they were assigned to specific departmental cost centers after 2012.
- Other Unclassified G&A Expenses – These expenses consist primarily of Company-level assigned "structure" and office rent, office supplies, employee training not assigned to departments, expense assigned to "QET," and a minor amount of dues and memberships charged to cost center Q-0066.

Corporate Allocations and Shared Services

Discussions with Wexpro employees indicate that there are at least three ways in which costs from Questar Corporation can be charged to Wexpro:

1. Corporate employees can directly charge time to Wexpro (or, presumably, any other Questar subsidiary). The labor and labor-related costs associated with this time is charged to Wexpro.
2. Expenses of corporate departments can be allocated based on measures of activity. For example, rent and services associated with Questar's corporate headquarters is allocated based on space occupied, while costs sourced from the corporate Human Resources department are allocated based on the number of employees.
3. The costs of certain corporate functions that are not directly charged can be allocated based on relative subsidiary "size" using the Distrigas formula (equally weighted ratios of subsidiary revenue, "general plant," and payroll).

The DPU requested a breakout of affiliate and corporate charges in data requests. The data provided in these responses is summarized below.

Table 2-29 – Total and OSF G&A Corporate Charges, Shared Services & Affiliate Labor Per Wexpro

Total and OSF G&A Corporate Charges, Shared Services & Affiliate Labor Per Wexpro Amts. In $000s											
Category	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Avg. Increase
Per Responses to DRs 2.19 & 2.20											
G&A Corporate Charges	2,538	2,276	2,363	2,032	2,544	5,083	9,610	12,461	N/A	N/A	
G&A Shared Svcs. & Affil. Labor	2,516	2,995	4,799	3,986	5,377	4,275	1,404	862	N/A	N/A	
Total Corporate & Affiliate G&A	$5,054	$5,271	$7,162	$6,018	$7,921	$9,358	$11,014	$13,323	-		-
Per Responses to DRs 1.09 & 1.27											
Total Shared Svcs & Affil. Labor Portion of G&A	$5,054	$5,271	$7,162	$6,019	$7,921	$9,358	$11,014	$13,323	$13,472	$14,687	12.6%
Estimated OSF Allocation %	91.65%	90.64%	90.78%	87.53%	87.90%	85.55%	85.81%	84.22%	80.85%	85.25%	
Estimated OSF Shared Svcs & Affiliate Labor G&A	$4,632	$4,778	$6,502	$5,268	$6,963	$8,006	$ 9,451	$11,221	$10,892	$12,521	11.7%
Sources: Responses to data requests 1.09, 1.27, 2.19, 2.20 N/A - Not available. These data responses were not updated in response to Overland's request 4.1											

Regarding the responses to requests 2.19 and 2.20, it seems likely that "affiliate labor" represents direct charges of employee labor to Wexpro from Questar Corporation and/or affiliates. However, the differences between "corporate charges" and "shared services" are not clear. For example, while it is likely that Distrigas allocations, discussed below, are included in "corporate charges," it is not clear whether other departmental and functional corporate allocations are part of "corporate charges" or part of "shared services."

- For the years 2005-2009, "Shared Services and Affiliate Labor" from responses to requests 1.09 and 1.27 equals "Corporate Charges" and "Shared Services and Affiliate Labor" from responses to requests 2.19 and 2.20. As such, it should be assumed that the data from 1.09 and 1.27 also includes "corporate charges."
- Although the corporate and affiliate portion of G&A expense increased significantly over the audit period, the portion included *directly* in the OSF (i.e., in the gas cost portion of the OSF) was mitigated somewhat by a decline in the percentage of G&A allocated to the OSF. However, most of the G&A expense not allocated directly to the OSF made its way into the OSF *indirectly* by being allocated to oil sharing, where it served to reduce the amount of oil proceeds sharable with customers. Thus, the decreasing share of G&A expenses allocated directly to the OSF's gas production cost over time is not very meaningful.

The Distrigas Allocation Formula

Overland submitted several detailed requests in an effort to obtain data to understand and test the reasonableness of the corporate allocation process and the Wexpro G&A expenses that result from it. The information we received was very limited. Based on discussions with Wexpro employees, it is our understanding that, through most of the audit period, the primary means through which costs were distributed from Questar Corporation to Wexpro was the Distrigas formula. Given that corporate allocations make up a significant percentage of Wexpro's administrative and general costs, that the Distrigas formula represents a significant share of corporate cost distributions, and that Wexpro's

percentage share of the formula more than doubled after the spinoff of QEP, we focused our analysis on the formula and its components.

The Distrigas formula distributes corporate expenses based on an equally-weighted composite of the following:

- Relative subsidiary "general" plant
- Relative subsidiary revenue
- Relative subsidiary payroll

With the limited data we received, it was not possible to document the types and amounts of corporate costs going into the Distrigas cost pool prior to allocation. The data Wexpro provided for the calculation of the formula itself was limited to the plant, revenue, and payroll inputs for *Wexpro's* allocation percentages and for Questar in total.[53] The formula's plant, revenue, and payroll inputs were not provided for subsidiaries other than Wexpro, nor were the source documents supporting the inputs provided for any of Questar's subsidiaries. Without this information, the only meaningful analysis we were able to perform was to compare Wexpro's Distrigas percentages to its relative percentages using similar inputs derived from financial and employee data in Questar's publicly-available Form 10Ks. We compared Wexpro's Distrigas percentages to percentages developed from data in the 10Ks for each individual component of the formula.

Size-based allocators that do not link allocable costs with cost objectives based on cost-causation are inherently arbitrary. In the case of the Distrigas formula, the component selection (general plant, revenue, and payroll) is arbitrary and the methods used to calculate the components, to the extent there may be multiple definitions or permutations to choose from, may involve arbitrary choices or adjustments. Arbitrary does not necessarily mean unreasonable or unfair. However, because they are based on selections among the various measures of size that could be used and because the definitions of size can vary from one cost objective to another, allocators like Distrigas can be more easily designed to achieve desired results than allocators that link costs more directly with cost objectives based on causation. Further, it should be noted that of the three current cost objectives for Questar's corporate expenses (QGC, Questar Pipeline, and Wexpro), the only one in which corporate costs can be directly and nearly completely recovered by being passed on to others through billings is Wexpro.[54] This provides a built-in incentive to maximize the amount of corporate expense allocated to Wexpro, and to design allocators that distribute costs to Wexpro at the upper end of a range of arguable reasonableness.

[53] Distrigas formula inputs for subsidiaries other than Wexpro were not provided.

[54] For example, even though its cost-based rates contain Distrigas allocations, QGC cannot directly pass along corporate cost allocations to its customers as they are incurred. As costs charged by Questar Corporation increase, QGC may go for years with an earlier, lower level of corporate allocations built into its rates. Increased corporate allocations charged between rate cases that are not built into existing rates are "lost," in that they are generally not recoverable from customers absent a rate case with a test year that includes them. Shareholders bear these costs. Wexpro, on the other hand, can immediately pass on nearly all of its Questar Corporation direct and allocated charges, either directly through OSF gas costs, or indirectly through offsets to shareable OSF oil revenues.

Plant Component of Distrigas

The Distrigas formula's plant component is based on what is titled "general" plant. Overland does not know what constitutes general plant for purposes of Distrigas or why this particular slice of plant was used to construct an allocator instead of a broader measure of invested capital. The closest measure available for comparison in Questar's audited financial statements, which also happens to be a more complete measure of capital investment, is total net plant. The table below compares the general plant component of Wexpro's Distrigas allocator with relative levels of subsidiary net plant. It shows Wexpro's percentage of general plant was roughly comparable to or a little lower than its net plant percentage until the spin-off of Questar Market Resources. Since the spin-off, Wexpro's general plant percentages have exceeded its net plant percentages.[55]

Table 2-30 – Comparison of Wexpro's Distrigas Plant Allocation Percentages with Percentages Based on Data from Audited Forms 10K

Comparison of Wexpro's Distrigas Allocation Percentages with Percentages Based On Data From Audited Forms 10K $ Amounts in 000s										
Plant Component of Distrigas		2007	2008	2009	2010 Pre Spin-Off	2010 Post Spin-Off	2011	2012	2013	2014
Distrigas Gen'l Plant Pct. Per Wexpro	Wexpro General Plant	$ 658.6	$ 766.1	$ 911.5	$1,022.5	$1,022.5	$1,109.1	$1,253.6	$1,397.6	$1,519.6
	Total Questar General Plant	6,402.1	7,728.1	10,214.1	11,513.0	4,334.2	4,637.8	4,999.8	5,307.4	5,660.7
	Wexpro G.Plant Distrigas Pct	10.29%	9.91%	8.92%	8.88%	23.59%	23.91%	25.07%	26.33%	26.84%
Net Plant Pct. Per Form 10K, Year End Prior to Allocation	Wexpro Cost of Svc Net Plant	$ 536.6	$ 593.9	$ 621.3	$ 654.3	$ 654.3	$ 695.8	$ 706.4	$ 780.4	$ 831.0
	Total Questar Net Plant	4,091.4	5,098.6	7,133.0	7,804.9	2,884.6	2,884.6	3,098.4	3,317.0	3,603.0
	Wexpro Pct. Of Net Plant	13.12%	11.65%	8.71%	8.38%	22.68%	24.12%	22.80%	23.53%	23.06%
Source: 2006-2014 Questar & Wexpro SEC Forms 10K and responses to data requests 2.21, 5.03 & 7.06, Attachment 2.										

Revenue Component of Distrigas

We do not know how Questar calculated the percentages for the revenue component of the Distrigas allocation. However, it appears that while revenue was used for Wexpro, margin was used in place of revenue for QGC, the Questar subsidiary with the largest amount of revenue. Our comparison test of the revenue component of Wexpro's Distrigas allocation is based on Wexpro's revenue as a percentage of Questar's total consolidated revenue. The two calculations are shown below.

[55] Net plant for a given year's allocator is based on the financial statement balance at the end of the prior calendar year. This is the balance that would have been available for use in the allocation calculation.

Table 2-31 – Comparison of Wexpro's Distrigas Revenue Allocation Percentages with Percentages Based on Data from Audited Forms 10K

Comparison of Wexpro's Distrigas Allocation Percentages with Percentages Based On Data From Audited Forms 10K $ Amounts in 000s										
Revenue Component of Distrigas		2007	2008	2009	2010 Pre Spin-Off	2010 Post Spin-Off	2011	2012	2013	2014
Distrigas Revenue Pct. Per Wexpro	Wexpro Revenue	$ 170.2	$ 177.3	$ 241.0	$ 242.9	$ 242.9	$ 264.8	$ 285.1	$ 310.2	$ 349.2
	Total Questar Revenue	1,575.0	1,786.2	2,421.4	2,275.5	778.2	841.0	882.4	915.2	995.9
	Wexpro Revenue Distrigas Pct.	10.81%	9.93%	9.95%	10.67%	31.21%	31.49%	32.31%	33.89%	35.06%
Revenue Pct. Per Form 10K Year Prior to Allocation	Wexpro Cost of Svc Revenue	$ 148.6	$ 153.6	$ 210.1	$ 224.9	$ 224.9	$ 239.5	$ 253.5	$ 273.0	$ 294.0
	Other E&P Revenue	1,687.2	802.4	1,182.0	1,042.4	25.3	25.3	31.6	37.2	39.9
	Questar Gas Mgt. Revenue	183.9	206.3	290.2	264.6	-	-	-	-	-
	Questar Gas Co. Revenue (Excluding Wexpro COS Rev.)	916.0	778.9	790.2	694.1	694.1	663.4	715.3	589.2	691.8
	Questar Pipeline Revenue	197.5	205.9	248.6	245.4	271.1	271.2	271.8	277.5	266.2
	Questar Consolidated Revenue	$2,835.6	$2,726.6	$3,465.1	$3,038.0	$1,123.6	$1,123.6	$1,194.4	$1,098.9	$1,220.0
	Wexpro COS Pct. Of Consol. Rev.	5.24%	5.63%	6.06%	7.40%	20.02%	21.32%	21.22%	24.84%	24.10%
Source: 2006-2014 Questar & Wexpro SEC Forms 10K and responses to data requests 2.21, 5.03 & 7.06, Attachment 2.										

Wexpro's revenue percentages in the Distrigas calculation are between 4% and 12% of *total* revenue higher than its revenue percentages of Questar's consolidated revenue (corporate revenue after intercompany eliminations), and Wexpro's revenue allocation percentages under Distrigas are as much as double what they would be if the allocator were based on its share of consolidated revenue. This is probably because the Distrigas calculation substitutes margin for revenue in calculating QGC's share of the revenue component, but uses *all* recorded revenue in calculating Wexpro's share of the allocator.[56]

Payroll Component of Distrigas

Wexpro comprises a relatively small share of Questar's total payroll, primarily because much of the Company's payroll expense is incurred by QGC, which has more than half of Questar's total employees. We do not know how Questar calculated the payroll inputs to the Distrigas calculation or what components of compensation are included in payroll (salaries, incentive compensation, etc.) Without source document support for the Distrigas inputs, we could not examine Questar's calculation of the payroll component directly. Instead, we compared Wexpro's share of Distrigas payroll to its share of total Questar employees (excluding corporate employees). Wexpro's employee percentage is somewhat lower than its payroll percentage, most likely because its average compensation is higher than that of its affiliates. The following table summarizes the Wexpro piece of the Distrigas payroll calculation, and the comparison calculation based on Wexpro employees.

[56] While it is necessary to remove Wexpro's revenue that is also part of QGC's revenue (because it is eliminated in consolidation and would otherwise be double-counted), the Distrigas calculation appears to also remove third-party revenues that are not part of gas margin. This is the primary reason that Wexpro's share of the component is 10.8% instead of 5.2% in 2007, and 35.1% instead of 24.1% in 2014.

Table 2-32 – Comparison of Wexpro's Distrigas Payroll Allocation Percentages with Percentages Based on Data from Audited Forms 10K

Comparison of Wexpro's Distrigas Allocation Percentages with Percentages Based On Data From Audited Forms 10K $ Amounts in 000s										
Payroll Component of Distrigas		2007	2008	2009	2010 Pre Spin-Off	2010 Post Spin-Off	2011	2012	2013	2014
Distrigas Payroll Pct. Per Wexpro	Wexpro Payroll	$ 9,457	$ 11,462	$ 13,334	$ 13,912	$ 11,636	$ 16,619	$ 14,790	$ 15,651	$ 14,794
	Total Questar Payroll	156,620	178,354	203,421	207,863	120,769	117,435	112,284	115,710	118,679
	Wexpro Payroll Distrigas Pct	6.04%	6.43%	6.55%	6.69%	9.63%	14.15%	13.17%	13.53%	12.47%
Employee Pct. Per Form 10K, Year End Prior to Allocation	Wexpro EEs	107	121	131	131	140	135	138	143	139
	Mkt. Res. (Non-Wexpro) EEs	572	775	907	907	-	-	-	-	-
	Questar Gas Co. EEs	1,175	1,198	1,173	1,173	1,173	920	928	888	917
	Questar Pipeline EEs	265	283	309	309	309	321	334	340	278
	Total Questar EEs (non-Corp)	2,119	2,377	2,520	2,520	1,622	1,376	1,400	1,371	1,334
	Corp EEs	69	68	68	71	329	329	330	367	391
	Wexpro Pct. Of Non-Corp EEs	5.05%	5.09%	5.20%	5.20%	8.63%	9.81%	9.86%	10.43%	10.42%
Source: 2006-2014 Questar & Wexpro SEC Forms 10K and responses to data requests 2.21, 5.03 & 7.06, Attachment 1.										

Wexpro's Distrigas Composite Compared with Calculations Using Data from Forms 10K

The table below summarizes Wexpro's overall Distrigas allocation percentages compared with a composite allocation constructed using data from Forms 10K. It shows that Wexpro's allocations are relatively higher using the Distrigas method than a composite allocator based on net plant, revenue, and employees.

Table 2-33 – Comparison of Wexpro's Overall Distrigas Allocation Percentages with Percentages Based on Data from Audited Forms 10K

Comparison of Wexpro's Distrigas Allocation Percentages with Percentages Based On Data From Audited Forms 10K										
Wexpro Percentages By Component and Wtd. Avg. Composite		2007	2008	2009	2010 Pre Spin-Off	2010 Post Spin-Off	2011	2012	2013	2014
Plant Component	Per Distrigas (Gen'l Plt.)	10.29%	9.91%	8.92%	8.88%	23.59%	23.91%	25.07%	26.33%	26.84%
	Per 10K (Net Plt.)	13.12%	11.65%	8.71%	8.38%	22.68%	24.12%	22.80%	23.53%	23.06%
	Difference	-2.83%	-1.73%	0.21%	0.50%	0.91%	-0.21%	2.28%	2.81%	3.78%
Revenue Component	Per Distrigas	10.81%	9.93%	9.95%	10.67%	31.21%	31.49%	32.31%	33.89%	35.06%
	Per 10K	5.24%	5.63%	6.06%	7.40%	20.02%	21.32%	21.22%	24.84%	24.10%
	Difference	5.57%	4.29%	3.89%	3.27%	11.19%	10.18%	11.09%	9.05%	10.96%
Payroll / Employee Component	Per Distrigas (PR)	6.04%	6.43%	6.55%	6.69%	9.63%	14.15%	13.17%	13.53%	12.47%
	Per 10K (EEs)	5.05%	5.09%	5.20%	5.20%	8.63%	9.81%	9.86%	10.43%	10.42%
	Difference	0.99%	1.34%	1.36%	1.49%	1.00%	4.34%	3.31%	3.10%	2.05%
Equally-Weighted Composite	Per Distrigas	9.04%	8.76%	8.48%	8.75%	21.48%	23.19%	23.52%	24.58%	24.79%
	Per 10K	7.80%	7.46%	6.66%	6.99%	17.11%	18.42%	17.96%	19.60%	19.19%
	Difference	1.24%	1.30%	1.82%	1.75%	4.37%	4.77%	5.56%	4.98%	5.60%
Source: 2006-2014 Questar & Wexpro SEC Forms 10K and responses to data requests 2.21, 5.03 & 7.06, Attachment 1.										

Wexpro's composite share of a size-based allocation of plant, revenue, and payroll/employees is higher under the Distrigas calculation than under a comparison calculation using data from Forms 10K for the following reasons:

- Distrigas appears to exclude some third-party QGC revenue from the calculation of the Distrigas revenue component. This is the most significant reason for the overall difference between the two calculations in any given year.
- Wexpro's share of the "general" component of plant used in Distrigas is higher than its share of total net plant used in the comparison calculation.
- Wexpro's share of Questar's total subsidiary (i.e., non-corporate) employees used in the comparison calculation is lower than its share of (presumably non-corporate) payroll used in the Distrigas calculation.

Wexpro's share of Distrigas grew during the audit period, and approximately tripled after the spin-off of Questar Market Resources, for the following reasons:

- Wexpro's general plant and revenue grew much faster during the audit period than the plant and revenue (or margin) of its affiliates.
- A large percentage of Questar's plant, revenue, and payroll disappeared with the spin-off, resulting in a much smaller subsidiary base over which to spread an increasing amount of corporate G&A expenses. Specifically, the denominator in the calculations of all three Distrigas components declined significantly while the numerators were unchanged or increased, resulting in significantly higher composite allocation percentages for the Questar subsidiaries remaining after the spin-off.

Analysis of Wexpro's Employee Compensation

We reviewed Wexpro's employee compensation to determine its contribution to increases in operating expenses. Our review included an analysis of the components of compensation paid to employees and a benchmark comparison of Wexpro's salary compensation to the Effective Compensation Incorporated (ECI) Oil & Gas E&P Industry Compensation Survey. Our analysis separated employee compensation into O&M/Capital and G&A categories based on the individual positions and where their time is typically charged. The following table shows the force levels assignable to each category based on department.[57]

[57] Employees are broken between categories based on information provided in response to data request 9.02 as follows: Employees in cost center 8320 (SCADA) and all cost centers 8770 and higher (field operations) are classified as O&M / Capital; all other cost centers are G&A.

Table 2-34 – Wexpro Employees by Primary Account Category

Wexpro Employees, By Primary Account Category, End of Year			
Year	G&A	O&M / Capital	Total
2005	38	56	94
2006	40	65	105
2007	43	86	129
2008	44	83	127
2009	43	80	123
2010	54	81	135
2011	56	81	137
2012	54	87	141
2013	54	84	138
2014	61	86	147
Source: Responses to data request 9.01, Attachmt. and 9.02			

Given that employees assigned to a category may charge G&A, O&M, or capital accounts, the compensation in the tables below should be considered an approximation of the relative amounts of compensation charged to O&M/Capital and G&A expense. The following table summarizes overall compensation paid to employees during the audit period, including average compensation per employee.[58]

Table 2-35 – Wexpro Compensation Paid to Employees

Wexpro Compensation Paid to Employees $ Amts in 000s											
Item	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Avg. Annual % Increase
Total Salary	$ 5,878	$ 6,398	$ 7,585	$ 8,726	$ 8,649	$ 9,606	$10,757	$11,155	$11,981	$12,588	8.8%
Total Incentive Comp.	1,450	1,600	2,363	2,229	4,352	3,287	5,595	8,355	5,250	6,284	17.7%
Total Other Comp.	94	445	135	154	150	320	201	2,592	191	482	19.9%
Total Compensation Paid to Employees	$ 7,422	$ 8,442	$10,083	$11,109	$13,151	$13,214	$16,553	$22,103	$17,422	$19,354	11.2%
Avg. Employees (1)	*94.0*	99.5	117.0	128.0	125.0	129.0	136.0	139.0	139.5	142.5	4.7%
Amount per Employee	$ 79.0	$ 84.8	$ 86.2	$ 86.8	$ 105.2	$ 102.4	$ 121.7	$ 159.0	$ 124.9	$ 135.8	6.2%
Sources: Responses to data requests 9.01, Att. & 9.02 Att. 1. Note 1: Except 2005. 2005 reflects employees as of Dec. 31, 2005.											

Wexpro's overall 11.2% average annual increase in compensation expense during the audit period is a function of:

- An average annual 4.7% increase in employees; and,
- An average annual increase of 6.2% in total compensation per employee.

[58] It is important to note that compensation paid to employees does not include benefits, such as health insurance and employer payroll taxes, paid by the Company to third parties on behalf of employees.

Salary

Salary includes regular earnings, overtime, vacation and other paid time off (holidays, floating holidays, paid personal time and other paid leave).

Table 2-36 – Wexpro Employee Salaries

Wexpro Employee Salaries $ Amts. In 000s											
Item	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Avg. Annual % Increase
G&A Positions	$2,773	$2,951	$3,241	$3,649	$3,745	$4,296	$ 5,082	$ 5,393	$ 5,485	$ 5,964	8.9%
O&M/Capital Positions	3,105	3,447	4,345	5,077	4,904	5,310	5,675	5,762	6,496	6,623	8.8%
Total Salary	$5,878	$6,398	$7,585	$8,726	$8,649	$9,606	$10,757	$11,155	$11,981	$12,588	8.8%
Avg. Employees (1)	94.0	99.5	117.0	128.0	125.0	129.0	136.0	139.0	139.5	142.5	4.7%
Amount per Employee	$ 62.5	$ 64.3	$ 64.8	$ 68.2	$ 69.2	$ 74.5	$ 79.1	$ 80.3	$ 85.9	$ 88.3	3.9%
Sources: Responses to data requests 9.01, Att. & 9.02 Att. 1. Note 1: Except 2005. 2005 reflects employees as of Dec. 31, 2005.											

The average annual percentage increase in salaries between 2005 and 2014 was 8.9%for G&A positions, 8.8% for O&M positions, and 8.8% overall. The increase in salary compensation is more or less equally due to an increase in employees and an increase in salary per employee. Wexpro's average salary increased from approximately $62,500 in 2005 to $88,300 in 2014.

Incentive Compensation

Wexpro's incentive plans include its Annual Management Incentive Plan (AMIP), the Employee Cash Incentive Plan (ECIP), long-term cash incentive (LTCI), lump sum merit, overtime, stock based compensation, and retirement incentives. Wexpro's incentive compensation plans active as of the end of 2014 included the following:

- Employee Cash Incentive Plan (ECIP) – Wexpro employees who are regularly scheduled to work at least 20 hours per week are eligible to participate in the ECIP. Incentive pay is based on a percentage of the employee's gross earnings and is tied to Wexpro operating and financial goals.[59] Employees had the potential to earn up to 25% of their gross earnings in 2014 if maximum thresholds were reached in metrics relating to safety, costs per Mcfe, workover wells, acquisition net income growth, and stakeholder value goals. Actual payout was 22.47% of gross earnings in 2014.[60]
- Annual Management Incentive Plan (AMIP) – Only employees nominated by the CEO and approved by Questar's board of directors are eligible for the AMIP. Nine Wexpro employees were eligible to participate in this plan in 2014. Each participant has a target based on contribution level. Goals for the incentive plan are based on financial (Wexpro and Questar Inc.) and operational goals.[61] These goals include achieving safety metrics, net income

[59] Response to Data Request 3.04 Attachment 4.
[60] Response to Data Request 3.04 Attachment 5B.
[61] Response to Data Request 7.39.

levels, costs per Mcfe, workover wells analyzed metric, acquisition net income growth, and stakeholder value goals. Maximum payout is 200% of target payout. Actual payout was 144% in 2014.[62]

- Restricted Stock – This plan granted restricted stock units with a three-year vesting period, with one-third of the units vesting annually on either March 5th or September 5th based on the time of year when granted.[63] Overland requested that Wexpro provide the types or groups of employees that were eligible for awards during each year of the audit period in which restricted stock units were provided. Wexpro did not provide this information.[64]
- Performance Shares – Performance shares are granted to officers of Questar Inc. and its affiliates with a three year performance period. As of the end of 2014, the only position that receives performance shares is the Executive Vice President and Chief Operating Officer of Wexpro, the highest position in Wexpro. The payout for this plan is based on Questar's Total Shareholder Return compared to that of its peers. The maximum payout is 300% of target payout. In 2014, 40% of the target payout was made covering the 2011 through 2013 performance period.[65]

To quantify incentive compensation, we attempted to identify the earnings codes in payroll data provided by Wexpro that were most closely aligned with the plans described above.[66] These included payroll codes with the following descriptions: "AMIP," "Bonus," "Incentive Paid" "Long Term Cash Incentive," "Pre-distribution of ISO shares, No Tax," "Performance Share Distribution," "Restricted Stock," "Retirement Incentive," "RSU Dividends," "Share Plan," "Stock Option," "Stock Tax Payment," and "Stock Vested ECP."

Table 2-37 – Wexpro Incentive Compensation

Wexpro Incentive Compensation $ Amts. In 000s											
Item	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Avg. Annual % Increase
G&A Positions	$ 789	$1,019	$1,606	$1,286	$3,161	$2,123	$4,354	$7,188	$3,947	$4,879	22.4%
O&M/Capital Positions	662	581	757	943	1,191	1,164	1,241	1,167	1,303	1,405	8.7%
Total Incentive Comp.	$1,450	$1,600	$2,363	$2,229	$4,352	$3,287	$5,595	$8,355	$5,250	$6,284	17.7%
Avg. Employees (1)	94.0	99.5	117.0	128.0	125.0	129.0	136.0	139.0	139.5	142.5	4.7%
Amount per Employee	$ 15.4	$ 16.1	$ 20.2	$ 17.4	$ 34.8	$ 25.5	$ 41.1	$ 60.1	$ 37.6	$ 44.1	12.4%
Sources: Responses to data requests 9.01, Att. & 9.02 Att. 1. Note 1: Except 2005. 2005 reflects employees as of Dec. 31, 2005.											

Incentive compensation payments increased by an annual average of 12.4% per employee. Incentive compensation grew from about 20% of total compensation in 2005 to about 32% in 2014, peaking at

[62] Response to data request 3.04 Attachment 5B.
[63] Response to data request 7.39.
[64] Response to data request 9.06(A), which references Response to data request 7.39.
[65] Response to data request 7.39.
[66] It was not possible for Overland to align payroll earnings codes directly with specific incentive compensation plans.

38% in 2012. Most of the growth can be attributed to the G&A employee category, which grew at a much higher rate (over 22% annually) than O&M (at 8.7% annually). Cash incentive compensation in the G&A category grew at a much lower rate (6.6% annually) than stock-based compensation.

Stock-Based Compensation

The largest single largest component of incentive compensation, and the component responsible for most of the increase in compensation expense, is stock-based compensation. Stock-based incentive pay was awarded primarily to a relatively small group of Wexpro's management employees. Over the 10-year audit period, 89% was awarded to what appear to be 16 employees and half was awarded to the two employees who held the Executive Vice President's position, mainly in the four years from 2011 to 2014.[67] Total stock-based compensation peaked in 2012, the year in which the EVP General Manager retired. The following table summarizes stock-based incentive compensation by position. It shows a significant increase in the amounts awarded over the 10-year audit period.

Table 2-38 – Wexpro Stock-Based Compensation by Position

Wexpro Stock-Based Compensation By Position Amts in $000s											
Position	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Total**
EVP & Gen Mgr Wexpro	-	-	-	-	-	338	1,507	3,845	-	-	5,691
EVP, COO - Wexpro	-	-	-	-	1,482	-	-	-	828	1,665	3,975
V P & Gen Mgr-Wexpro	9	382	424	214	-	-	-	-	-	-	1,029
V P Administration	-	-	-	-	-	-	-	-			
VP Engineering&Geoscience	-	-	-	-	-	-	-	-			
Gen Mgr Operations Wexpro											
Dir Engineering & GeoSciences	-	-	-	-	-	-	-				
Dir Joint Opers & Reg Aff	-	-	-	-	-	-	-				
District Manager	-	-	-	-	-	-	-				
Manager Completions	-	-	-	-	-	-	-				
Manager Drilling	-	-	-	-	-	-					
Sr Engineering Tech-WEX	-	-	-	-	-	-	-				
Mgr SCADA Automation	-	-	-	-	-	-					
Ast Mgr Engineering											
Sr Petroleum Engr-QMR/WY	-	-									
Staff Dev Geologist											
All Others (Appx. 50)											
Total Stock-Based Inc. Comp.	$ 16	$ 406	$ 815	$ 393	$ 2,071	$ 1,024	$ 2,755	$ 5,687	$ 2,437	$ 3,736	$ 19,340

Source: Derived from Response to Data Request No. 9.02
Includes employee compensation in the categories Restricted Stock, RSU Dividends, Stock Option Non-Qual Reg, Stock Options Non-Qual Sup and Stock Tax Payment.

The number of employees eligible for Wexpro's restricted stock compensation plan increased from seven in 2005 to 34 in 2014. The number of restricted stock shares under this plan increased by a factor of 17 during the audit period, while the value of the restricted stock granted increased by a factor of 14. Wexpro stated that this increase was to "pay Wexpro's professional staff market compensation."[68]

[67] 8990% was awarded to 16 positions. It is possible that more than one employee held some of the positions and received stock-based compensation.

[68] Response to data request 7.39.

Wexpro also indicated that share based compensation is only associated with employees whose time is recorded to G&A cost centers.

Other Compensation

Other compensation includes a miscellaneous set of employee payments. The largest single item, comprising almost half the total for the audit period, is a 2012 FICA tax payment connected with the EVP-General Manager's Supplemental Executive Retirement Plan. Other significant categories include moving expense reimbursements, short term disability, president's award and "commute charges."

Table 2-39 – Wexpro Other Compensation Costs

Wexpro Other Compensation Costs $ Amts. In 000s											
Item	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Avg. Annual % Increase
G&A Positions	$ 21	$197	$ 33	$ 41	$ 60	$ 138	$ 100	$2,537	$ 67	$ 217	29.3%
O&M/Capital Positions	73	248	102	112	90	183	101	56	123	265	15.5%
Total Other Comp.	$ 94	$445	$ 135	$ 154	$ 150	$ 320	$ 201	$2,592	$ 191	$ 482	19.9%
Avg. Employees (1)	94.0	99.5	117.0	128.0	125.0	129.0	136.0	139.0	139.5	142.5	4.7%
Amount per Employee	$1.0	$ 4.5	$ 1.2	$ 1.2	$ 1.2	$ 2.5	$ 1.5	$ 18.7	$ 1.4	$ 3.4	14.5%
Sources: Responses to data requests 9.01, Att. & 9.02 Att. 1. Note 1: Except 2005. 2005 reflects employees as of Dec. 31, 2005.											

The average annual percentage increase in other compensation was 14.5% per employee. The table above shows a large variance in 2012. $2,342,663 of the 2012 total is associated with the EVP General Manager position and was recorded under the earning code description "Supp Exec Retire Plan – FICA."[69] [70]

Salary Benchmarking Analysis

The most important compensation study used by Wexpro in determining the salary portion of its employee compensation package is the Effective Compensation Incorporated (ECI) – Oil & Gas E&P Industry Compensation Survey. The survey contains salary data from 121 E&P companies of all types and sizes and covers 362 unique E&P positions. Wexpro uses the regional salary data from this study for non-exempt positions and national salary data for exempt positions.

Overland received the payroll data for all Wexpro employees from 2005 to 2014 in DPU 9.02 Attachment 2 and completed a process involving several steps to be able to compare the salaries for Wexpro employees to the ECI study. These steps are described below.

[69] Derived from response to data request 9.02 Attachment 2.

[70] Per email with Austin Summers on 1/4/16, he states, "There was no payment made for this amount. The amount was used to calculate 1.45% Medicare tax. The reason for this is that the Medicare rate was going to add a 0.9% tax increase on any amounts paid over $200,000. Employees who were to receive the supplemental exec retirement plan were allowed to pay the FICA tax on the full amount in advance to avoid paying the excess tax. The actual payment to the employees only comes after they have retired."

1. We segregated the 2014 payroll data.
2. We filtered the data, using the "Earn Code Descr" field to obtain the components of salary as defined by Wexpro.[71]
3. We totaled the filtered data from step 2 to obtain the total salary for each employee ID.
4. To ensure that only employees that were with Wexpro the entirety of 2014 were included in our analysis, we used DPU 9.01 Attachment 1 to compare the listing of employee IDs as of 12/31/13 and 12/31/14. Any employee IDs that did not appear as of 12/31/13 and 12/31/14 were removed from our analysis.
5. For each remaining Wexpro employee ID with a job title that matched with a job title in the ECI study, we compared the Wexpro employee's salary to the ECI study's salary (National, Regional, and 2014 Market) for that particular job title, noting the difference in amount and percentage between the employee's salary and the salary shown in the ECI study.

The tables below provide a comparison of Wexpro's salaries by position versus the National and Regional salaries contained in the ECI study.[72]

[71] Per email response from Austin Summers on 12/23/15.

[72] Each table contains a different group of position titles. Position titles may or may not appear in all of the tables and are not intended to represent all position titles at Wexpro or all of the position titles included in the ECI study. The inclusion of each position title in a table is based on the information for the Wexpro employee and the ECI study being available to make the proper comparison.

Table 2-40 – Wexpro Salary Benchmark Analysis Comparison of 2014 Wexpro Exempt Salaries to National Market Data

Wexpro Salary Benchmark Analysis Comparison of 2014 Wexpro Exempt Salaries to National Market Data				
Position Title	**Average Wexpro Salary**	**Aged National Survey Salary**	**Difference**	**% Difference**
Assoc Land Lease Analyst Average	[redacted]	[redacted]	(9,450)	-23.04%
Assoc Reservoir Eng Average	[redacted]	[redacted]	(4,727)	-4.69%
Chief Mechanic Average	[redacted]	[redacted]	(19,946)	-25.47%
Chief Operator Average	[redacted]	[redacted]	2,066	2.37%
District Manager Average	[redacted]	[redacted]	(15,444)	-10.89%
Drilling Superintendent Average	[redacted]	[redacted]	(1,821)	-1.22%
Engineering Techn Average	[redacted]	[redacted]	2,708	4.71%
Field Operator Average	[redacted]	[redacted]	(1,794)	-3.13%
Geologist Average	[redacted]	[redacted]	(3,098)	-2.63%
Land Lease Analyst Average	[redacted]	[redacted]	(3,414)	-5.79%
Mechanic 1 Average	[redacted]	[redacted]	1,824	2.50%
PLC/HMI Programmer Average	[redacted]	[redacted]	(2,657)	-3.13%
Production Analyst Average	[redacted]	[redacted]	9,749	10.52%
Production Foreman Average	[redacted]	[redacted]	1,358	1.31%
Reclamation Spec Average	[redacted]	[redacted]	669	1.08%
Spvr Regulatory Affairs Average	[redacted]	[redacted]	(5,224)	-5.80%
Sr Engineering Tech Average	[redacted]	[redacted]	2,421	3.52%
Sr Field Operator Average	[redacted]	[redacted]	(2,601)	-4.34%
Sr Geotechnician Average	[redacted]	[redacted]	(6,856)	-10.85%
Sr Permit Agent Average	[redacted]	[redacted]	1,695	2.42%
Sr PLC/HMI Programmer Average	[redacted]	[redacted]	8,896	6.71%
Sr Production Foreman Average	[redacted]	[redacted]	(13,972)	-13.23%
Sr Staff Technician Average	[redacted]	[redacted]	(1,168)	-1.34%
Sr Utilityworker Average	[redacted]	[redacted]	(2,004)	-3.85%
Grand Average	[redacted]	[redacted]	**(2,280)**	**-3.33%**
Source: Derived from Response to Data Request No. 7.14.				

Table 2-41 – Wexpro Salary Benchmark Analysis Comparison of 2014 Wexpro Non-Exempt Salaries to Regional Market Data

Wexpro Salary Benchmark Analysis Comparison of 2014 Wexpro Non-Exempt Salaries to Regional Market Data				
Position Title	Average Wexpro Salary	Aged Regional Survey Salary	Difference	% Difference
Assoc Land Lease Analyst Average	[redacted]	[redacted]	(10,171)	-24.80%
Assoc Reservoir Eng Average	[redacted]	[redacted]	(2,152)	-2.13%
Chief Mechanic Average	[redacted]	[redacted]	(14,899)	-19.02%
Chief Operator Average	[redacted]	[redacted]	521	0.55%
District Manager Average	[redacted]	[redacted]	(12,560)	-8.86%
Drilling Superintendent Average	[redacted]	[redacted]	(5,838)	-3.83%
Engineering Techn Average	[redacted]	[redacted]	(897)	-1.56%
Field Operator Average	[redacted]	[redacted]	(2,721)	-4.72%
Geologist Average	[redacted]	[redacted]	(3,716)	-3.16%
Land Lease Analyst Average	[redacted]	[redacted]	(1,251)	-2.12%
Mechanic 1 Average	[redacted]	[redacted]	1,155	1.58%
Opers Sppt Rep Average	[redacted]	[redacted]	(8,412)	-17.56%
Production Analyst Average	[redacted]	[redacted]	8,204	8.85%
Production Foreman Average	[redacted]	[redacted]	(187)	-0.21%
Spvr Regulatory Affairs Average	[redacted]	[redacted]	(5,275)	-5.86%
Sr Engineering Tech Average	[redacted]	[redacted]	876	1.27%
Sr Field Operator Average	[redacted]	[redacted]	(232)	-0.77%
Sr Geotechnician Average	[redacted]	[redacted]	(13,551)	-21.45%
Sr Production Foreman Average	[redacted]	[redacted]	(10,470)	-10.03%
Sr Staff Technician Average	[redacted]	[redacted]	(2,610)	-3.00%
Sr Utilityworker Average	[redacted]	[redacted]	(3,343)	-6.42%
Grand Average	[redacted]	[redacted]	**(2,179)**	**-3.19%**
Source: Derived from Response to Data Request No. 7.14.				

The tables show that Wexpro salaries for the positions where data was available also averaged about three percent less than the regional average for those respective positions.

Wexpro stated that the company plans to provide salary compensation to its employees with a range of 95 to 105 percent of the median based on the market.[73] Based on the comparisons for the position titles in the tables shown above, it appears that Wexpro's salaries are generally aligned with this policy.

Oil Income Sharing

Wexpro's oil byproduct is sold at market prices. According to the Wexpro I and II agreements, net oil income should be shared between Wexpro (46%) and QGC's customers (54%). The OSF should be reduced by QGC's 54% share of oil income remaining after reducing oil revenue by expenses and Wexpro's agreement-based return on investment (17% on most investment) and income tax. Oil income passed through the OSF during the audit period is summarized in the table below. Note that the $6.03 million in 2014 reflects net negative oil income (additional cost) passed through the OSF; i.e., in 2014

[73] Interview with Questar Manager of Compensation, 9/15/15.

Wexpro's agreement-entitled investment return and income tax on oil investment exceeded available oil income (revenue minus expenses).

Table 2-42 – Oil Income Sharing Amounts in the OSF

Oil Income Sharing Amounts in the OSF Amts. In $000s										
Item	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Prior Wexpro and Dev. Oil	(3,071)	(2,777)	(2,146)	(1,809)	1,593	339	(352)	(244)	(596)	1,333
Development Gas	(3,002)	(2,631)	(2,660)	(3,114)	(558)	(828)	(2,948)	(2,283)	-	(79)
Adjustments	(66)	(83)	(81)	(1,159)	(2,073)	(593)	-	-	-	(1,142)
Total Oil Revenue Sharing Line (Reduction) or Addition to the OSF	(6,139)	(5,491)	(4,887)	(6,082)	(1,038)	(1,082)	(3,300)	(2,527)	(596)	113
Add: Dev. Gas Negative Sharing (Embedded in OSF "Adjustments")				752						5,917
Total (Reduction) or Increase in the OSF From Oil Sharing	(6,139)	(5,491)	(4,887)	(5,330)	(1,038)	(1,082)	(3,300)	(2,527)	(596)	6,030
Sources: Response to data requests 1.15U (Adjustments Breakout) and 4.01 (OSF Summary)										

Revenue from oil serves to reduce OSF costs, regardless of whether it increases the OSF, as it did in 2014. For example, in 2014, had oil revenue not existed, the oil component of common, allocated expenses, plus agreement-based return and income tax on oil-allocated investment, could have added as much as $20 to $30 million to the OSF, instead of the $6 million shown above. Although oil revenue always reduces the OSF and the resulting cost-of-service gas price, the reduction becomes smaller as oil prices decline. With declining prices, at a certain point the return on oil investment that Wexpro is entitled to earn under the agreement begins to exceed oil revenue minus expenses and income tax. When this occurs, oil income available for sharing becomes a negative amount. To the extent negative oil income is passed through the OSF, it increases the OSF and cost-of-service-based price of gas, and reflects a transfer of oil price risk from Wexpro to QGC's customers.

Review of Oil Sharing and the Oil Sharing Calculation

We reviewed Wexpro's 2014 oil revenue sharing calculations in detail and tied the monthly amounts to the OSF Summary (which ties to Wexpro's billings to QGC). The monthly calculation details for 2014 are shown in Attachment 2-1. Based on details from OSF calculation packages and the OSF billing summary, this is how oil sharing was calculated and treated in the OSF in 2014:

1. Oil revenue, by well category, was placed into the monthly oil sharing calculation.
2. Oil-allocated O&M expenses, G&A expenses, production taxes and "excess gas costs" were subtracted from the revenue, yielding pre-tax oil income.[74]
3. Income tax was calculated and subtracted from pre-tax oil income, yielding net oil income.
4. Return and income tax that Wexpro is entitled to earn and collect on oil-allocated investment under the Wexpro agreement was calculated. Under the agreement, Wexpro is entitled to earn

[74] Expenses are allocated between gas and oil based on the relative market prices of oil and gas produced.

about 12% on Prior Wexpro oil investment, and about 17% on the Development Oil and Development Gas categories of oil investment.[75]

5. The agreement-based return and income tax was subtracted from net oil income.
6. When the difference for the month was positive (i.e., when net oil income exceeded the agreement-based return and income tax), 46% of the additional net oil income was retained by Wexpro, and 54% was passed through and reduced the OSF.
7. When the difference was negative (negative oil income), Wexpro's treatment of the negative amount in the OSF depended on the well category. This is explained in the discussion that follows.

Prior Wexpro and Development Oil Negative Oil Income

54% of the 2014 negative oil sharing in the Prior Wexpro and Development Oil categories totaled $1,333,313 ($295,065 for Prior Wexpro and $1,038,248 for Development Oil) and is shown in lines 58 and 59 of the monthly calculations summarized in Attachment 2-1. In 2014, these amounts were carried forward from OSF calculation packages to the OSF Summary, where they were offset with an adjustment of $1,141,969, effectively lowering the negative sharing passed through the OSF to $191,344 ($1,333,313 minus $1,141,969). Wexpro's Accounting Director explained that the adjustment was made because negative sharing is absorbed by Wexpro, and not passed on to QGC (at least for these two well categories.) However, because the $1.1 million adjustment was lower than the negative sharing of $1.33 million, it left negative oil income of $191,344 in the OSF from the Prior Wexpro and Development Oil well categories.

Development Gas Negative Oil Income

In the Development Gas well category, 2014 net oil income was positive only for the month of January. QGC's 54% share of January's positive sharing amount, $78,622, was carried forward into the oil sharing line of the 2014 OSF Summary. When combined with the net negative Prior Wexpro and Development Oil amounts and the adjustment to reverse these amounts discussed above, the overall addition to the 2014 OSF in the Oil Sharing line was $112,722 ($191,344 negative sharing minus the positive January contribution from Development Gas of $78,622). This can be seen in the oil sharing line of the OSF billing summary.

The Development Gas category produced negative oil income totaling $5,917,000 in the months February through December 2014, as shown in line 62 of Attachment 2-1. However, unlike the QGC customer share of negative oil income for the Prior Wexpro and Development Oil categories, which was largely removed from the OSF, the entire amount of Development Gas negative income (both the 54% QGC component and the 46% Wexpro component) appears to have been passed on to QGC customers as an additional OSF cost. This amount is not part of the Oil Sharing line in the OSF Summary. Instead, it is one of several components of the "Adjustments" line, which total $3,048,000 in 2014. The table below provides a breakout of the OSF Summary's Adjustments line. The addition of the total negative sharing amount associated with Development Gas oil is highlighted.

[75] Investment is allocated between oil and gas in the same manner as expenses, described above.

Table 2-43 – 2014 OSF "Adjustments" Detail

2014 OSF "Adjustments" Detail	
Item	**Amount**
Final Calc Prior Month	$ (744)
Salvage Value Depreciation	(3,395,890)
ARO Oil, Accrt & DDA	253,629
Adj Earnings, LOE, Disposition	746,488
Contract Receivable	344,725
Recalculations	(2,216,089)
Negative Sharing Adjustment	5,917,000
Trust Interest/Gains/Bank fees	7,690
Gain/Loss passthrough	1,390,846
Total Adjustments	$ 3,047,655
Source: Response to data request 1.15U.	

OSF Oil Sharing Compliance with the Wexpro Agreement

We reviewed Wexpro's OSF oil sharing calculations in light of the oil sharing provisions of the Wexpro I agreement. There are separate provisions addressing oil sharing for Prior Wexpro and Development Oil (agreement section II) and for Development Gas (agreement section III). Each is discussed separately. At the outset, it is important to note that we cannot find any provision in the Wexpro agreement or in any guideline letter that addresses the OSF treatment of negative oil income discussed above. There does not seem to be anything in the Wexpro agreements stating that negative oil income should be shared differently than positive sharing amounts. Regardless of what the Wexpro agreements provide, negative oil income passed through the OSF represents a transfer from Wexpro to QGC's customers of at least 54% of the oil price risk that remains after Wexpro has already reduced available oil income by its agreement-based return on oil investment. Inasmuch as the Wexpro agreements provide for Wexpro to be compensated for oil price risk through a 5% risk premium on development investment in oil, it would seem the agreements would not intend that this price risk be transferred to QGC's customers through the addition of negative oil income to the OSF. The issue of how negative oil income should be treated in the OSF will be of increasing importance as the continued decline in oil prices is likely to have produced much larger amounts of negative oil income in 2015, and is likely to continue to do so for the foreseeable future.

Wexpro Agreement Provisions Addressing Oil Sharing for Prior Wexpro and Development Oil Wells

The basic oil sharing provisions of the Wexpro I agreement, as they apply to the Prior Wexpro and Development Oil well categories, are included in agreement sections II-4(e) and (f) as follows:

> "(e) From the proceeds of the sale of oil and natural gas liquids (after deduction of expenses and all royalties as provided in this Article), Wexpro will deduct an amount sufficient to provide a return on that portion of the investment of Wexpro allocated to oil and natural gas liquids production. Such return will be calculated for each monthly

income statement and will be the product of one-twelfth of that portion of the investment of Wexpro allocated to oil and natural gas liquids production at the end of that month multiplied by the base rate of return (r).

(f) Any remaining Wexpro oil and natural gas liquids net revenues will be allocated as follows:

(i) 54% of such remainder will be allocated to the Company and placed by the Company in an account used solely for the purposes of reducing natural gas rates, or disposed of otherwise by Commission order.

(ii) The remaining 46% will be retained by Wexpro as its separate property and will not be considered utility income or used to reduce natural gas rates.

(iii) To account appropriately for the income tax impact on the 54% allocation set forth in subparagraph (i) above, the sum paid to the Company by Wexpro will be the 54% described in subparagraph (i) divided by a tax-adjustment factor: 1.0 minus the marginal composite income tax race, as defined in section I-38."

An illustration of the oil sharing calculation is included as Exhibit B of the agreement. We found that Wexpro's 2014 oil sharing calculations in the Prior Wexpro and Development Oil categories (summarized in Attachment 2-1) appeared to be in general compliance with the agreement provisions listed above. However, we found nothing in the Wexpro agreement that supports Wexpro's removal of negative income from the OSF, as was done with the $1,141,969 adjustment. As discussed above, the Wexpro agreement does not specifically address circumstances when Wexpro's return on oil investment exceeds available oil net income, and it does not appear to indicate that negative sharing amounts should be removed from the OSF.

Wexpro Agreement Provisions Addressing Oil Sharing for Development Gas Wells

The basic oil sharing provisions of the Wexpro I agreement, as they apply to the Development Gas well category, are included in agreement section III-9, as follows:

"III-9."New Oil" from Productive Gas Reservoirs.

(a) Oil from commercial wells completed after July 31, 1981, in productive gas reservoirs will be sold by Wexpro on behalf of the Company, and the resulting revenues will be apportioned between the Company and Wexpro as provided by the "54-46 formula."

(b) Oil produced under this section will bear a share of the productive gas reservoir's expenses and investment, determined by the product allocation method defined in section I-47.

(c) Any allocated oil investment related to post-July 1981 development gas wells (under paragraph III-4 will carry with it the entitlement to apply a 5.00% risk premium in the "54-46 formula" as specified for development oil drilling in Article II."

Wexpro's 2014 calculations of oil income sharing for Development Gas wells used the same calculation methodology as the calculations for the well categories discussed above. The calculations appear consistent with the general requirements of the Wexpro agreement, including agreement Exhibit B, which provides calculation examples. However, as with Prior Wexpro and Development Oil, we find nothing in the Wexpro I agreement supporting the amount of negative oil income (100%) carried forward into the OSF.

Attachment 2-1

Wexpro's 2014 Monthly OSF Oil Sharing Calculations, By Well Category

Cat. / Ln. #	Item	Calc.	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2014 Total
	Prior Wexpro Oil														
1	Oil Revenue		$ 279,545	$ 298,810	$ 310,115	$ 227,241	$ 337,636	$ 279,925	$ 275,615	$ 253,719	$ 273,453	$ 208,205	$ 228,665	$ 43,820	$ 3,016,749
2	Less: O&M, G&A, Depr., Production Tax, Royalty Interest Adjs.		221,663	297,285	219,696	278,304	224,626	255,860	348,089	252,338	220,904	248,306	235,862	223,371	3,026,304
3	Less: Excess Gas Costs over market		-	38,616	38,120	884	31,378	38,921	16,496	6,240	8,831	27,099	4,826	16,387	227,798
4	Less Development Oil COS Available		-								(8,831)		(4,826)		(13,657)
5	Oil Pre-Tax Operating Income	L1 - (L6.L9)	57,882	(37,091)	52,299	(51,947)	81,632	(14,856)	(88,970)	(4,859)	52,549	(67,200)	(7,197)	(195,938)	(223,696)
6	Less: Income Taxes	L5 * L57	20,954	(13,428)	18,933	(18,806)	29,552	(5,378)	(32,209)	(1,759)	19,024	(24,328)	(2,597)	(70,707)	(80,748)
7	Net Oil Income	L5 - L6	36,928	(23,663)	33,366	(33,141)	52,080	(9,478)	(56,761)	(3,100)	33,525	(42,872)	(4,600)	(125,231)	(142,948)
															-
8	Net Investment Allocated to Oil (1/12)		147,059	145,330	144,899	149,808	150,573	139,612	141,354	143,836	144,645	139,996	149,552	149,830	1,746,494
9	Allocated Deferred Tax		(42,098)	(41,991)	(41,843)	(41,855)	(41,821)	(41,820)	(41,757)	(41,855)	(41,886)	(42,031)	(42,417)	(43,060)	(504,434)
10	Oil Investment Base	L8 + L9	104,961	103,339	103,056	107,953	108,752	97,792	99,597	101,981	102,759	97,965	107,135	106,770	1,242,060
11	Agreement ROI Rate		12.20%	12.20%	12.20%	12.20%	12.20%	12.20%	12.20%	12.01%	12.01%	12.01%	12.01%	12.01%	
12	Oil Return on Investment	L10 * L11	12,805	12,607	12,573	13,170	13,268	11,931	12,151	12,248	12,341	11,766	12,867	12,823	150,550
13	Return on Enhanced Recovery		5,258	5,220	5,173	4,560	4,527	4,485	4,496	4,389	4,370	4,349	4,300	4,275	55,402
14	Total Oil & EH Return	L12 + L13	18,063	17,827	17,746	17,730	17,795	16,416	16,647	16,637	16,711	16,115	17,167	17,098	205,952
15	Net Income to Split, Wexpro & OSF	L7 - L14	18,864	(41,491)	15,620	(50,872)	34,285	(25,893)	(73,408)	(19,737)	16,814	(58,987)	(21,767)	(142,329)	(348,900)
16	Wexpro Return Share @ 46%	L15 * 46%	8,678	(19,086)	7,185	(23,401)	15,771	(11,911)	(33,768)	(9,079)	7,734	(27,134)	(10,013)	(65,471)	(160,494)
17	OSF Return Share @ 54%	L15 * 54%	10,187	(22,405)	8,435	(27,471)	18,514	(13,982)	(39,640)	(10,658)	9,080	(31,853)	(11,754)	(76,858)	(188,406)
18	Add Income Tax on OSF Return	L17 * (L57/(1-L57)	5,780	(12,714)	4,786	(15,588)	10,506	(7,934)	(22,494)	(6,048)	5,152	(18,075)	(6,636)	(43,395)	(106,659)
19	OSF Pre-tax Return	L17 + L18	15,967	(35,119)	13,221	(43,059)	29,019	(21,917)	(62,134)	(16,706)	14,232	(49,928)	(18,391)	(120,253)	(295,065)
20	Final OSF Cost Increase or (Decrease)	-L19	$ (15,967)	$ 35,119	$ (13,221)	$ 43,059	$ (29,019)	$ 21,917	$ 62,134	$ 16,706	$ (14,232)	$ 49,928	$ 18,391	$ 120,253	$ 295,065
	Development Oil														
21	Oil Revenue		$ 173,920	$ 101,385	$ 235,994	$ 271,569	$ 231,492	$ 259,009	$ 213,800	$ 231,753	$ (155,747)	$ (25,505)	$ (38,561)	$ 25,084	$ 1,524,193
22	Royalty Interest Adjs.		147,852	157,680	142,734	166,292	206,956	146,733	208,450	150,961	68,301	77,999	66,550	71,175	1,611,683
23	Excess Gas Costs over market		60,626	89,023	81,636	221,697	71,518	80,434	37,253	4,845		32,550		81,248	760,830
24	Less Development Oil COS Available		(7,599)												(7,599)
25	Oil Pre-Tax Operating Income	L21 - (L22.L24)	(26,959)	(145,318)	11,624	(116,420)	(46,982)	31,842	(31,903)	75,947	(224,048)	(136,054)	(105,111)	(127,339)	(840,721)
26	Less: Income Taxes	L25 * L57	(9,760)	(52,608)	4,208	(42,146)	(17,008)	11,527	(11,549)	27,494	(81,109)	(49,254)	(37,931)	(45,952)	(304,087)
27	Net Oil Income	L25 - L26	(17,199)	(92,710)	7,416	(74,274)	(29,974)	20,315	(20,354)	48,453	(142,939)	(86,800)	(67,180)	(81,387)	(536,634)
															-
28	Net Investment Allocated to Oil (1/12)		607,082	602,404	596,793	592,410	591,454	549,650	545,416	541,213	546,318	20,473	20,349	20,115	5,233,677
29	Allocated Deferred Tax		(133,959)	(134,324)	(133,429)	(133,087)	(133,826)	(133,295)	(133,179)	(133,194)	(136,384)	(5,589)	(362)	(124)	(1,210,752)
30	Oil Investment Base	L28 + L29	473,123	468,080	463,364	459,323	457,628	416,355	412,237	408,019	409,934	14,884	19,987	19,991	4,022,925
31	Agreement ROI Rate		17.20%	17.20%	17.20%	17.20%	17.20%	17.20%	17.20%	17.01%	17.01%	17.01%	17.01%	17.01%	
32	Oil Return on Investment	L30 * L31	81,377	80,510	79,699	79,004	78,712	71,613	70,905	69,404	69,730	2,532	3,400	3,400	690,285
33	Net Income to Split, Wexpro & OSF	L27 - L32	(98,577)	(173,220)	(72,283)	(153,278)	(108,686)	(51,298)	(91,258)	(20,951)	(212,669)	(89,332)	(70,580)	(84,787)	(1,226,918)
34	Wexpro Return Share @ 46%	L33 * 46%	(45,345)	(79,681)	(33,250)	(70,508)	(49,995)	(23,597)	(41,979)	(9,638)	(97,828)	(41,093)	(32,467)	(39,002)	(564,382)
35	OSF Return Share @ 54%	L33 * 54%	(53,231)	(93,539)	(39,033)	(82,770)	(58,690)	(27,701)	(49,280)	(11,314)	(114,841)	(48,239)	(38,113)	(45,785)	(662,536)
36	Add Income Tax on OSF Return	L35 * (L57/(1-L57)	(30,206)	(53,078)	(22,149)	(46,967)	(33,303)	(15,719)	(27,963)	(6,420)	(65,165)	(27,373)	(21,519)	(25,851)	(375,712)
37	OSF Pre-tax Return	L35 + L36	(83,437)	(146,617)	(61,181)	(129,737)	(91,994)	(43,420)	(77,243)	(17,733)	(180,006)	(75,612)	(59,632)	(71,636)	(1,038,248)
38	Final OSF Cost Increase or (Decrease)	-L37	$ 83,437	$ 146,617	$ 61,181	$ 129,737	$ 91,994	$ 43,420	$ 77,243	$ 17,733	$ 180,006	$ 75,612	$ 59,632	$ 71,636	$ 1,038,248
	Development Gas														
39	Oil Revenue		$ 2,971,833	$ 2,696,362	$ 2,416,627	$ 2,097,070	$ 2,352,081	$ 2,382,495	$ 2,338,327	$ 2,009,696	$ 1,849,011	$ 1,477,621	$ 1,450,216	$ 1,049,928	$ 25,091,267
40	Royalty Interest Adjs.		1,141,440	1,067,148	990,583	932,222	1,026,464	970,629	965,338	891,423	906,944	832,982	824,478	887,845	11,437,496
41	Excess Gas Costs over market		-												-
42	Less Development Oil COS Available		-												-
43	Oil Pre-Tax Operating Income	L39 - (L40.L42)	1,830,393	1,629,214	1,426,044	1,164,848	1,325,617	1,411,866	1,372,989	1,118,273	942,067	644,639	625,738	162,083	13,653,771
44	Less: Income Taxes	L43 * L57	662,633	589,803	516,252	421,695	479,896	511,119	497,045	404,834	341,044	233,370	225,806	58,490	4,941,989
45	Net Oil Income	L43 - L44	1,167,760	1,039,411	909,792	743,153	845,721	900,747	875,944	713,439	601,023	411,269	399,932	103,593	8,711,782
															-
46	Net Investment Allocated to Oil (1/12)		8,432,486	8,353,327	8,273,078	8,261,144	8,218,474	8,154,072	8,102,682	8,041,871	8,038,718	7,971,486	8,040,216	8,008,503	97,896,057
47	Allocated Deferred Tax		(2,183,230)	(2,168,418)	(2,153,140)	(2,141,793)	(2,130,728)	(2,120,796)	(2,111,428)	(2,104,755)	(2,100,021)	(2,093,882)	(2,092,870)	(2,092,885)	(25,493,946)
48	Oil Investment Base	L46 + L47	6,249,256	6,184,909	6,119,938	6,119,351	6,087,746	6,033,276	5,991,254	5,937,116	5,938,697	5,877,604	5,947,346	5,915,618	72,402,111
49	Agreement ROI Rate		17.20%	17.20%	17.20%	17.20%	17.20%	17.20%	17.20%	17.01%	17.01%	17.01%	17.01%	17.01%	
50	Oil Return on Investment	L48 * L49	1,074,872	1,063,804	1,052,629	1,052,528	1,047,092	1,037,723	1,030,496	1,009,903	1,010,172	999,780	1,011,644	1,006,247	12,396,892
51	Net Income to Split, Wexpro & OSF	L45 - L50	92,888	(24,394)	(142,838)	(309,375)	(201,371)	(136,977)	(154,552)	(296,464)	(409,150)	(588,512)	(611,712)	(902,654)	(3,685,110)
52	Wexpro Return Share @ 46%	L51 * 46%	42,728	(11,221)	(65,705)	(142,313)	(92,631)	(63,009)	(71,094)	(136,374)	(188,209)	(270,715)	(281,387)	(415,221)	(1,695,151)
53	OSF Return Share @ 54%	L51 * 54%	50,159	(13,172)	(77,132)	(167,063)	(108,740)	(73,968)	(83,458)	(160,091)	(220,941)	(317,796)	(330,324)	(487,433)	(1,989,959)
54	Add Income Tax on OSF Return	L53 * (L57/(1-L57)	28,462	-	-	-	-	-	-	-	-	-	-	-	28,462
55	OSF Pre-tax Return	L53 + L54	78,622	-	-	-	-	-	-	-	-	-	-	-	78,622
56	Final OSF Cost Increase or (Decrease)	-L55	$ (78,622)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (78,622)
57	Combined Federal / State Income Tax Rate		36.202%	36.202%	36.202%	36.202%	36.202%	36.202%	36.202%	36.202%	36.202%	36.202%	36.086%	36.086%	
	Oil Sharing Summary														
58	Prior Wexpro	L20	$ (15,967)	$ 35,119	$ (13,221)	$ 43,059	$ (29,019)	$ 21,917	$ 62,134	$ 16,706	$ (14,232)	$ 49,928	$ 18,391	$ 120,253	$ 295,065
59	Development Oil	L38	83,437	146,617	61,181	129,737	91,994	43,420	77,243	17,733	180,006	75,612	59,632	71,636	1,038,248
60	Development Gas	L56	(78,622)	-	-	-	-	-	-	-	-	-	-	-	(78,622)
61	Total OSF Increase (Decrease) before D24 "Negative Sharing"	L58+L59+L60	(11,152)	181,735	47,960	172,795	62,974	65,337	139,377	34,439	165,775	125,540	78,023	191,889	1,254,691
62	Development Gas "Negative Sharing"	When L51 < 0, L51 /(1 - L57)	-	38,235	223,889	484,927	315,637	214,703	242,251	464,690	641,317	922,457	957,092	1,412,303	5,917,502
63	Total OSF Increase with Dev.Gas "Negative Sharing"		(11,152)	219,970	271,849	657,722	378,611	280,040	381,628	499,129	807,092	1,047,997	1,035,115	1,604,192	7,172,193
64	End of Year Adjustment Associated with Negative Prior Wexpro and Development Oil Sharing Amounts													(1,141,969)	(1,141,969)
65	Net Impact of Oil Sharing on the OSF		$ (11,152)	$ 219,970	$ 271,849	$ 657,722	$ 378,611	$ 280,040	$ 381,628	$ 499,129	$ 807,092	$ 1,047,997	$ 1,035,115	$ 462,223	$ 6,030,224

Sources: OSF Calculation Packages (Response to Data Request 7.13 and OSF Summary (Response to Data Request 4.1, Attachment)

3. OSF Investment-Related Costs

Under the Wexpro agreements, Wexpro is entitled to recover, through the OSF, a return on its cost-of-service investment base (its net investment in gas and oil production plant and equipment, plus or minus certain other items). Wexpro is also entitled to recover the income taxes it must pay to realize return on an after-tax basis. The OSF also includes depreciation expense, which represents a return of Wexpro's investment in oil and gas production assets. We refer to these together as investment-related costs.

In 2005 and 2006, investment-related costs accounted for about two-thirds of the OSF. Since 2006, they have increased to a little more than three-fourths of the OSF. During the 2005-2014 audit period, OSF investment-related costs of depreciation, return and income tax increased at an average annual rate of 13.5%, compared with an average increase of 8.0% for operating expenses and production taxes. On a per-unit basis, investment-related costs increased at an average annual rate of 7.8%.

Table 3-1 – Operator Service Fee Investment-Related Costs

Wexpro OSF Investment Related Costs $ Amounts in 000s											
Item	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Avg. Annual Pct. Increase
Depreciation	$ 25,006	$ 31,068	$ 29,132	$ 46,037	$ 56,276	$ 58,501	$ 58,953	$ 70,211	$ 76,955	$ 98,683	16.5%
Return and Income Tax	59,412	69,038	82,780	102,045	121,741	126,678	134,810	144,465	148,784	165,462	12.1%
Total OSF Investment-Related Cost (1)	84,418	100,106	111,912	148,082	178,017	185,179	193,762	214,676	225,739	264,145	13.5%
Production Volumes (Bcf)	40.0	38.8	34.9	46.1	48.2	50.2	50.5	57.5	59.2	63.5	
Cost per Mcf	$ 2.11	$ 2.58	$ 3.21	$ 3.21	$ 3.69	$ 3.69	$ 3.84	$ 3.73	$ 3.81	$ 4.16	7.8%
Total OSF billed to QGC	$ 125,904	$ 144,654	$ 150,677	$ 202,925	$ 223,916	$ 238,931	$ 250,238	$ 270,457	$ 293,370	$ 349,818	12.0%
OSF Investment-Rel. Cost Percent Of Total OSF	67%	69%	74%	73%	80%	78%	77%	79%	77%	76%	

Source: Response to data request DPU 4.1.
Note 1: Gas only. Excludes investment costs allocated to oil.

Audit and Analysis Summary

Our review of investment-related costs included the following major steps. A more detailed list of steps applicable to each cost component is included in the detailed discussions below.

1. Through on-site and telephone discussions with Wexpro's employees and review of OSF calculation details included in "OSF calculation packages," we gained a detailed understanding of how Wexpro's capital investment and investment base (rate base) translated to OSF costs billed to QGC and QGC utility customers during the audit period. We analyzed detailed OSF calculations from 2007 through 2014 to determine Wexpro's compliance with the requirements of the Wexpro I and II agreements.

2. We reviewed the components of Wexpro's OSF investment base, including property, plant and equipment (production and general), the "general plant allowance," the "working cash allowance," and accumulated deferred income taxes. We quantified changes in these components over the 10-year audit period. Where applicable, we attempted to reconcile year-end 2014 OSF investment base balances with Wexpro's financial statements and/or general ledger.
3. We analyzed the significant causes of increases in the components of investment base during the audit period. With respect to production property, plant and equipment (PP&E), we analyzed the impacts on investment base of the increasing cost of finding new reserves and downward revisions to proven developed reserves.
4. We reviewed each component of OSF cost tied to the investment base, including return on investment, associated income tax expense, and depreciation expense.
    a. We analyzed the individual components of rate of return applicable to each category of well investment under the Wexpro agreements. We compared the base rate of return under Wexpro I to equity rates of return approved for U.S. electric utilities with rate cases during the audit period. We analyzed risk premiums applied to investment base under the Wexpro agreements. We evaluated the relative level of development drilling risk borne by Questar and its shareholders and by QGC's utility customers. We also evaluated business risks as described by Questar in its SEC Form 10K and the extent to which these risks were borne by Questar's shareholders and QGC's utility customers.
    b. We examined the OSF formula for combined federal and state income tax expense and reviewed Wexpro's support for the OSF calculation of the composite state tax rate and the combined federal and state rate. We reviewed income tax expense calculations in OSF calculation packages.
    c. We reviewed depreciation rates and analyzed the reasons that depreciation expense is increasing at a faster rate than return on investment, income tax expense, and investment base.

Summary of Audit and Analysis Findings

This is a summary of findings based on our audit and analysis. They are discussed in additional detail in the narrative below.

1. Wexpro's calculations of investment-related costs generally comply with the requirements of the Wexpro agreements. Wexpro's calculations of OSF return on investment base, income tax expense, and depreciation expense appear consistent with the requirements of the Wexpro agreements (and attached agreement exhibits) for the years we reviewed (2007-2014).[76] However, as discussed below, we were unable to determine that approximately $5.7 million in additional OSF depreciation under Wexpro II in 2014, over and above what Wexpro recorded on its books, is consistent with the Wexpro II agreement.

[76] OSF calculation packages were available for the years 2007-2014. They were not available for audit period years 2005 or 2006.

2. We reconciled the differences between 2014 financial statement and OSF investment base and investment-related cost values. We explained most of the differences for net property, plant and equipment and depreciation expense. There remains a $7.1 million unexplained difference between the financial statement and OSF balances for accumulated deferred income tax. OSF amounts for net plant, accumulated deferred income tax and depreciation are based on spreadsheet calculations that are independent of the Company's general ledger and financial statements. As such, calculated components of the OSF do not tie directly to Wexpro's general ledger or financial statements. Through data analysis and conversations with Wexpro employees, we attempted to reconcile differences between equivalent OSF and financial statement amounts. OSF-financial statement differences and the explained and unexplained portions of the differences are summarized in the following table.

Table 3-2 – 2014 OSF Investment Related Cost to Financial Statement Reconciliation

2014 OSF Investment Related Cost to Financial Statement Reconciliation						
Component	**Per OSF**	**Per Form 10K**	**Difference**	**Amount Explained**		**Amount Not Explained**
Net Property, Plant, & Equipment (As of Dec. 31, 2014)	$ 794,446,788	865,000,000	(70,553,212)	70,513,000	1	$ (40,212)
Accumulated Deferred Income Tax (As of Dec.. 31, 2014)	$ 190,901,064	197,500,000	(6,598,936)	(13,731,936)	2	$ 7,133,000
Depreciation Expense (Year 2014)	$ 102,352,321	99,800,000	2,552,321	2,530,022	3	$ 22,299

Sources: Response to DPU 7-13, "OSF Calc Packages," Wexpro Audited Form 10K; response to data request 16-02, and response to data request 15-01.
Note 1 - Differences between Net PP&E per book and per OSF consist primarily of the following book items not included in the OSF: ARO asset (appx. $39 million), accum. depreciation estimated per book, not in the OSF (appx. $7 million net credit), and CWIP and non-commercial well investment (appx. $19 million each).
Note 2 - The explained amount consists primarily ADIT on book ARO timing differences (appx. $64.8 million debit) and "other" (non-property) book timing differences (appx. $22.8 million credit), and a Colorado Enterprise Zone credit not included in the OSF (appx. $1.4 million), as shown in response to data request 15-01, Att. 1.The unexplained amount consists of ADIT on property timing differences of appx. $509 million per book vs. appx. $528 million OSF.
Note 3 - Differences consists of appx. $5.7 million in depreciation on undeveloped Wexpro II reserves, included in the OSF but not on the books, minus $3.1 million in book depreciation on non-commercial wells, not included in the OSF.

3. The OSF investment base increased significantly during the audit period. Wexpro's investment base tripled between 2005 and 2014 from slightly less than $200 million to more than $600 million. OSF costs related to the investment base more than tripled from $84.4 million in 2005 to $264.1 million in 2014. Investment-related cost per Mcf approximately doubled from $2.11 to $4.16. The increase in the investment base was the result of substantial capital spending on new production in the "development gas" well category defined in the Wexpro agreement.
4. Wexpro's earnings are directly dependent on and tied to the OSF investment base. Because Wexpro's operating costs and investment base are reimbursed directly through the OSF, unlike most regulated utilities, Wexpro cannot increase its earnings by increasing sales over its existing investment (rate) base or by improving operating efficiency to reduce expenses. The OSF investment

base is the source of virtually all of Wexpro's earnings, and Wexpro can only maintain or grow its earnings by maintaining or growing the OSF investment base.

5. Higher reserve finding costs, together with increased development drilling activity to replace older, less-expensive reserves, explain most of the increase in the OSF investment base and investment-related costs during the audit period. Over Wexpro's production history, from 1928 through 2014, the cost of finding each new unit of developed reserves increased at an average annual rate of about 5.8%. Since the Wexpro agreement became effective in 1981, finding cost per Mcf has approximately quadrupled. Much of the increase occurred during the 1980s and 1990s, as the process of developing new reserves became more complex and capital intensive. However, increased finding costs did not manifest as significantly higher OSF investment costs until more recently, as Wexpro ramped up its development drilling activities to increase production and replace reserves from decades-old wells as they began to decline more rapidly.
6. The classification of new wells determines whether associated investment costs will be recovered through the OSF or charged to Questar's shareholders. Well classifications are determined by Wexpro based on forecasted production and cash flow. After the fact, the classifications are reviewed and approved by the hydrocarbon monitor. The classification of wells as commercial or non-commercial is performed by Wexpro based on a production forecast made 30 days after initial stimulation of the well (the point at which production begins). Classification determines whether the costs of the well will be charged to QGC's utility customers through the OSF or absorbed by Wexpro and its parent, Questar. The hydrocarbon monitor reviews Wexpro's production and cash flow forecasts and approves the resulting classifications; however, the classifications and underlying assumptions are made by Wexpro. There is nothing in the monitor's reports to suggest that Wexpro's classifications were skewed or incorrect during the audit period. However, it is important to acknowledge that Wexpro has an inherent incentive is to classify new wells such that it can recover their costs through the OSF. According to the 2014 report, 51 of 230 wells added to the OSF investment base during the years 2011 through 2014 were included in the OSF as "less than fully commercial," while only two new wells were determined to be non-commercial and charged to Questar and its shareholders.[77]
7. Wexpro revised its developed (producing) reserves downward by a net 55 Bcf during the audit period. The reserves eliminated in the revision had an estimated value of $220 million.[78] Wexpro adds to its developed reserves as production from development drilling comes on line. During the audit period, Wexpro revised its developed reserves downward by a net 55 Bcf. [redacted] The value of the reserve reduction was approximately $220 million.[79] A reduction in developed reserves increases the per-unit cost of producing the remaining developed reserves. This occurs because the rate of depreciation increases, recovering the same amount of PP&E over a reduced amount of developed reserves.

[77] 2014 Hydrocarbon Monitor's Report, p.7.
[78] At $4.00 per Mcf.
[79] 55 Bcf @ $4.

8. To improve the forecasting and classification of new wells, the hydrocarbon monitor has recommended Wexpro increase the waiting period following initial well stimulation before making its production forecasts for classification purposes. Wexpro has recently agreed to this recommendation. – For a number of years, the hydrocarbon monitor has recommended that Wexpro allow a period of 90 days after stimulation before forecasting a new well's production curve and classifying the well as fully commercial, less than fully commercial, or non-commercial. He stated to Overland that because of the nature of the shale and sand formations that Wexpro has produced in recent years and the techniques used to produce hydrocarbons from these formations, a 90-day period would enable a more accurate estimate of production over the working life of the well. Wexpro rejected this recommendation during the audit period; however, based on a discussion in December, 2015 that included Wexpro and Utah Dept. of Public Utilities personnel, it is Overland's understanding that this Wexpro may have recently agreed to adopt the recommendation in connection with renegotiation of certain aspects of the Wexpro agreements. To the extent that this change "raises the bar" on what is required to classify a well as commercial (and eligible for recovery through the OSF), it could result in Wexpro taking a more conservative approach to planning and drilling new wells. It could also affect the amount of gas Wexpro is able to produce and recover through the OSF.
9. Wexpro's OSF investment base includes a "general plant allowance" which adds approximately 6.3% to the value of its investment base. Wexpro has not responded to our request to provide a description or list of the assets associated with this allowance, and there is reason to suspect that no such assets (over and above the "general plant" already included directly in PP&E) actually exist. Whether it is or is not backed by actual assets, Wexpro is within the requirements of the Wexpro agreements in calculating the allowance and adding it to the OSF. Exhibit A to the Wexpro I agreement indicates that OSF return and income tax expense should be calculated after adding a 6.3% for "general plant allowance" to return-eligible net investment. The property plant and equipment in Wexpro's OSF investment base also separately includes "general plant." We were unable to obtain information from Wexpro as to the nature of the assets supporting the "general plant allowance" or what distinguishes them from the "general plant" separately included in the OSF investment base as PP&E. To the extent the general plant allowance is not associated with any specific assets not already included in the investment base, it effectively raises Wexpro's risk-adjusted return by 6.3%.
10. The base rate component of OSF rate of return under the Wexpro I agreement averaged 12.5% during the audit period. This was about 2.2% higher than average equity rates of return awarded to U.S. electric utilities during the years 2005-2014.[80] Wexpro collected about $133 million more in *base* return and income tax through the OSF than it would have had its base rate of return been aligned with equity rates of return authorized for electric utilities. Most of the difference between Wexpro's base rate of return and the average equity return for U.S. electrics was a 1.6% difference between the original 1981 Wexpro I benchmark base rate (14.35%) and a rate of 16%. The Wexpro

[80] We used electric utility rates of return from data compiled by the Edison Electric Institute as a benchmark for comparison to Wexpro's base rate of return because similar information for gas utilities was not available. Equity returns awarded to gas utilities are generally about 50 basis points lower, so the use of electric rates of return for comparison to the OSF base rate is conservative.

agreement provides a base rate formula, but does not describe the reason for adding the difference to benchmark base rate of return calculation. The remaining difference, about 0.8%, is because, at any given point in time, the equity returns for the 20 utilities included in the Wexpro I base rate of return calculation reflect rates of return awarded at various points in the past. Equity returns awarded in years and decades past were higher than equity rates of return awarded more recently. While most were relatively recent, the award dates for the rates of return factored into Wexpro's 2014 calculation dated back as far as 1985.

11. Under the Wexpro I agreement, Wexpro receives a rate-of-return premium (5% on oil investment, 8% on gas investment) through the OSF to compensate it for the risk associated with development drilling. Although the risk premium flows to Wexpro, its parent Questar and Questar's shareholders, most of the risk during the audit period was borne by the QGC utility customers who purchased gas from Wexpro. As such, QGC's customers not only bore most of the risk, they paid Wexpro a return premium of about $457 million for the risk. The most significant risk associated with developing and producing hydrocarbons is that drilling may not produce quantities sufficient to recover its cost at market prices. The Wexpro agreements compensate Wexpro for this risk through a substantial premium over the equity rate of return a regulated distribution utility would receive. From 2005 through 2014, risk premium and associated income tax expense added approximately $457 million to the OSF. However, during this time, more than 97% of Wexpro's development drilling investment has been assigned to and recovered through the OSF. Investment recovered through the OSF includes "less than fully commercial" wells expected to recover as little as half their investment costs using forecasted production and market pricing. Only 2.6% of Wexpro's drilling investment has been classified as non-commercial, excluded from the OSF and assigned to Questar's shareholders, but even for these wells, costs were partially offset by revenue from production.[81]
12. OSF depreciation expense has increased more rapidly than the OSF investment base because more recently developed gas reserves are declining faster than the older reserves being replaced or enhanced and because Wexpro revised its developed reserves downward during the second half of the audit period. – Although recent advances in technology and techniques have enabled Wexpro to produce hydrocarbons that could not be developed using older technology, these new sources of production are more expensive to develop and tend to decline faster than reserves from older sources. [redacted] A faster OSF depreciation rate means that Wexpro is increasingly dependent on development drilling activities just to *maintain* its investment base and current level of earnings.
13. Two fields, Pinedale-Mesa and Canyon Creek, are largely responsible for Wexpro's higher rate of depreciation in recent years. An analysis of 2014 Wexpro I depreciation showed that Pinedale-Mesa

[81] Many of these non-commercial wells were produced because even though they were below commercial standards and unlikely to recover sunk investment, because the revenues they produce exceed their operating expenses. While shareholders bore this 2.6% slice of investment costs, the costs were offset by the proceeds from production.

and Canyon Creek, which together accounted for more than half of Wexpro's total 2014 production, had rates of depreciation approximately 50% higher than production from Wexpro's other fields. Depreciation rates in Pinedale-Mesa and Canyon Creek both averaged over 1.2% per month in 2014. Although Pinedale-Mesa accounted for less than one-third of total production, it accounted for nearly half of Wexpro's total depreciation expense ($47.8 million out of a total $98.7 million).

14. 2014 Wexpro II depreciation expense was about $5.7 million higher in the OSF than depreciation recorded on the books. Wexpro's explanation for the additional OSF depreciation appears to be that they are allowed to depreciate proven undeveloped reserves in the OSF that they do not depreciate on the books. We have been unable to find anything in the Wexpro II agreement or in other documentation which explains or authorizes the additional OSF depreciation.

Wexpro's OSF Investment Base

The investment-related costs charged through the OSF are a direct function of the OSF investment base. The investment base is the approximate equivalent of Questar Gas Company's rate base.[82] Questar's average investment base during the 10-year audit period is summarized below.

Table 3-3 – OSF Average Investment Base

OSF Average Investment Base $ Amounts in 000s											
Item	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Avg. Annual Pct. Increase
OSF Average Investment Base	$194,550	$233,450	$280,500	$355,500	$421,250	$444,250	$465,500	$502,750	$560,400	$619,350	13.7%
Production Volumes (Bcf)	40.0	38.8	34.9	46.1	48.2	50.2	50.5	57.5	59.2	63.5	
Average Investment per Mcf	$ 4.86	$ 6.02	$ 8.04	$ 7.71	$ 8.74	$ 8.85	$ 9.22	$ 8.74	$ 9.47	$ 9.75	8.0%
Source: Questar 10Ks 2005-2014.											

As the table shows, the amount of investment required to produce a unit of gas doubled during the audit period. Investment per Mcf produced is significant because return and income taxes comprise almost half of the total OSF and are directly dependent on the investment base.[83]

The components of the OSF investment base at the end of 2013 and 2014 are summarized in the following table.

[82] However, unlike Questar Gas Company, Wexpro does not have to go through the process of filing a rate case and receiving regulatory approval before it can earn a return on increases to its investment base. Under the Wexpro agreements, Wexpro is permitted to pass through the costs of production facilities approved by the hydrocarbon monitor as soon as they are put into production. No further regulatory approvals are necessary.

[83] The investment base per unit of reserves is also significant; however, changes in the investment per unit of reserves are not immediately reflected in amounts charged through the OSF.

Table 3-4 – Components of the OSF Investment Base

Components of the OSF Investment Base 2013 & 2014 Year-End Amounts in $000s				
Component	2013	2014		
	WP-I	WP-I	WP-II	Total
Net Oil & Gas Production Plant & Equipment	$ 740,686	$ 690,743	$ 95,653	$ 786,396
Net General Support Plant	8,233	7,504	547	8,051
Total Plant & Equipment Net Investment	748,919	698,247	96,200	794,447
General Plant Allowance @ 6.3% of Net P&E	39,144	38,168	6,061	44,229
Working Cash Allowance (45 days of Operating Expense)	5,286	7,527	655	8,182
Accumulated Deferred Income Tax	(203,676)	(192,360)	1,459	(190,901)
Total Amount For Calculating Return on Investment (Investment Base)	$ 589,673	$ 551,582	$ 104,375	$ 655,957
Source: Response to DPU 7-13, "OSF Calc Packages."				

Property, Plant and Equipment (PP&E)

Wexpro's investment in gas and oil production PP&E constitutes most of the OSF investment base. PP&E consists of the capitalized costs of facilities and equipment used to produce gas and oil and the contract labor necessary to achieve production. During the audit period, most of the PP&E under the Wexpro I agreement consisted of PP&E developed by Wexpro under the agreement. At the end of the audit period, all of the PP&E under the Wexpro II agreement was acquired (rather than developed) by Wexpro and consisted of "production in place" at the time of acquisition.

Components of OSF PP&E

The major components of Wexpro's OSF investment in gas and oil PP&E, net of accumulated depreciation, include the following:

- Development Gas ("D24") Investment – This category includes plant and equipment for gas wells developed by Wexpro since 1981. It is the largest category of investment under the Wexpro I agreement, comprising nearly 95% of total OSF net investment during the audit period. The plant and equipment is allocated between gas and oil on the basis of relative energy-equivalent production values, specifically Mcfe. The average audit period allocation of plant in the Development Gas category was approximately 90% gas and 10% oil. Plant and equipment allocated to gas earned an after-tax return of a little more than 20%, and return on this subcategory (Gas Development plant – gas production) was the source of most of Wexpro's income under the OSF. Development Gas plant and equipment allocated to oil earned an after-tax return of approximately 17% before accounting for the sharing of net oil revenues between QGC customers and Wexpro.
- Investments in Other Well Categories – About 5% of Wexpro's investment under the Wexpro I agreement during the audit period was plant and equipment in categories other than Development Gas. These include Development Oil (consisting of wells that produce mainly oil

but also some gas), Prior Wexpro (wells owned by Wexpro prior to 1981), and Prior Company (wells owned by Questar Gas Company prior to 1981). During the audit period, investment in these categories earned after-tax returns of between 12% and 17% before accounting for oil revenue sharing.

- Wexpro II Acquisition Properties – This category consists of gas-producing properties acquired by Wexpro in the Trail area in 2013. The properties were approved by the Utah and Wyoming commissions for cost- of-service recovery under the terms of the Wexpro II agreement beginning in February 2014. As "acquisition properties" (wells producing gas and oil when Wexpro acquired them), the Wexpro II investments as of the end of 2014 earned the Utah-allowed utility return on investment in 2014 (about 7.7%). Future wells developed in the Wexpro II properties will earn the Utah-allowed rate of return plus an additional return of approximately 9.5%, as described below in the discussion of return on investment.
- General Support Plant – General OSF plant attributable to all well categories is allocated according to relative levels of energy production on "page 4" of other OSF calculation package.[84]

Wexpro's net PP&E during the audit period is summarized in the following table.

Table 3-5 – Components of OSF Net Property, Plant & Equipment

Components of OSF Net Property, Plant & Equipment
$ Amounts in 000s

As of Dec. 31[(1)]	Wexpro I[(2)]		Wexpro II	General Support Plant	Total Net PP&E Investment	Gas Production (Bcf)	Net Inv. /Bcf Produced
	Development Gas (D24)	Other Well Categories	Acquisition Properties				
2005	N/A	N/A	-	N/A	N/A	40.0	N/A
2006	$ 280,160	$ 17,910	-	$ 2,026	$ 300,096	38.8	$ 7,734
2007	321,402	19,013	-	2,582	342,997	34.9	9,828
2008	442,783	17,639	-	2,724	463,146	46.1	10,047
2009	486,315	16,881	-	3,504	506,700	48.2	10,512
2010	526,765	15,891	-	3,637	546,293	50.2	10,882
2011	577,228	18,590	-	3,795	599,613	50.5	11,874
2012	644,786	18,427	-	7,521	670,734	57.5	11,665
2013	723,385	17,301	-	8,233	748,919	59.2	12,651
2014	680,352	9,843	96,200	8,051	794,446	63.5	12,511
Avg. Rate of Change	11.7%	-7.2%	-	18.8%	12.9%		6.2%

Sources: Response to DPU 7.13, "OSF Calculation Packages," Questar Forms 10K. Excludes "dry hole" investment.
(1)Calculation packages for 2005 and 2006 were not available. January 2007 amounts were used as a proxy for December 2006.
(2)PP&E on which return and taxes are calculated. Excludes PP&E for non-commercial wells.

[84] Data request 11.02 (requested October 27, 2015) attempts to distinguish between "general plant" and the 6.3% "general plant allowance," both of which are separately added to the investment base. As of January 1, 2016, a response to this request had not been received.

Significant metrics include:

- OSF net PP&E rose at an average annual rate of 13% from 2006 through 2014. There was a significant spike in 2008, as Wexpro added significant gas production investment in the Mesa area.
- OSF net PP&E per Mcf produced rose at an average annual rate of 6.2%, with a significant 35% spike in 2007 caused by rising net cost-of-service investment and a decline in production compared with 2006. At 6.2%, OSF net investment per-Mcf is doubling approximately every 11 ½ years.

Prior to the addition of the Trail assets added to the investment base in 2014 under Wexpro II, approximately 95% of OSF PP&E was classified in the Development Gas well category. Within each category, wells may be classified as fully commercial, "commercial at 50% or more of cost," or non-commercial. In order to be placed into the investment base upon which return is calculated, a well must be determined, based on a review of forecasted production, to return at least 50% of its drilling investment. The following table summarizes OSF net PP&E for the Development Gas category, including total, commercial and non-commercial investment. Wexpro stated that its accounting system does not separately track costs within the fully and less than fully commercial categories.[85] [86]

Table 3-6 – Net Investment in Development Gas (D24) Property, Plant & Equipment

Net Investment in Development Gas (D24) Property, Plant & Equipment Amounts in $000s						
Based on December:[(1)]	Commercial		Non-Commercial		Total	
	Amount	Increase	Amount	Increase	Amount	Increase
2005	N/A	N/A	N/A	N/A	N/A	N/A
2006	280,160	N/A	6,842	N/A	287,002	N/A
2007	321,402	41,242	11,820	4,978	333,222	46,220
2008	442,783	121,381	10,669	(1,151)	453,452	120,230
2009	486,315	43,532	16,277	5,608	502,592	49,140
2010	526,765	40,450	14,900	(1,377)	541,665	39,073
2011	577,228	50,463	14,906	6	592,134	50,469
2012	644,786	67,558	19,370	4,464	664,156	72,022
2013	723,385	78,599	23,440	4,070	746,825	82,669
2014	680,352	(43,033)	19,112	(4,328)	699,464	(47,361)
Avg. Rates of Increase		11.7%		13.7%		11.8%

Source: Response to data request 7-13, OSF calculation packages.
N/A - Calculation packages for 2005 and 2006 were not available.
[(1)]The January 2007 calc. package was used as a proxy for the December 2006 amount.

[85] Response to data request 7.30.

[86] It should be noted that although energy production from the Development Gas category consists mainly of gas, it also includes some oil. The gas component, which averaged approximately 90% of production during the audit period, received an annual after-tax return of around 20%. The remaining 10% of investment was allocated to oil production and received an after-tax return of around 17%, before accounting for oil income shared with QGC.

Net investment in Wexpro's primary well category, Development Gas, declined in 2014 as depreciation expense exceeded investment in new wells and recompletions and as Wexpro focused on capital investment in the Wexpro II Trail and Canyon Creek assets.

Sources of Production

During the years 2007 through 2014, Wexpro had Development Gas production in 35 different geographic areas (fields). However, nearly all of the incremental net investment during this period occurred in six fields, with almost half of the total in the Mesa (Pinedale) area. In the remaining 29 fields combined, depreciation expense exceeded incremental gross investment, resulting in a decrease in net investment of about $5.5 million.

Table 3-7 – Increase in Development Gas Net Investment by Drilling Area – Jan 2007-Dec 2014

Increase in Development Gas Net Investment by Drilling Area Jan. 2007 - Dec. 2014 (Amounts in $000s)			
Drilling Area	**Commercial Wells**	**Non-Comm. Wells**	**Total Net Investment**
Mesa Unit (Pinedale)	$ 198,491	$ 54	198,545
Canyon Creek	69,742	2,847	72,589
Powder Wash	55,106	6,801	61,907
Trail	39,983	361	40,344
Church Buttes	23,545	660	24,205
Bruff Unit	19,042	1,329	20,371
All 29 Other Areas (Net)	(5,717)	236	(5,481)
Total Development Gas	$ 400,192	$ 12,288	412,480
Source: Response to data request 7-13, OSF calculation packages.			

Reconciliation of OSF and Audited Balance Sheet PP&E

We asked Wexpro to reconcile net PP&E in the OSF with net PP&E on the audited balance sheet for the years 2013 and 2014. The reconciliation is shown in the following table.

Table 3-8 – Reconciliation of OSF and Recorded Net Property, Plant & Equipment

Reconciliation of OSF and Recorded Net Property, Plant & Equipment Amounts in $000s				
Item	2013	2014		
	Wexpro I	Wexpro I	Wexpro II	Total
Net PP&E per book, as recorded	$ 830,879	$ 761,344	$ 103,614	$ 864,958
ARO Asset	(38,665)	(36,673)	$ (2,321)	(38,994)
AFUDC accrual	(321)	(187)		(187)
Acu. Depreciation	-	12,910		12,910
Leasehold	(921)	(300)		(300)
Depr. (OSF-Book)			$ (5,641)	(5,641)
CWIP	(18,481)	(19,158)		(19,158)
Non-comm Wells Inv.	(23,571)	(19,143)		(19,143)
General Suport Eq		(547)	$ 547	-
Total Differences	$ (81,959)	$ (63,098)	$ (7,415)	$ (70,513)
Net PP&E per OSF	$ 748,920	$ 698,246	$ 96,199	$ 794,445
Source: Response to data request 16-02				

Significant differences between OSF and book net PP&E include:

- Asset retirement obligation assets on Wexpro's books do not earn a return under the Wexpro agreement and are therefore not included in OSF PP&E.
- The Wexpro agreements provide for an allowance for funds used during construction. Construction work in progress is excluded from OSF PP&E.
- Investment in non-commercial wells is excluded from OSF PP&E.

Causes of Increased Net PP&E Investment per Unit

The significant causes of Wexpro's increasing PP&E cost per unit of added reserves and production during the audit period include the following:

- Increased reserve finding costs.
- [redacted]
- Purchase of developed reserves under Wexpro II.

It is not possible within the context of this project to separately quantify the impact of each of the above on PP&E cost per unit of reserves or production.

Increased Reserve Finding Costs

Finding costs represent the capital investment cost required to bring additional reserves into production. One of the primary reasons for the increasing levels of PP&E during the audit period was the increasing cost of finding each additional unit of developed reserves. The following table

summarizes an analysis provided by Wexpro of finding costs for the entire history of Wexpro and QGC's exploration and production operations.[87]

Table 3-9 – Summary of Wexpro & QGC Finding Costs – 1928-2014

Summary of Wexpro & QGC Finding Costs 1928-2014 Amounts in 000s				
Period	Gross Investment	Reserves Added (MMcfe)	Average Finding Cost / Mcfe	Average Rate of Increase - 10 Yr. M.A.
1928-1939	$ 2,135	106,207	$ 0.02	
1940-1949	4,366	143,479	0.03	3.8%
1950-1959	20,503	400,056	0.05	5.4%
1960-1969	22,234	329,048	0.07	2.8%
1970-1979	71,035	489,741	0.15	7.9%
1980-1989	112,027	318,926	0.35	9.2%
1990-1999	160,081	310,286	0.52	3.9%
2000-2009	$ 676,447	481,763	$ 1.40	10.5%
Total 1928-2009	$1,068,827	2,579,506		
2005-2014	$ 998,746	684,878	$ 1.46	5.6%
Total 1928-2014	$1,592,222	2,896,245		5.8%
Source: Response to data request 7.03, Finding Costs 1928-2014				

Even when finding costs are smoothed with a 10-year moving average, average rates of increase have jumped around from decade to decade. For the period from 1940 through 2014, the 10-year moving average of finding cost per Mcfe increased at an annual rate of 5.8%. On a decade-by-decade basis, it peaked at an average rate of increase of 10.5% in the 2000s, but it has declined slightly since then.

For the period roughly equivalent to the life the Wexpro Agreement (from 1981 through 2014), finding costs have increased at a significantly higher rate than consumer price inflation. The overall Consumer Price Index for urban consumers (CPI-U) stood at 236.149 at the end of 2014 compared with a base of 100 for the period 1982-1984, which translates to an increase of approximately 136%.[88] During this same period, which corresponds roughly with the life of the Wexpro I Agreement, the 10-year moving average of finding costs rose from 27.3 cents[89] per Mcfe to $1.46, an increase of 434%.

The following table provides a year-by-year breakout of finding costs for the audit period, based on the analysis provided by Wexpro.

[87] Finding cost data is as provided by Wexpro. There was no practical way, within the scope of our review, to independently audit this data.

[88] Bureau of Labor Statistics, CPI Detailed Report – December 2014, Table 1, Consumer Price Index for All Urban Consumers (CPI-U), U.S. city average by expenditure category and commodity service group. It should be noted that the BLS consumer price index includes assumptions and adjustments that some economists believe result in an understatement of true consumer price inflation.

[89] Average 10-year moving average for the years 1982-1984.

Table 3-10 – Summary of Wexpro Finding Costs – 2005-2014

Summary of Wexpro Finding Costs 2005-2014 Amounts in 000s			
Year	Gross Investment	Reserves Added (MMcfe)	Average Finding Cost / Mcfe
2005	$ 53,492	40,318	$ 1.33
2006	79,061	53,070	1.49
2007	92,173	59,524	1.55
2008	150,127	71,890	2.09
2009	98,839	50,427	1.96
2010	90,444	63,253	1.43
2011	129,626	113,940	1.14
2012	141,842	110,265	1.29
2013	129,806	98,294	1.32
2014	33,335	23,898	1.39
Totals & Avg. per Mcfe	$ 998,745	684,879	$ 1.46
Source: Resp.to data request 7-03, Finding Costs 1928-2014			

Inflation is one of the factors explaining increased finding costs over longer periods of time. However, finding costs have tended to rise at a significantly faster rate than either consumer or producer price indexes. Other factors contributing to the increased cost of finding new reserves include:

- Increased complexity in drilling and in the intensity of the technology applied to drilling, particularly over the last 10 years. [90]
- An increasing number of newer wells are "daughter" wells drilled in proximity to larger "parent" wells in developed fields. These tend to have a smaller amount of reserves per well and a higher capital cost per unit of reserves added.[91] Wexpro notes that production from older, pre-1981 wells, which had much lower finding costs, continued to decline during the audit period and currently make up only about 10% of production. Conversely, the share of production attributed to wells developed since the beginning of the Wexpro agreement increased during the audit period to a current level of approximately 90% of total production.
- Increased "completion requirements." [92]
- In recent years, the significant expansion of oil production in shale and tight sand formations has created increased demand for services and rigs, which places upward pressure on prices for capital investment over and above what would be expected from normal cost inflation.[93]

In summary, as Wexpro's older, larger, less capital intensive wells are replaced with newer, smaller, more capital intensive wells (per unit of added reserves), average finding costs have increased.

[90] Response to data request 7.03.
[91] Discussion with Justin Woody, Wexpro Vice President of Engineering, December 10, 2015.
[92] Response to data request 7.03.
[93] On page 7 of his 2013 report, dated April 22, 2014, the monitor notes that "[although] gas drilling is declining nationally, higher oil prices have increased demand for service and rigs, particularly in the oil-rich tight sand/shale plays."

[redacted]

Table 3-11 – Wexpro Net Interest Developed Reserves – 2010-2014

Wexpro Net Interest Developed Reserves 2010-2014 Amounts in Bcf				
Year	Reserves Added	Revisions	Production	Year End Reserves
2010	[redacted]	[redacted]	[redacted]	[redacted]
2011	[redacted]	[redacted]	[redacted]	[redacted]
2012	[redacted]	[redacted]	[redacted]	[redacted]
2013	[redacted]	[redacted]	[redacted]	[redacted]
2014	[redacted]	[redacted]	[redacted]	[redacted]
Totals	[redacted]	[redacted]	[redacted]	
Source: 2014 Hydrocarbon Monitor's Report, p.2.				

[redacted]

[redacted]

[94] Discussions with Mr. Justin Woody, Wexpro Vice President, Engineering and Mr. David Evans, Wexpro agreement hydrocarbon monitor, December 10, 2015.

[95] 2014 Hydrocarbon Monitor's Report, May 29, 2015, p.7. [redacted]

[redacted]

Wexpro II Property Acquisitions

The table below shows the acquisition costs for two acquisitions completed under Wexpro II.

Table 3-12 – Summary of Wexpro II Acquisition Costs – 2013-2014

Summary of Wexpro II Acquisition Costs 2013-2014			
Acquisition & Year	**Acquisition Cost ($000s)**	**Reserves Added (MMcfe)**	**Average Cost / Mcfe**
2013 Trail	$ 105,947	137,200	$ 0.77
2014 Canyon Creek	52,400	36,600	$ 1.43
Mcfe	$ 158,347	173,800	$ 0.91
Source: Questar 2013 and 2014 Forms 10K, Notes 19 & Response to data request 7-13, 2014 Wexpro II calculation package.			

Approximately $105 million was added to the OSF investment base in 2014 as a result of the Wyoming and Utah DPU's approval of the September 2013 Trail acquisition. As of December 31, 2014, the assets associated with the 2014 Canyon Creek acquisition had not been approved for inclusion in the investment. Based on information provided in the 2014 10K, we determined that approximately 95 Bcfe of the reserves added in the Trail acquisition were undeveloped at the time of the acquisition and approximately 42 Bcfe were developed.

General Plant Allowance

In addition to general support plant attributable to multiple well categories, the OSF investment base includes a "general plant allowance" calculated at a rate of 6.3% of the net investment in plant and equipment described above. This allowance is described in Exhibit A to the Wexpro Agreement, which states that "[t]he investment used as a base to which a rate of return is applied" will include a "general plant allowance calculated by multiplying [actual original investment including AFUDC in wells, well facilities and plant facilities ... less accumulated reserves for depreciation] ... by 6.3%."[96].

At the end of 2014, plant on Wexpro's books classified as "general" added about $8 million to the investment base, while the "general plant allowance" added an additional $44 million.[97] Neither the Wexpro Agreement nor Exhibit A explain what the plant in the allowance consists of, what Questar affiliate owns it, or what distinguishes it from the "general plant" on Wexpro's books that is also added

[96] Wexpro Agreement Exhibit A, Cost of Service Formulation for Gas from Oil Reservoirs, p.2.
[97] Response to data request 7.13 "OSF calc. packages," December, 2014.

to the investment base.[98] Because it is calculated as a percentage, the general plant allowance grows proportionally with net production plant and equipment. It more than doubled between 2006 and 2014, growing from an annualized level of approximately $18.6 million at the end of 2006 to $44.2 million (for Wexpro I and II combined) at the end of 2014.

The table below summarizes the general plant allowance and the approximate amount it added to the OSF during the years 2006 through 2014. Based on a review of the amounts in OSF calculation packages, we estimate the general plant allowance added about $83 million to the OSF for the nine years ending December 31, 2014, including $12.5 million in 2014.

Table 3-13 – Estimated Impact of the General Plant Allowance on the OSF

Estimated Impact of the General Plant Allowance on the OSF Amounts in $000s		
Based on December:	**Appx. Annual General Plant Allowance**	**Approximate Addition to OSF Return & Income Tax**
Wexpro I		
2005	N/A	N/A
2006[(1)]	$ 18,565	$ 5,710
2007	21,043	6,091
2008	27,085	7,401
2009	30,030	8,783
2010	31,763	9,502
2011	34,651	10,212
2012	37,299	11,064
2013	39,144	11,755
2014	38,168	11,888
Wexpro II		
2014[(2)]	$ 6,281	$ 688
Estimated Total OSF 2006-2014		83,093

Source: Response to date request 7-13, OSF Calc Packages, 2007-2014.
[(1)] Calculation packages prior to 2007 were not provided. Used January 2007 as a proxy for Dec. 2006.
[(2)] Wexpro II based on the avg. of monthly amts for 2014.

Cash Working Capital Allowance

In addition to the general plant allowance, Exhibit A to the Wexpro I Agreement also discusses a "cash working capital" allowance to be added to the OSF investment base. This allowance is based on an assumption that Wexpro pays its cash operating expenses 45 days, on average, before it is reimbursed for them through the OSF. Wexpro Agreement Exhibit A does not explain how the existence of a lag between expense payment and reimbursement was determined or how it was calculated to be an

[98] Data request 11.2, issued on October 27, attempts to determine what the general plant allowance covers and what distinguishes it from allocated "general plant." Data request 14.3, issued on November 30, attempts to distinguish both "general" plant items added to the OSF investment base from general plant shown in Wexpro's audited financial statements for the years ended December 31, 2004, through 2008.

average of 45 days.[99] The addition of this item to the investment base provided Wexpro with a return of approximately 20%, plus associated income taxes, on a month and a half's worth of OSF O&M and G&A expenses during the audit period.

The following table summarizes the cash working capital allowance and the approximate amount it added to the OSF during the years 2006 through 2014.

Table 3-14 – Estimated Impact of the Working Cash Allowance on the OSF

Estimated Impact of the Working Cash Allowance on the OSF Amounts in $000s		
Based on December:	**Appx. Annual Working Cash Allowance**	**Approximate Addition to OSF Return & Income Tax**
Wexpro I		
2005	N/A	N/A
2006[(1)]	$ 3,407	$ 946
2007	3,911	1,016
2008	5,135	1,255
2009	4,131	1,286
2010	4,751	1,233
2011	6,346	1,540
2012	6,023	1,716
2013	5,286	1,569
2014	7,527	1,778
Wexpro II		
2014[(2)]	$ 469	$ 119
Estimated Total OSF 2006-2014		$ 12,459

Source: Response to date request 7-13, OSF Calc Packages, 2007-2014.

[(1)] Calculation packages prior to 2007 were not provided. Used January 2007 as a proxy for Dec. 2006.

[(2)] Wexpro II based on avg. of monthly amts for 2014.

Accumulated Deferred Income Taxes

Deferred taxes arise because of differences in the rates used to calculate depreciation expense on plant and equipment for the OSF and for Wexpro's income tax return. Generally, due to federal income tax laws, in most years the total amount of depreciation on OSF plant and equipment taken as a deduction on the tax return exceeds the depreciation expense recorded on the books resulting in lower taxable income and lower taxes paid on the income tax return compared with amounts recorded on the books and charged through the OSF (during the initial years following property additions). The accumulated difference between the higher annual amounts of income tax expense collected through the OSF and the lower amounts paid to the government is considered a cost-free source of additional capital for Wexpro. Consistent with the ratemaking treatment normally afforded regulated utilities, the Wexpro I and II agreements state that "increments of deferred taxes or other tax 'timing' reserves ... will be subtracted from [the investment base] ... "

[99] In data request 14.05, we asked Wexpro for any support they might have for the expense lags which for the basis for the cash working capital calculation.

The table below summarizes the approximate amount of deferred tax subtracted from the OSF gas investment base and the approximate impact on the OSF during the years 2006 through 2014.[100] During this period, accumulated deferred income taxes reduced the investment base by an average of approximately $126 million on an annualized basis and reduced the OSF by an average of approximately $38 million each year.[101] For the nine-year period as a whole, the OSF was reduced by approximately $327 million compared with a calculation that did not recognize the cost-free capital provided by deferred income taxes.

Table 3-15 – Estimated Impact of the Accumulated Deferred Taxes on the OSF

Estimated Impact of the Accumulated Deferred Taxes on the OSF Amounts in $000s		
Based on December:	**Appx. Annual Accumulated Deferred Tax**	**Approximate Addition (Reduction) to OSF Return & Income Tax**
Wexpro I		
2005	N/A	N/A
2006[(1)]	$ (59,717)	$ (18,151)
2007	(67,587)	(19,347)
2008	(84,717)	(23,146)
2009	(108,956)	(29,433)
2010	(126,212)	(35,739)
2011	(166,205)	(44,439)
2012	(182,971)	(53,065)
2013	(203,682)	(58,761)
2014	(192,361)	(60,188)
Wexpro II		
2014[(2)]	$ 835	$ 91
Estimated Total OSF 2006-2014		$ (342,177)

Source: Response to date request 7-13, OSF Calc Packages, 2007-2014.
[(1)] Calculation packages prior to 2007 were not provided. Used January 2007 as a proxy for Dec. 2006.
[(2)] Wexpro II based on avg of monthly amts for 2014.

To assess the reasonableness of the ADIT balances used in the OSF calculation we compared them with the balances on Wexpro's audited balance sheets. Specifically, we compared the ADIT balances in the December calculation packages with the year-end balances on the Company's audited balance sheets. The table below summarizes this comparison. As indicated by the amounts in the table, the OSF and financial statement ADIT balances were relatively close for the years 2007 through 2010. Since 2010, there has been a growing disparity between OSF and the audited financial statement ADIT balances. This is important because, as explained above, ADIT reduces the investment base.

[100] Unlike the general plant and working cash allowances, deferred income taxes are calculated for oil investment and serve to reduce the investment base in used in calculating shared net oil revenues. The amounts in the table exclude accumulated deferred taxes allocated to oil and used in oil revenue sharing calculations.

[101] Both amounts include the impact of deferred taxes associated with investment in both gas and oil properties. Deferred taxes on oil investment affect the OSF through the oil revenue sharing component of the OSF.

Reconciliation of OSF and Audited Balance Sheet Accumulated Deferred Income Tax

The following table summarizes differences between December 31 accumulated deferred income tax balances in OSF calculation packages and the audit balance sheets.

Table 3-16 – Comparison of Accumulated Deferred Income Taxes – Wexpro Financials and OSF

Comparison of Accumulated Deferred Income Taxes - Wexpro Financials and OSF Amounts in $000s							
As of December 31	Per Wexpro Audited Balance			Per OSF December Calc			OSF ADIT Higher or (Lower)
	Current	Long Term	Total per BS	WP I	WP II	Total per OSF	
2007	$ 4,500	$ (63,745)	$ (59,245)	$ (67,600)	$ -	$ (67,600)	$ 8,355
2008	4,900	(79,600)	(74,700)	(84,700)	-	(84,700)	10,000
2009	4,400	(103,600)	(99,200)	(109,000)	-	(109,000)	9,800
2010	4,500	(130,500)	(126,000)	(126,600)	-	(126,600)	600
2011	4,700	(167,400)	(162,700)	(166,200)	-	(166,200)	3,500
2012	5,800	(199,900)	(194,100)	(183,000)	-	(183,000)	(11,100)
2013	5,500	(214,700)	(209,200)	(203,700)	-	(203,700)	(5,500)
2014	6,900	(204,400)	(197,500)	(192,360)	1,460	(190,900)	(6,600)

Sources: Response to data request 7-35, Wexpro financial statements & response to data request 7-13, OSF calculation packages. Parentheses indicate ADIT credits (liabilities).
N/A - Calculation packages for 2005 and 2006 were not available.

We asked Wexpro to reconcile these differences. In response to data request 15-01, they provided detail on book-tax timing differences for the year 2014. The first thing to recognize is that the only differences that should be reflected in OSF ADIT are property-related timing differences associated with book and tax depreciation. These timing differences give rise to the book ADIT at year-end 2014 that is higher than shown in the table above. For example, the data response shows that December 31, 2014, property-related book-tax timing differences were $573.9 million, which translates to property-related ADIT of $207.1 million, about $10 million more than total book ADIT shown above and about $17 million more than Wexpro recognized in the December 2014 OSF calculation.[102] However, this includes ADIT associated with asset retirement obligations (AROs). AROs appear to be excluded from PP&E in the OSF calculation; therefore, it would make sense to exclude ADIT associated with AROs from the OSF calculation.[103] When timing differences associated with AROs are subtracted from other timing differences per book, the result is that property-related ADIT in the OSF is about $7.1 million higher than per book at December 31, 2014. At the time of this report, there was insufficient data to further explain or reconcile 2014 ADIT between the OSF and Wexpro's balance sheet, and we lacked the information necessary to reconcile per book and OSF ADIT for years other than 2014.

[102] Per-book ADIT also contains a $8.2 million net ADIT asset associated with $22.8 million in non-property-related differences (associated with book-tax differences in items such as pension expense, employee incentive plan pay, and property taxes). This portion of ADIT should not be expected to appear in the OSF ADIT calculation.

[103] This statement presumes we are correctly interpreting the analysis Wexpro provided in response to data request 15.1, Attachment. In the data response narrative, Wexpro also notes elsewhere in the response that it removed ARO timing differences from the calculation in the previous year. The statement in the narrative appears to conflict with the data in the attachment.

Table 3-17 – Comparison of Per Book and OSF Property-Related ADIT as of December 31, 2014

Comparison of Per Book and OSF Property-Related ADIT As of December 31, 2014 Amounts in $000s			
	WP-I	WP-II	Total
Timing Differences Per Book:		-	
Property - General	$ (508,207)	$ (937)	$ (509,144)
Major Repairs	11		11
AROs	(62,459)	(2,327)	(64,786)
Per Book Property-Related Timing	(570,655)	(3,264)	(573,919)
Subtract ARO Differences	(62,459)	(2,327)	(64,786)
Per Book Property Timing Diffs. w/o AROs	(508,196)	(937)	(509,133)
Times: Relevant Tax Rates	36.1%	35.0%	
Property ADIT per Book	(183,459)	(328)	(183,787)
Property ADIT per OSF	(192,360)	1,460	(190,900)
Unexplained Book / OSF ADIT Difference	$ 8,901	$ (1,788)	$ 7,113
Sources: Responses to data requests 15-01 and 7-13 (OSF calc packages).			

OSF Return and Income Tax

Return on investment and income tax expense are each a direct function of the OSF investment base. Audit period amounts charged through the OSF are summarized below.

Table 3-18 – OSF Return on Investment and Income Tax Expense

OSF Return on Investment and Income Tax Expense Amounts in $000s (Except Production)											
Item	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Avg. Annual Pct. Increase
Return on Investment	$38,079	$44,272	$53,182	$ 65,589	$ 78,005	$ 81,184	$ 86,200	$ 92,581	$ 94,922	$105,886	12.0%
Effective Income Tax Rate	35.91%	35.87%	35.75%	35.73%	35.93%	35.91%	36.06%	35.91%	36.20%	36.09%	
Income Tax Expense	21,333	24,766	29,598	36,457	43,736	45,494	48,609	51,885	53,862	59,576	12.1%
Total OSF Return & Tax	$59,412	$69,038	$82,780	$102,046	$121,741	$126,678	$134,809	$144,466	$148,784	$165,462	12.1%
Production Volumes (Bcf)	40.0	38.8	34.9	46.1	48.2	50.2	50.5	57.5	59.2	63.5	
Cost per Mcf	$ 1.49	$ 1.78	$ 2.37	$ 2.21	$ 2.53	$ 2.52	$ 2.67	$ 2.51	$ 2.51	$ 2.61	6.4%
Source: Response to data request DPU 1.08U Attachment. Excludes return and income tax on investment allocated to oil.											

The calculation of OSF return and tax is dependent on the following:

- The production category to which investment base dollars are allocated – Under the Wexpro I and II agreements, Wexpro is entitled to collect an after-tax return on investment in PP&E. The applicable rate of return varies by production category. As of 2014, the rates of return varied from 7.6% (for in-place production investment acquired under Wexpro II) to 20.0% (for development gas investment under Wexpro I).
- Whether the investment is associated with wells classified "commercial" or "non-commercial" – A small portion of Wexpro's well investment is classified as non-

commercial. This investment resides on Wexpro's books but does not go into the investment base; as such, return, taxes, and depreciation associated with it is not included in the OSF.

- The rate of return – Depending on the production category and whether the product is gas or oil, the rate of return on investment base may include "base" and a "risk premium" components.

The following table summarizes the rates of return applicable under the Wexpro agreements during the audit period and the average percent of investment base (based on well category) to which each applicable rate of return was applied.

Table 3-19 – Annual Average of Rate of Return Components Applicable Under Wexpro I & II Agreements

Annual Average of Rate of Return Components Applicable Under Wexpro I & II Agreements																
Well Cat. =>	WP-I Development Gas (Gas)				WP-I Development Oil (Gas & Oil) and Development Gas (Oil)				WP-I Prior Wexpro & Prior Company (Gas & Oil)				WP-II Acquisition Property			
Avg. Applicable Pct of Inv. Base =>	87.6%				9.8%				8%				16% (2014 Only)			
RoR Component => / Year	Base RoR	Risk Premium RoR	Pct. Of Inv. Base	Total RoR	Base RoR	Risk Premium RoR	Pct. Of Inv. Base	Total RoR	Base RoR	Risk Prem. RoR	Pct. Of Inv. Base	Total RoR	Base RoR	Risk Prem. RoR	Pct. Of Inv. Base	Total RoR
2005[1]	13.02%	8.00%	*90.00%*	21.02%	13.02%	5.00%	*7.00%*	18.02%	13.02%	-	*3.00%*	13.02%				
2006[2]	12.89%	8.00%	89.65%	20.89%	12.89%	5.00%	6.73%	17.89%	12.89%	-	*11.44%*	12.89%				
2007	12.78%	8.00%	89.79%	20.78%	12.78%	5.00%	6.30%	17.78%	12.78%	-	10.81%	12.78%				
2008	12.59%	8.00%	88.60%	20.59%	12.59%	5.00%	8.22%	17.59%	12.59%	-	8.35%	12.59%				
2009	12.49%	8.00%	88.62%	20.49%	12.49%	5.00%	8.89%	17.49%	12.49%	-	7.69%	12.49%				
2010	12.45%	8.00%	88.95%	20.45%	12.45%	5.00%	8.57%	17.45%	12.45%	-	7.28%	12.45%				
2011	12.45%	8.00%	88.16%	20.45%	12.45%	5.00%	9.27%	17.45%	12.45%	-	6.92%	12.45%				
2012	12.32%	8.00%	87.00%	20.32%	12.32%	5.00%	11.04%	17.32%	12.32%	-	6.31%	12.32%				
2013	12.12%	8.00%	84.01%	20.12%	12.12%	5.00%	14.69%	17.12%	12.12%	-	5.64%	12.12%				
2014	11.98%	8.00%	83.79%	19.98%	11.98%	5.00%	14.85%	16.98%	11.98%	-	4.54%	11.98%	7.65%	-	6.80%	7.65%

Sources: Response to data requests 4.11, Attachment 1 & 7-13, "OSF Calc Packages"
Total RoRs do not include the impact of the general plant allowance.
[1]Well category percentages estimated for 2005 based on backcasting 2006-2014
[2]Well category percentages based on using January 2007 as a proxy for 2006.

Base Rate of Return – Wexpro I

Under the Wexpro I agreement (Article I, Sec. 44), the base of rate of return is calculated according to the following formula:

$$r = 16.00\% + (i - 14.35\%),$$

The base rate of return, r, includes the following two components.

- "i", the average of authorized equity rates of return for 20 comparison "utilities and natural gas companies" measured on May 31 of each year.
- An additional 1.5% to 1.6% based on the difference between 16% and the average reduction in authorized rates of return for the 20 comparison companies as of May 31, 1981.[104] As of June 2014, this addition to "i" was 1.52%.

The Wexpro agreements do not explain the reason for the 1.5%-1.6% addition to the average rate for the 20 comparison companies. However, it appears that the intent was to provide Wexpro with an initial base rate of return of 16%, notwithstanding the fact that the average return for the 20 comparison companies was 14.35% at that time the agreement was initiated. By carrying this differential through the calculation each year and taking into account changes to the set of 20 companies used in the calculation, Wexpro's base rate of return has exceeded the average authorized equity rate of return for the 20 comparison companies by an average of about 1.6%.

We examined the worksheets used to support and calculate the Wexpro I base rate of return during the audit period and found the calculations were consistent with the requirements of the agreement. We also compared Wexpro's base rate of return during the audit period to a benchmark based on an average of equity rates of return authorized for U.S. electric utilities in rate cases filed during this period. The comparison is based on the assumption that the base component of Wexpro's rate of return is intended to approximate that of an average utility equity return. The results are summarized in the table below. We found that Wexpro's base rate was higher than the average rate awarded to electric utilities by an average of 2.2%. There are two primary reasons for this.

- About two-thirds of the difference is associated with the 1.5%-1.6% addition to the 20-utility average rate as discussed above. Without this addition, Wexpro's base rate would have been higher than the awarded electric utility average rate by a little less than 1.0%, on average.
- The remaining difference is primarily due to the time lag built into the comparable company rate of return calculation used in the Wexpro calculation. Equity rates of return awarded to utilities have been declining along with interest rates since the Wexpro agreement was first implemented in 1981. The set of companies used as the benchmark in Wexpro's base rate of return includes companies whose currently authorized rates of returns were established at various points in the past, ranging from a one or two years to as much as almost three decades.[105]

[104] This additional component of the base rate was 1.65% at the time of the Wexpro agreement. As of May 31, 2014, it was 1.52%. It changes as the utilities included in the group of 20 comparables changes. The companies have changed as utilities have been affected by mergers and absorbed into larger companies, thereby losing their pre-transaction authorized equity returns.

[105] For example, Wexpro's 2014 base rate of return calculation continued to incorporate an authorized equity return of 14.85% for Intermountain Gas Company. This rate was authorized in 1985 and remained in effect as of 2014. 14.85% is approximately 500 basis points above the equity rates of return currently being awarded to gas utilities.

Table 3-20 – Comparison of Wexpro's Base RoR with Equity RoRs Authorized for U.S. Electric Utilities

Comparison of Wexpro's Base RoR with Equity RoRs Authorized for U.S. Electric Utilities				
Calendar Year/Test Year	Wexpro Base RoR for Cost of Service	Electric Utility Equity Return Awards		Wexpro Base RoR Higher by
		# of Rate Case Filings	Avg. Awarded Equity RoR	
2005	13.02%	34	10.48%	2.54%
2006	12.89%	48	10.34%	2.55%
2007	12.78%	46	10.27%	2.51%
2008	12.59%	42	10.37%	2.22%
2009	12.49%	66	10.48%	2.01%
2010	12.45%	55	10.27%	2.18%
2011	12.45%	50	10.23%	2.22%
2012	12.32%	53	10.22%	2.10%
2013	12.12%	46	10.01%	2.11%
Q1 2014(1)	11.98%	9	10.23%	1.75%

Sources: Response to data request 4.11 and Edison Electric Institute Q1 2014 Financial Update - Rate Case Summary.

(1)Awarded RoR data available through the end of Q1 2014.

The electric utility returns compared to Wexpro's base return above are conservative (i.e., they are on the high side for the purpose of comparison with Wexpro's base rate) for the following reasons:

- A typical utility's capital structure (exclusive of accumulated deferred income tax) is financed between 50% and 55% with long-term debt. Debt raises financial risk (the risk that a company will not be able to pay its creditors without affecting equity shareholders) and this increases the rate of return required to attract equity capital. During the audit period, Wexpro had no long-term debt in its capital structure. Given that Wexpro is essentially 100% equity financed, the base component of its equity rate of return should be lower than that of the average utility in the utility comparison group. The data in the table above does not attempt to adjust for this, but 100% equity financing would likely decrease authorized return on equity by at least 100 basis points.
- The table data includes electric utilities only. Equity rates of return awarded to gas utilities in recent years have been about 50 basis points (1/2%) lower, on average, than electrics.[106] If gas utilities had been included in the data, we estimate the average awarded equity return rates in the preceding table would be about 25 basis points lower in each year.

Using the Edison Electric Institute data as a benchmark, we estimate that Wexpro's OSF was higher by a total of approximately $133 million for the 10-year audit period than it would have been if Wexpro's base rate of return had been based on a contemporaneous set of equity rates awarded to U.S. electric utilities during each audit period year. This calculation is summarized in the following table.

[106] David E. Ziegner, Return on Equity for U.S. Utilities, A Brief Overview, May 5, 2013.

Table 3-21 – OSF Return and Tax Impact of the Difference Between Wexpro's Base RoR & Equity RoRs Authorized for U.S. Electric Utilities

OSF Return and Tax Impact of Difference Between Wexpro's Base RoR and Average Equity RoRs Authorized forU.S. Electric Utilities $ Amounts in 000s					
Year	Pct. Wexpro's Base RoR Higher Than Avg Authorized Electric Utility Equity RoR[(1)]	Average Wexpro I OSF Investment Base	Approximate OSF Impact (Additional Return & Tax) Associated with Higher Wexpro Base RoR		
			Addn. Base RoR Return	Addn. Income Tax	Total Addn. OSF
2005	2.54%	$ 194,550	$ 4,942	$ 2,780	$ 7,721
2006	2.55%	225,036	5,738	3,228	8,966
2007	2.51%	274,141	6,881	3,871	10,751
2008	2.22%	347,515	7,715	4,340	12,054
2009	2.01%	412,536	8,292	4,664	12,956
2010	2.18%	434,674	9,476	5,330	14,806
2011	2.22%	453,630	10,071	5,665	15,735
2012	2.10%	489,603	10,282	5,783	16,065
2013	2.11%	554,080	11,691	6,576	18,267
2014	1.75%	570,625	9,986	5,617	15,603
Estimated Total OSF Impact 2005-2014			$ 85,073	$ 47,854	$ 132,926

Sources: Response to data request 4.11; Edison Electric Institute Q1 2014 Financial Update - Rate Case Summary; Questar Form 10Ks.
The base return and tax differences include cost of service component offsetting (reducing) shareable oil revenue.
[(1)]2014 awarded RoR data available is through the end of Q1.

Base Rate of Return – Wexpro II

Although the Wexpro II agreement contains the same formula for base rate of return, it does not apply to the property approved for inclusion in the Wexpro II investment base in 2014. The rate of return on the production-in-place approved for OSF recovery beginning in 2014 is a "commission-allowed rate of return." During 2014, Wexpro calculated return for Wexpro II property using a commission-allowed rate of 7.65%.

Risk Premium Components of Wexpro's Return

Under the Wexpro I agreement, Wexpro's investments in commercial development wells provide for a risk premium of 8% or 5% on the investment base (before consideration of any oil income sharing), depending on whether the well is designated as gas or oil development and whether the product from the well is gas or oil. The Wexpro I agreement addresses risk premium as follows:

- Development Oil Drilling – If a commercial well results [from additional development drilling into productive oil reservoirs] the investment in such a development oil well will be included in the investment of Wexpro. In lieu of the base rate of return r, the rate of return on commercial development oil wells will be equal to the base rate of return plus a risk premium of 5.00% (r + 5.00) [Article II, Sec. II-8(b)].
- Development Gas Drilling – Investment in [commercial] development gas wells will be entitled to an additional 8.00% (base RoR + 8.00%) [Article III, Sec. II-5(c)].

- "New Oil" from Productive Gas Reservoirs – Any allocated oil investment related to post-July 1981 [commercial] development gas wells will carry with it the entitlement to apply a 5.00% risk premium in the "54-46 formula" as specified for development oil drilling in Article II [Article III, Sec. III-9(c)].

Most of Wexpro's development drilling since 1981 has been in the Development Gas well category. Development wells may produce both gas and oil. Within each category, Wexpro allocates PP&E between products based on the energy-equivalent (Mcfe) amounts of gas and oil produced. We examined available OSF calculation packages (January 2007 through December 2014) and found that the Company's allocations and the application of risk-adjusted rates of return to each well and product category was consistent with the requirements of the Wexpro I agreement. Development drilling under the Wexpro II agreement had not occurred as of year-end 2014. As such, risk premiums did not apply to any Wexpro II investments during the audit period.

The Basis for Risk Premiums in Wexpro's Rates of Return

Under the Wexpro agreements, risk premiums apply to development gas and oil investment and primarily to gas development drilling. Risk premiums do not apply to investment in producing assets acquired "in place" by Wexpro. The Wexpro agreements do not explain or describe the reasons or basis for risk premiums on development investment, they merely state that Wexpro is entitled to them. Presumably, however, since the risk premiums apply only to production developed by Wexpro, it is reasonable to assume the premiums are intended to compensate Wexpro for the risks associated with development. Overland analyzed the risks Wexpro encountered in its development drilling during the audit period. We also evaluated the business risks described for Wexpro in Questar's Form 10K, and we calculated the impact of risk premiums on the OSF during the audit period. Our analysis is discussed below.

OSF Costs Associated with the Rate of Return Risk Premium

Using the details from available OSF calculation packages, we estimated that the return on investment and income tax from the risk premium component of the rate of return totaled approximately $457 million during the audit period. This calculation is shown below.

Table 3-22 – OSF Return and Tax Impact of the Risk Premium Components of Wexpro's Equity Return

OSF Return and Tax Impact of the Risk Premium Components of Wexpro's Equity Return Amounts in $000s								
Year	WP I Average OSF Investment Base	Development Gas (Gas) Inv. Base			Development Oil (Gas & Oil) and Development Gas (Oil) Inv. Bases			OSF Impact before Oil Sharing Effects
		Pct of Inv. Base	Risk Premium	Appx. OSF Return & Tax	Pct of Inv. Base	Risk Premium	Appx. OSF Return & Tax	
2005	$ 194,550	90.00%	8.00%	$ 21,550	7.00%	5.00%	$ 1,048	$ 22,598
2006	225,036	89.65%	8.00%	24,831	6.73%	5.00%	1,165	25,995
2007	274,141	89.79%	8.00%	30,294	6.30%	5.00%	1,328	31,622
2008	347,515	88.60%	8.00%	37,897	8.22%	5.00%	2,198	40,095
2009	412,536	88.62%	8.00%	44,995	8.89%	5.00%	2,821	47,817
2010	434,674	88.95%	8.00%	47,585	8.57%	5.00%	2,866	50,451
2011	453,630	88.16%	8.00%	49,222	9.27%	5.00%	3,236	52,458
2012	489,603	87.00%	8.00%	52,428	11.04%	5.00%	4,157	56,584
2013	554,080	84.01%	8.00%	57,289	14.69%	5.00%	6,261	63,550
2014	570,625	83.79%	8.00%	58,847	14.85%	5.00%	6,516	65,363
Totals				$ 424,938			$ 31,595	$ 456,533
Sources: Response to data requests 4.11, Attachment 1 & 7-13, "OSF Calc Packages" Premium return and tax Includes the cost of service component reducing shareable oil revenue.								

Risk Associated with Development Drilling

Development drilling consists of drilling in areas with proven reserves. Once drilled, development wells may be fully commercial, less than fully commercial (marginally commercial), or non-commercial.

- Fully Commercial – A fully commercial well is one that is expected (30 days after initial production begins) to fully recover its capital cost over its production life, based on expected cash flow discounted at 10%.[107]
- Less Than Fully (Marginally) Commercial – A well in this category is expected to recover at least half, but less than 100%, of its capital cost over its production life based on cash flow discounted at 10%.
- Non-Commercial – A non-commercial well is one expected to recover less than half its capital investment using expected cash flow discounted at 10%. The well may be placed into production (a "W-100" well) if incremental revenues exceed operating expenses. If not, it is classified as a dry hole.[108]

The Wexpro I and II agreements define the assignment of development drilling risk based on these categories. Capital costs of wells classified by Wexpro as "fully commercial" or "less than fully commercial" are placed into the OSF investment base and recover a return on investment from QGC's utility customers. During the audit period, the return on investment in these categories (between 15% and 21%) averaged nearly 20% and constituted approximately 97.4% of Wexpro's overall capital

[107] Wexpro described 10% as an "industry standard" discount rate for evaluating future cash flows.

[108] Under Article I, Sec. I-19 of the Wexpro I agreement, a "dry hole" is defined as "a development well that (i) upon completion is clearly uneconomical to produce and is plugged and abandoned while the drilling rig is in place, or (ii) is otherwise not determined to be a commercial well ..."

investment. Most of this was classified in the Development Gas category and earned an after-tax return averaging slightly more than 20%. Audit period investment is summarized in the following table.

Table 3-23 – Wexpro Development Drilling Investment in Commercial & Non-Commercial Wells

Wexpro Development Drilling Investment in Commercial & Non-Commercial Wells $ Amounts in 000s							
Year	Non-Commercial				Commercial		Pct. Non-Commercial Investment
	"W-100" Wells	"Dry Holes"	Total Non-Comm	Investment Amount	Gross Wells	Investment Amount	
2005	6	1	7	$ 362	38	$ 56,166	0.64%
2006	3	5	8	2,581	50	83,136	3.01%
2007	4	10	14	3,690	47	109,331	3.26%
2008	-	2	2	238	77	144,779	0.16%
2009	1	5	6	7,269	51	110,155	6.19%
2010	1	-	1	252	61	94,157	0.27%
2011	-	4	4	1,662	74	144,278	1.14%
2012	-	4	4	8,160	79	145,523	5.31%
2013	3	2	5	4,084	60	135,932	2.92%
2014	-	1	1	451	11	49,185	0.91%
Totals	18	34	52	$ 28,749	548	$ 1,072,642	2.61%
Source: Response to data request 4-18, Attachment.							

Except for the small portion of capital investment in wells classified as non-commercial, the risk associated with audit period development drilling was borne by QGC's customers to the extent that OSF costs exceeded the cost of gas purchased at market prices.

Risk Associated with Non-Commercial Wells

Approximately 2.6% of Wexpro's capital investment during the audit period in drilling was classified as "non-commercial." The risk associated with non-commercial investment was borne by the shareholders of Wexpro's parent, Questar, since the cost cannot be recovered through the OSF. However, as noted above, the risk associated with wells in this category was mitigated by the revenue that Wexpro received from non-commercial wells that were put into production (shown above as "W-100" wells).

Evaluation of Business Risks Described in Questar's Form 10K

Overland also evaluated the "risks inherent in the Company's business" as defined by Questar in its Form 10Ks. The following business risks were attributed to Wexpro.[109] We evaluated these risks in the context of whether, during the audit period, they were borne by Questar's shareholders (and therefore support Wexpro's collection of a risk premium in its cost-of-service return) or by QGC's utility customers, because they were effectively passed on to QGC's utility customers through the OSF. For the most part, during the audit period, the risks attributed to Wexpro were manifested as higher costs for QGC's utility customers rather than lower returns for Questar's shareholders. The underlined text

[109] Questar 2014 Form 10K, Item 1A – Risk Factors.

consists of the risks attributable to Wexpro as Questar described them in its 2014 Form 10K. Our evaluation follows the underlined text.

- Low oil and natural gas prices impact the Company's earnings and ability to grow its Wexpro and Questar pipeline businesses. Declines in gas and oil prices during the audit period did not really affect Wexpro's earnings. Nearly all of Wexpro's investment in oil and gas production during the audit period was placed into the OSF investment base and was recovered from QGC's utility customers via pass-through of return and depreciation. For the most part, the decline in market prices for gas, and more recently oil, have imposed a penalty cost on QGC's customers, rather than a risk to or reduction of Wexpro's earnings. However in the long-run, any significant, on-going disparity between the market price for natural gas and the cost-based price passed through the OSF presents a regulatory risk to Questar and its shareholders, because the agreements which provide for cost-of-service treatment of most Wexpro production are subject to ongoing review by the Utah DPU and Wyoming Public Service Commission. In addition, because the forecasted commercial viability of development wells (and therefore their inclusion in Wexpro's investment base) is based on, among other things, five-year forward market prices, excessively low prices could significantly affect Wexpro's ability to expand gas production or even replace its existing production.
- Wexpro may not be able to economically find and develop new reserves. Wexpro's Form 10K states that its profitability depends on its ability to develop gas reserves that are economically recoverable. Even with lower gas prices that occurred during the second half of the audit period, Wexpro placed more than 97% of its investment in development drilling into its OSF investment base, where it was recovered on a cost-of-service basis through the OSF. However, as noted above, low five-year forward prices, combined with high finding costs and operating expenses, could limit the development opportunities available to Wexpro going forward. This may be already occurring.
- Wexpro's rate of development of cost-of-service gas may be limited by growth in Questar Gas's sales volumes. Wexpro's sales to QGC are currently capped at 65% of QGC's gas purchases. To the extent Wexpro is already supplying gas to QGC at or near the 65% level, the growth in Wexpro's cost-of-service earnings would be limited by the rate of growth in QGC's sales volumes.
- Wexpro has market price risk if production exceeds 65% of Questar Gas's forecasted demand. With the approval in 2014 of cost-of-service treatment for the Trail acquisition under Wexpro II, Wexpro agreed to manage its combined cost-of-service production to 65% of QGC's annual forecasted demand. Beginning in mid-2015, should Wexpro's sales to QGC exceed this cap, it may be required to pay back any excess of its OSF-based cost of service price and QGC's purchased gas price. As such, going forward, Questar's shareholders (rather than QGC's customers) effectively bear the risk associated with cost-of-service prices that are higher-than-market for production above 65% of QGC's sales volume. However, this risk did not apply during the 2005-2014 audit period. It should also be noted that Wexpro can mitigate this risk by making adjustments to development plans and by shutting in existing production when

necessary. The cost-per-unit impact of shutting in production is borne by QGC's customers through the OSF.

- Gas and oil reserve estimates are imprecise and subject to revision. – Questar's 2014 Form 10K states that "[g]as and oil reserve estimates are subject to numerous uncertainties in estimating quantities of proved reserves, projecting future rates of production and timing of development [drilling] expenditures." The reserves that most directly affect Wexpro's OSF operations and costs are those which are proven and developed (i.e., reserves associated with production in place). Overall, during the audit period, Wexpro's proven developed net interest reserves were revised downward by approximately 55 Bcf.[110] Over time, downward revisions effectively increase the cost of production on a per-unit (i.e. per Mcf) basis. Because nearly all of Wexpro's investment in gas & oil property, plant and equipment is placed into the OSF investment base, the higher costs-per-unit (and therefore the risk) associated with downward revisions to developed reserves were effectively passed on to QGC's utility customers through the OSF.
- Wexpro may acquire properties not subject to the Wexpro or Wexpro II agreements. – Questar notes that "Wexpro may acquire gas development properties that are in locations separate from its current operations or are not approved by the Commissions for inclusion in the Wexpro II Agreement." Because the costs of such development would not be passed through the OSF, the associated risks would be borne by Wexpro and by Questar's shareholders, rather than QGC's customers. No such property appears to have been acquired during the audit period.

The extent to which business risks were shared between Wexpro's shareholders and QGC's customers during the audit period can be summarized with the following two metrics:

- Between 2005 and 2013, Wexpro's rates of return on investment base varied only slightly around an average of about 20%, from a low of 19.7% to a high of 20.4%. The overall rate dropped in 2014 because Wexpro acquired a significant amount of production-in-place property under the new Wexpro II agreement, and, because it carried no risk premium, the rate of return applicable to the acquired Wexpro II property (7.65%) was significantly lower than the rate applicable to most of Wexpro I investment base (nearly 20%).[111]

Table 3-24 – Wexpro's Annual Rates of Return on Average Investment Base

Wexpro's Annual Rates of Return on Average Investment Base									
2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
20.4%	19.9%	19.9%	20.0%	19.8%	19.8%	20.0%	19.9%	19.7%	17.9%
Source: Questar Forms 10K, 2005-2014.									

[110] 2014 Hydrocarbon Monitor's Report, p.2. From 2005 through 2009, net interest revisions to developed reserves were approximately 20 Bcf upward. During the years 2010 through 2014, net interest revisions were approximately 75 Bcf downward. [redacted]

[111] Because the base component of rate of return under Wexpro II is about 4% lower than the base component as defined in Wexpro I, the Company will also earn a lower rate of return on Wexpro II development investment. For example, using the current Commission-allowed base rate of return (7.65%), development gas drilling under Wexpro II will earn approximately 15.6%, vs. slightly less than 20% under Wexpro I.

- During the audit period, the cost-per-Mcfe for gas billed to QGC through the OSF increased at an annual average rate of 5.5% (a rate at which price doubles approximately every 13 years). Specifically, the cost of gas excluding royalties, which is billed outside the OSF, increased from an average of $3.15 per Mcfe in 2005 to an average of $5.51 in 2014.[112]

OSF Income Tax Expense

In order to provide for agreement-specified investment return on an after-tax basis, the OSF includes income taxes that must be paid on the return. Income tax expense is a more significant component of Wexpro's cost, compared with most utilities, because Wexpro's return on investment base is 100% equity. As such, income tax expense must be provided on the entire return amount. The Wexpro I agreement (Article I, Sec. 38) provides for income tax expense at Wexpro's marginal composite income tax rate, in accordance with the following formula:

$$t = tf (1 – ts) + ts$$

where:

tf is the federal income tax rate applicable to Wexpro's highest level of income if Wexpro filed a its own federal tax return;

ts is the weighted average state tax rate applicable to each calendar year, based on a calculation that weights Wexpro's relative state taxable income in each state using an average of investment, gross receipts and wages, as shown in Exhibit D to the Wexpro agreement.

OSF income tax expense treats Wexpro as though it files a "stand-alone" return, apart from that of its parent, Questar. As such, items such as net losses that may lower taxes on Questar's consolidated tax return are not allocated to Wexpro for the purpose of the OSF calculation. Consistent with standard cost-of-service calculations used in setting utility rates, the Wexpro agreements' tax formulas also provide the Company with both the taxes owed in the current period and taxes that will be owed in the future. As discussed above under Accumulated Deferred Income Taxes, the deferred portion of income tax collected in the OSF serves as a source of cost-free capital and is deducted from the OSF investment base.

Federal income tax expense is a direct function of return on the investment base and the federal tax rate applicable to Wexpro's "highest level of income if Wexpro filed its own return." Wexpro uses a 35% effective federal tax rate in its OSF calculations. This assumes that Wexpro's federal taxable income (as

[112] Based on data in the OSF Summary Schedule (Response to data request 4.1-Other, updated). Calculated as follows 2005 - $125,904,000 "Net Due from QGC" / 40 Bcf production / 1,000,000 = $3.1476 and for 2014 - $349,817,721 "Net Due from QGC" / 63.5 Bcf production / 1,000,000 = $5.5089 / Mcf.

of 2014) was at least $18.33 million annually, a taxable income level that the OSF comfortably exceeded throughout the audit period.[113]

Wexpro conducts operations in six states. The effective weighted state income tax rate applicable to the OSF varies from year to year based on changes in the amounts of Wexpro investment, gross receipts, and wages from state to state.[114] The table below summarizes these states and the statutory and effective tax rates applicable in each state. Most of Wexpro's investment base and gross receipts are attributable to Wyoming, a state which imposes no income tax. As such, the overall composite state tax rate is significantly below the average of the statutory rates applicable in Colorado, Montana, New Mexico, and Utah.

Table 3-25 – Statutory & Effective State Tax Rates Applicable to Wexpro as of December 31, 2013

Statutory & Effective State Tax Rates Applicable to Wexpro As of December 31, 2013		
State	**Statutory Rate**	**Effective Rate**
Colorado	4.63%	0.87%
Montana	6.75%	0.00%
Nevada	No tax	
New Mexico	7.60%	
Utah	5.00%	0.80%
Wyoming	No tax	
Composite Effective Rate		1.67%
Source: Response to data request 7.25, Attachment.		

Taking into account the deductibility of state income taxes on the federal return, in accordance with the tax formula above, the net state tax rate component of the OSF federal-state rate for calendar year 2013 was 1.67% x (1 – 35%), or 1.086%. The Wexpro agreements (Article I, Sec. 38) state that the "weighted state tax rate calculated according to the formula given on Exhibit D, ts, will be fixed for each calendar year on the basis of data for the immediately previous calendar year." As such, the rate applicable to the OSF in 2014 should be the rate based on data for calendar year 2013, as shown above. However, in attempting to trace the 2013 state tax rate into 2014 OSF calculation packages, we found that it was not picked up in the OSF calculation until November 2014. The net state tax rate used in the OSF for most of the year 2014 was 1.20%, a rate used to calculate the OSF from November 2013 through October 2014. It is likely that the 1.20% rate applies to calendar year 2012 and that the rates used in the OSF calculation packages are approximately 11 months behind the point at which the Wexpro agreements suggest they should be used.

[113] Based on the federal tax schedules for corporations, the effective federal tax rate is slightly less than 35% for taxable incomes below $18.33 million.

[114] Except for Colorado, taxable income is currently apportioned to states based on the average percentages of investment (gross PP&E), gross receipts, and wages paid in each state. In Colorado, subsequent to 2008, apportionment has been based only on the Colorado percentage of total gross receipts.

OSF Depreciation Expense

Depreciation expense reflects the return of capital that Wexpro adds to the OSF investment base. During the audit period, it rose at an average annual rate of 16.5%, faster than any other component of OSF cost. It increased from 19% of the OSF in 2005 to more than 28% in 2014. During the same period, return and income tax rose at an annual rate of 12.1%, while the average investment base rose at an annual rate of 13.7%.

Table 3-26 – OSF Depreciation Expense

OSF Depreciation Expense $ Amounts in 000s											
Item	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Avg. Annual Pct. Increase
Wexpro I Depreciation	$25,006	$31,068	$29,132	$46,037	$56,276	$58,501	$58,953	$70,211	$76,955	$89,911	15.3%
Wexpro II Depreciation	-	-	-	-	-	-	-	-	-	8,772	
Total OSF Depreciation Expense	$25,006	$31,068	$29,132	$46,037	$56,276	$58,501	$58,953	$70,211	$76,955	$98,683	16.5%
Production Volumes (Bcf)	40.0	38.8	34.9	46.1	48.2	50.2	50.5	57.5	59.2	63.5	
Expense per Mcf	$ 0.63	$ 0.80	$ 0.83	$ 1.00	$ 1.17	$ 1.17	$ 1.17	$ 1.22	$ 1.30	$ 1.55	10.6%
Source: Response to data request DPU 4.1.											

Analysis of OSF Depreciation

The following table summarizes OSF depreciation expense in total and per Bcf of gas produced, and the rate of depreciation for the years 2007 through 2014.[115]

Table 3-27 – OSF Depreciation Expense on Gas PP&E – 2007-2014

OSF Depreciation Expense on Gas PP&E - 2007-2014 $ Amounts in 000s					
Year	Avg. OSF Net Gas PP&E(1)	OSF Depreciation Expense on Gas PP&E(1)	Annual Depreciation Rate	Gas Production (Bcf)	Gas Depreciation Exp. per Bcf
2007	$ 301,713	$ 29,132	9.66%	34.9	$ 835
2008	370,281	46,037	12.43%	46.1	999
2009	442,500	56,276	12.72%	48.2	1,168
2010	480,490	58,501	12.18%	50.2	1,165
2011	518,108	58,953	11.38%	50.5	1,167
2012	562,864	70,211	12.47%	57.5	1,221
2013	599,193	76,955	12.84%	59.2	1,300
2014	655,170	98,683	15.06%	63.5	1,554
Avg. Rate of Increase	11.7%	19.0%			9.3%
Sources: Responses to data requests 4-1 (OSF Summary Sch.) & 7-13 (OSF calc.pkgs). (1)Excludes Oil PP&E. 2014 includes Wexpro I & II.					

[115] OSF calculation packages and data were unavailable for 2005 and 2006.

Depreciation allocated to oil runs through the OSF oil sharing calculation and is excluded from the table above. Most of Wexpro's depreciation is computed on a unit-of-production basis. The increase in the rate of depreciation, from 9.7% in 2005 to 15.1% in 2014, is reflective of an increasing rate of reserve depletion, as production from Wexpro's pre-1981 "type 1" wells is replaced with production from faster-declining "type 2" wells. The following table provides a breakout of 2014 depreciation on OSF gas PP&E by well category.

Table 3-28 – 2014 Depreciation on OSF Gas PP&E

2014 Depreciation on OSF Gas PP&E Amounts in $000s	
Well Category	**Amount**
WP-I Prior Wexpro	$ 83
WP-1 Development Oil	296
WP-1 Development Gas	87,327
WP-I Prior Company	2,205
WP-II	8,772
Total	$ 98,683
Source: Response to data request 4.1 (OSF Summary Sch.).	

2013-2014 Depreciation Details

Wexpro provided Wexpro I and II depreciation detail for the period April 2013 through November 2014.

Wexpro I Depreciation

The following table shows depreciation expense for part of 2013 and all of 2014 on Wexpro I PP&E, before allocation between gas and oil. It includes depreciation on a small amount of non-commercial PP&E that excluded from the OSF investment base. It shows that quarterly depreciation peaked in first quarter of 2014 as a significant amount of investment from drilling activity in 2013 came on line. Had drilling continued in 2014 at the same pace as 2013, it is likely that total OSF depreciation for 2014 would have exceeded $110 million.

Table 3-29 – Wexpro I OSF Depreciation Detail (Oil & Gas Combined) – April 2013 through December 2014

Wexpro I OSF Depreciation Detail (Oil & Gas Combined) - April 2013 through December 2014 Amounts in $000s							
Category	**Q2 2013**	**Q3 2013**	**Q4 2013**	**Q1 2014**	**Q2 2014**	**Q3 2014**	**Q4 2014**
LWE Lease Well Equipment)	$ 145	$ 153	$ 187	$ 152	$ 154	$ 165	$ 187
GSE (Gen'l Support Equip)	331	329	325	323	327	332	320
OPE (Other Production Equip)	268	272	289	299	320	358	369
IDC (Intangible Drilling Costs)	39	64	134	56	46	78	286
Total Straight Line	784	817	934	829	847	933	1,163
Unit of Production	18,751	18,282	21,981	25,717	22,855	20,406	19,407
ARO Assets	913	889	655	606	1,038	451	589
Salvage Value Depreciation	(1,014)	(980)	(947)	(1,159)	9	(875)	(827)
Clearing Account - Vehicles	(141)	(140)	(133)	(131)	(138)	(146)	(142)
Contract Rec.- ARO Depr Monthly	83	71	92	73	73	126	72
Accretion - Regular Monthly	766	771	774	791	802	813	814
Total Other	607	610	441	179	1,784	369	508
Total All Categories	$20,142	$19,709	$23,356	$26,726	$25,487	$21,709	$21,077
Source: Response to data request 7.04, Attachment.							

As noted above, the rate of depreciation has increased as older wells with slower rates of production decline have been replaced by newer wells with faster production decline rates. Wexpro's depreciation rates are directly related to production decline rates because most of Wexpro's depreciation is calculated on a unit-of-production (UoP) basis. UoP depreciation is calculated as follows:

Monthly depreciation expense = Net PP&E X (Monthly Production / Beg. of Month Reserves)

A majority of Wexpro's production during the audit period came from the Pinedale-Mesa and Canyon Creek fields, both of which have relatively high rates of production decline, and, therefore, high rates of depreciation. In fact, while Pinedale-Mesa accounted for a little less than one-third of Wexpro's total 2014 production, it accounted for almost half of total 2014 depreciation expense. The following table contains a break out 2014 Wexpro I depreciation expense for Pinedale-Mesa and Canyon Creek.

Table 3-30 – Comparison of Wexpro's 2014 Unit of Production-Based Depreciation Rates for Pinedale-Mesa, Canyon Creek and in Total

Comparison of Wexpro's 2014 Unit of Production-Based Depreciation Rates for Pinedale-Mesa, Canyon Creek and In Total[1] $ Amounts in 000s												
Month	Pinedale-Mesa			Canyon Creek Dome			All Others			Total		
	Production (Mcfe)	Depr. Exp.	Monthly Depr. Rate[2]	Production (Mcfe)	Depr. Exp.	Monthly Depr. Rate[2]	Production (Mcfe)	Depr. Exp.	Monthly Depr. Rate[2]	Production (Mcfe)	Depr. Exp.	Monthly Depr. Rate[2]
Jan-14	2,266,188	[redacted]	[redacted]	1,233,990	[redacted]	[redacted]	1,912,830	2,462	0.77%	5,413,008	$ 8,677	1.12%
Feb-14	1,969,680			1,579,368			1,971,726	2,487	0.80%	5,520,774	8,432	1.15%
Mar-14	1,945,728			1,497,708			1,967,388	2,659	0.85%	5,410,824	8,608	1.17%
Apr-14	1,613,562			1,320,630			2,087,796	2,687	0.92%	5,021,988	7,647	1.09%
May-14	1,726,758			1,192,230			1,901,958	2,571	0.84%	4,820,946	7,723	1.06%
Jun-14	1,701,228			1,092,162			1,828,362	2,478	0.82%	4,621,752	7,486	1.02%
Jul-14	1,612,848			1,109,316			1,911,402	2,568	0.86%	4,633,566	7,389	1.04%
Aug-14	1,570,242			1,059,252			1,469,622	2,046	0.67%	4,099,116	6,731	0.93%
Sep-14	1,532,922			751,128			1,533,252	1,970	0.70%	3,817,302	6,287	0.87%
Oct-14	1,525,290			1,071,456			1,627,584	2,209	0.76%	4,224,330	6,781	0.97%
Nov-14	1,457,592			998,862			1,462,938	2,004	0.69%	3,919,392	6,218	0.89%
Dec-14	1,483,962			933,216			1,612,656	2,187	0.76%	4,029,834	6,408	0.92%
Totals / Avg. Rates	20,406,000	[redacted]	[redacted]	13,839,318	[redacted]	[redacted]	21,287,514	28,328	0.78%	55,532,832	$ 88,387	1.02%

Source: Response to data request 7.04, Attachments, 2014 depreciation.

[1]Includes depreciation on gas and oil, all well categories. Includes depreciation on non-commercial wells.

[2]Depreciation expense as a percentage of beginning-of-month net PP&E.

To summarize, average 2014 monthly UoP depreciation rates under Wexpro I were as follows:

- Mesa-Pinedale (37% of Wexpro I production) 1.21%/month
- Canyon Creek (25% of Wexpro I production) 1.26%/month
- 30+ Other fields (38% of Wexpro I production) 0.78%/month

Wexpro II Depreciation Expense

Wexpro II took effect in February 2014. Below is 2014 monthly depreciation on Wexpro II property acquisitions.

Table 3-31 – Wexpro II OSF Depreciation Detail – February 2014 through December 2014

Wexpro II OSF Depreciation Detail - February 2014 through December 2014 Amts. In $000s								
Month	Well	Book Leasehold	Other OSF Leasehold	Accretion & ARO	Gen'l Plt Allocated	Total OSF Depr. Exp.	PP&E Investment	OSF Depr. Exp. Rate
Feb-14	-	-				-	-	
Mar-14	$ 38	$ 205	$ 479	$ 21	$ 2	$ 745	$103,682	[redacted]
Apr-14	44	235	551	23	2	855	102,861	
May-14	46	249	585	24	2	906	101,978	
Jun-14	87	481	1,127	42	2	1,739	100,375	
Jul-14	31	174	408	19	2	634	99,841	
Aug-14	46	220	516	22	2	806	99,087	
Sep-14	45	229	536	23	2	835	98,415	
Oct-14	45	231	542	23	2	843	97,582	
Nov-14	38	189	444	20	2	693	96,896	
Dec-14	38	193	451	20	2	704	96,200	
Totals & Avgs. 2014	$ 458	$ 2,406	$ 5,639	$ 237	$ 20	$ 8,760	$ 76,686	[redacted]
Sources: Resp. to data requests 7-04 (2013 & 2014 depreciation detail) & 7-13 (OSF calculation pkgs.).								

As the table shows, the largest category of depreciation under Wexpro II is "other OSF" depreciation expense. Wexpro explained that this depreciation is associated with the portion of Wexpro II's acquisition cost allocated to undeveloped reserves.[116] By definition, undeveloped reserves have not been developed and, therefore, have no PP&E or book depreciation associated with them. Under the OSF, Wexpro is not permitted to earn a return on the portion of the acquisition allocated to undeveloped reserves. However, notwithstanding the fact that there is no book depreciation, Wexpro is permitted to depreciation and recover the acquisition cost of the undeveloped portion of reserves under the Wexpro II agreement.[117]

Approximately two-thirds of the Wexpro II depreciation during 2014 was attributable to the un-booked (OSF only) portion of depreciation associated with the undeveloped reserves portion of the acquisition price.

Reconciliation of 2014 OSF and Book Depreciation Expense

Differences between book and OSF depreciation in 2014 are summarized in the following table.

[116] Phone discussion with John Yin, Wexpro Director of Accounting, December 18, 2015.

[117] Wexpro II agreement, Article 4, Sec. 6 states "[t]he acquisition costs will be depreciated on a unit of production method using only the reserves from proved developed producing wells at the time of acquisition."

Table 3-32 – 2014 Depreciation Expense Tie-Out OSF to Recorded per Book

2014 Depreciation Expense Tie-Out OSF to Recorded per Book			
Component	2014		
	WP-I	WP-II	Total
Depreciation Expense per Calculation Package (Gas & Oil)[1]	$93,580,698	$8,771,623	$ 102,352,321
Depreciation Expense per Monthly Financial Statements (Gas & Oil)[2]	$96,711,139	$3,111,160	$ 99,822,299
Variance	$ (3,130,441)	$5,660,463	$ 2,530,022
Sources: 1) Response to DPU 7-13, "OSF Calc Packages", 2) Response to DPU 13-05, "12_2014 Financials".			

The $3.1 million difference between book and OSF depreciation expense for Wexpro I consists of non-commercial wells depreciation on the books but not in the OSF figure. Wexpro stated that the $5.7 million difference associated with Wexpro II is due to depreciation on proven *undeveloped* reserves that it is permitted to take for OSF purposes, but that is not recorded for book purposes.[118] At this time, we have been unable to locate any documentation that addresses the extra depreciation taken for OSF purposes; however, we did confirm that Wexpro II's OSF investment base is reduced by the additional depreciation.

[118] Discussion with Mr. John Yin, Director, Wexpro Accounting, December 22, 2015.

4. BENCHMARKING

Introduction

This chapter provides a comparison of cost, profitability and sales data of Wexpro to ten similar companies in the Exploration and Production industry.[119]

Summary of Findings

1. When major cost components, such as general and administrative expenses, lease operating expenses and depreciation, depletion and amortization (collectively, benchmarked costs) are considered, Wexpro was the third lowest cost producer among 10 peers were reviewed for the audit period. However, Wexpro's costs relative to its peers rose during the audit period. In 2005, Wexpro ranked as the second lowest cost producer among the eleven companies in its peer group; in 2014, Wexpro ranked seventh.
2. Wexpro's average sales price of Wexpro's natural gas on a per Mcf basis was third highest among 11 companies in 2013 and second highest in 2014. This is likely the result of Wexpro operating on a cost-plus basis with a 20% return on most qualifying investment, while its peers have had to operate in a market in which gas prices (and more recently, oil prices), have been declining.
3. During the audit period, the cost of service arrangement dictated by the Wexpro operating agreements resulted in Wexpro earning slightly less than its peers during periods of high gas prices and significantly more than its peers during periods of low gas prices.
4. When the entire ten-year audit period is considered, Wexpro is ranked near the top in profitability relative to its peers. Wexpro's earnings on a per Mcfe basis during this period were roughly three times the average and more than twice the median of its peer group. This indicates that the Wexpro agreement provides the Company with earnings that are much less volatile and, except in periods of high gas prices, significantly higher than its peers.

Benchmarking Methodology

Peer Group Development

During the discovery phase of this audit, we asked Wexpro to provide benchmarking studies that address the OSF, in whole or in part. The Company provided copies of a report released from Scotia Howard Weil (Weil), an investment bank that provides equity research in the energy industry.[120] The Weil reports consist of roughly 60 to 70 companies in the Exploration and Production (E&P) industry. According to the study's introduction, the purpose of the Weil review is to "serve as a ready-reference for key company data."[121] Even though all of the companies in the Weil report were from the E&P

[119] The underlying reasons for cost increases at Wexpro are addressed in other chapters of this report.

[120] Although the Weil report was only provided by the Company for three years, Overland was able to access the Weil reports beginning in 2009 off of the Howard Weil website. Each of these reports consisted of five years of data, with the 2009 reports providing data from to 2005.

[121] Response to field data request 1.01, Attachment 6.

industry, most of the study participants were not valid comparisons to Wexpro because of their differing energy production profiles. Wexpro produces both natural gas and oil, but the production of natural gas is a far more material portion of Wexpro's operations.[122] Some of the firms have substantially different energy production profiles than Wexpro.

In order to derive an appropriate group of companies with which to compare Wexpro, we used the following methodology:

1. We included only companies with data available for the entire 2005 to 2014 audit period;
2. We included only companies that participated in both the 2014 and 2009 Weil studies; and
3. We averaged the energy production profiles for the three years available and included only those companies that had an energy production profile similar to Wexpro's.
    a. For purposes of this analysis, we considered a company's energy profile to be similar to Wexpro's if the average percentage of natural gas was 75% or greater during the period.

The following ten companies in the Weil report met the three criteria listed above:

Table 4-1 – Benchmarking Analysis – Wexpro Peer Group

Company Name	Areas of Operation	2005 - 2014 Production Profile	
		Percentage of Liquids	Percentage of Natural Gas
Bill Barrett Corporation	Rockies	13%	87%
Cabot Oil & Gas	Marcellus, Eagle Ford	5%	95%
Chesapeake Energy	Appalachia, Louisiana, Texas, Anadarko Basin, Rockies	17%	83%
Comstock Resources	East Texas/North Louisiana, Eagle Ford, TMS	14%	86%
EQT Corp	Appalachian Basin, Permian Basin	3%	97%
Goodrich Petroleum	Haynesville, Eagle Ford, Tuscaloosa Marine Shale	15%	85%
PetroQuest Energy	Woodford, Gulf Coast Basin, Mississippian, E. Texas	23%	77%
Range Resources	Appalachia, Southwest, Mid-Continent	24%	76%
Southwestern Energy	Fayetteville, Marcellus, Utica, Brown Dense, Rockies	1%	99%
Ultra Petroleum	Appalachia, Rockies	6%	94%

Source: Scotia Howard Weil 2014 and 2009 F&D Cost Study.

[122] While Wexpro produces almost entirely natural gas, other companies in the Weil study produce primarily oil and oil byproducts. On an energy equivalent basis, natural gas represented roughly 95% of Wexpro's 2005 to 2014 total energy production, with oil representing the remaining 5%. In contrast, Northern Oil & Gas produced roughly 90% of oil and 10% of gas during this time period. The energy production profiles of Northern Oil & Gas and Wexpro are clearly dissimilar. Any comparison of cost elements between these two companies, therefore, would be of limited benefit.

Benchmarking Analysis Results

Comparison of Major Cost Components

For purposes of our review, we focused on the following three cost components (benchmarked costs):

- Lease Operating Expense;
- General and Administrative Expense; and
- Depreciation, Depletion and Amortization Expense.

These three cost items address expenses directly related to: operations (lease operating expense, LOE); administration costs and executive management (general and administrative, G&A); and fixed asset costs (depreciation, depletion, and amortization, DD&A). We excluded certain cost components because they were either highly irregular, not within the control of management, and/or not relevant to Wexpro. For example, we did not include interest expense in our analysis of costs because Wexpro has no debt financing.[123]

When these three costs are computed, Wexpro had an average cost of $2.13 per Mcfe over the audit period. This compares favorably to other companies in Wexpro's peer group. The average benchmarked cost per Mcfe for the peer group was $3.21, whereas the median was $2.91.

Table 4-2 – 2014 Combined LOE, G&A, and DD&A Statistics (2005-2014)

2014 Combined LOE, G&A, and DD&A Statistics (2005 through 2014)									
Company		Costs per Mcfe							
Symbol	Name	LOE per Mcfe		G&A per Mcfe		DD&A per Mcfe		Total per Mcfe	
		Rank	Amount	Rank	Amount	Rank	Amount	Rank	Amount
BBG	Bill Barrett Corporation	6	0.64	10	0.63	9	2.91	8	4.18
COG	Cabot Oil & Gas	7	0.68	6	0.43	6	1.81	6	2.91
CHK	Chesapeake Energy	9	0.87	2	0.31	7	1.87	7	3.05
CRK	Comstock Resources	8	0.86	7	0.46	10	3.27	10	4.59
EQT	EQT Corp	2	0.24	4	0.36	1	1.12	2	1.73
GDP	Goodrich Petroleum	10	0.90	11	0.97	11	3.86	11	5.74
PQ	PetroQuest Energy	11	1.17	9	0.60	8	2.52	9	4.29
RRC	Range Resources	5	0.62	8	0.51	4	1.61	5	2.74
SWN	Southwestern Energy	4	0.60	3	0.36	5	1.68	4	2.63
UPL	Ultra Petroleum	1	0.23	1	0.10	2	1.13	1	1.46
N/A	**Wexpro**	**3**	**0.41**	**5**	**0.37**	**3**	**1.35**	**3**	**2.13**
		Average	$0.66	Average	$0.46	Average	$2.10	Average	$3.22
		Median	$0.64	Median	$0.43	Median	$1.81	Median	$2.91
Source: Forms 10-K, 2014 and 2009 Weil Report.									

[123] "100% equity capitalization" at Wexpro. March 2015 Questar Corporation Investor Presentation, slide 5.

A graphical depiction of Wexpro's and peer companies' benchmarked costs – on both a combined and individual basis – over the audit period is provided in the following charts.

Chart 4-1 – Average Benchmarked Costs per Mcfe for 2005 through 2014

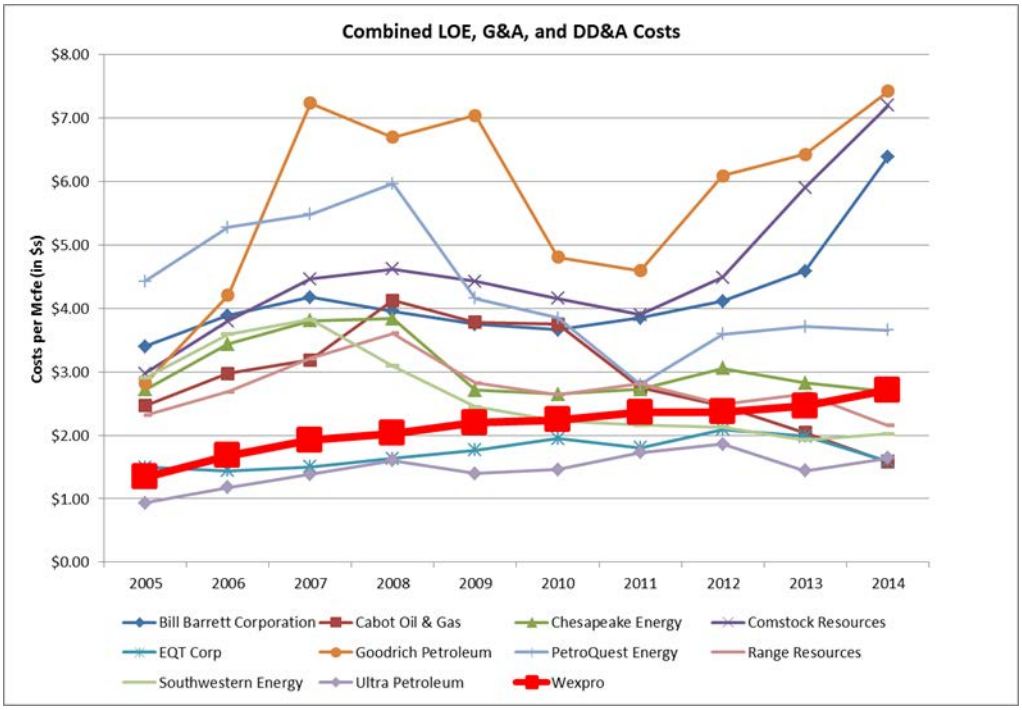


Chart 4-2 – Lease Operating Expense per Mcfe for 2005 through 2014

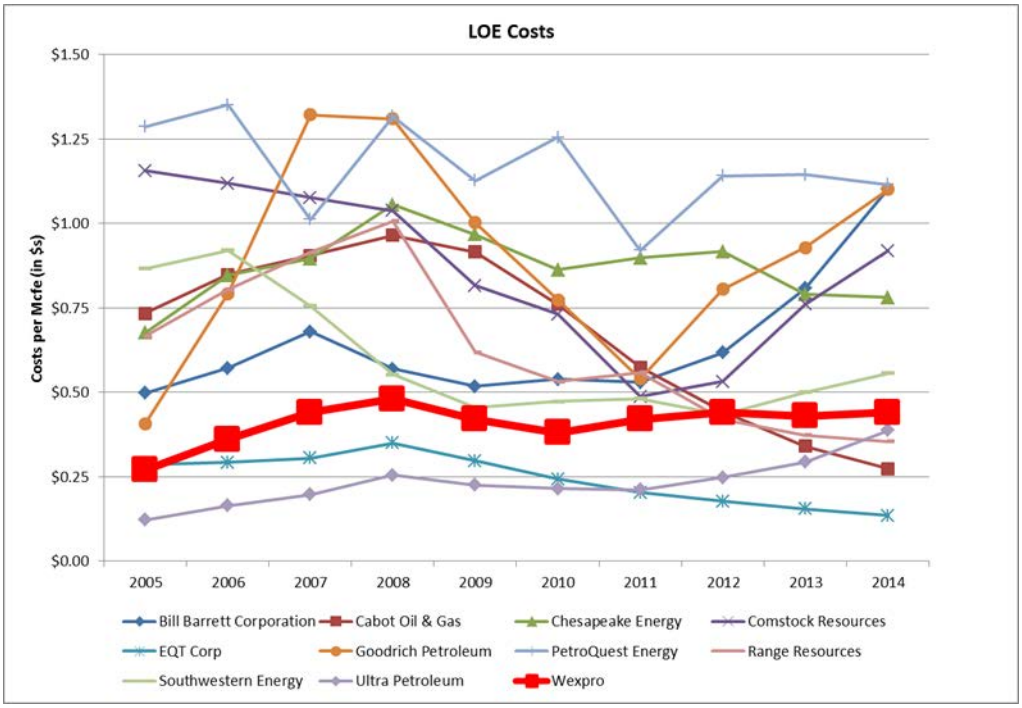


Chart 4-3 – General and Administrative Costs per Mcfe for 2005 through 2014

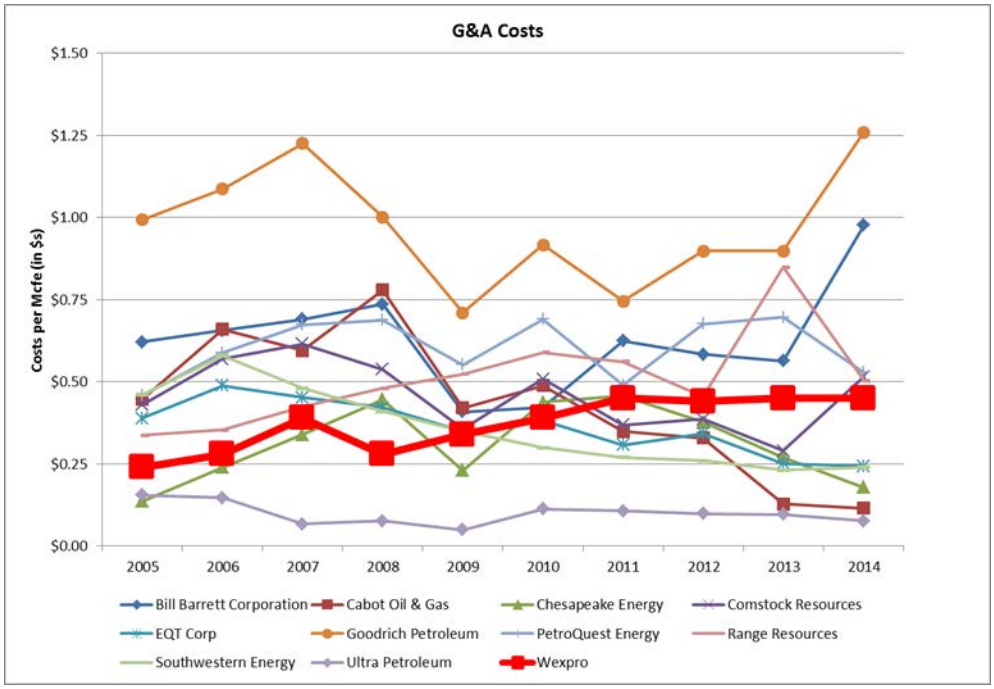
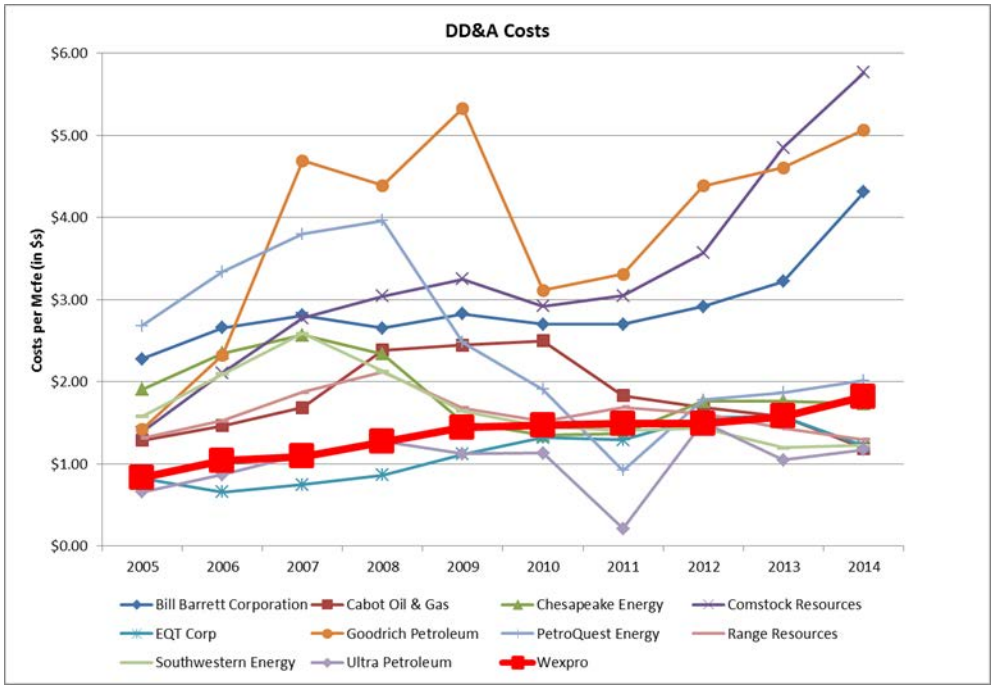


Chart 4-4 – Depreciation, Depletion, and Amortization Costs per Mcfe for 2005 through 2014



While Wexpro's average costs over the entire audit period were the third lowest in the peer group, Wexpro's benchmarked costs have been increasing relative to its peers during the audit period. In 2005, Wexpro was the second lowest cost producer on a per Mcfe basis.

Table 4-3 – 2005 Combined LOE, G&A and DD&A Statistics

2005 Combined LOE, G&A, and DD&A Statistics									
Company		Costs per Mcfe							
Symbol	Name	LOE per Mcfe		G&A per Mcfe		DD&A per Mcfe		Total	
		Rank	Amount	Rank	Amount	Rank	Amount	Rank	Amount
BBG	Bill Barrett Corporation	5	0.50	10	$0.62	10	$2.28	10	$3.40
COG	Cabot Oil & Gas	8	0.73	7	$0.45	4	$1.29	5	$2.47
CHK	Chesapeake Energy	7	0.68	1	$0.14	9	$1.91	6	$2.72
CRK	Comstock Resources	10	1.16	6	$0.43	6	$1.39	9	$2.97
EQT	EQT Corp	3	0.28	5	$0.39	2	$0.82	3	$1.50
GDP	Goodrich Petroleum	4	0.41	11	$0.99	7	$1.42	7	$2.82
PQ	PetroQuest Energy	11	1.29	8	$0.46	11	$2.68	11	$4.43
RRC	Range Resources	6	0.67	4	$0.34	5	$1.31	4	$2.32
SWN	Southwestern Energy	9	0.87	9	$0.46	8	$1.58	8	$2.90
UPL	Ultra Petroleum	1	0.12	2	$0.16	1	$0.66	1	$0.94
N/A	**Wexpro**	**2**	**0.27**	**3**	**0.24**	**3**	**0.83**	**2**	**1.34**
		Average	$0.63	Average	$0.42	Average	$1.47	Average	$2.53
		Median	$0.67	Median	$0.43	Median	$1.39	Median	$2.72
Source: Forms 10-K, 2014 and 2009 Weil Report.									

In 2014, however, Wexpro's benchmarked costs were higher than the peer group median, and it ranked seventh out of the eleven peer companies.

Table 4-4 – 2014 Combined LOE, G&A, and DD&A Statistics

2014 Combined LOE, G&A, and DD&A Statistics									
Company		Costs per Mcfe							
Symbol	Name	LOE per Mcfe		G&A per Mcfe		DD&A per Mcfe		Total	
		Rank	Amount	Rank	Amount	Rank	Amount	Rank	Amount
BBG	Bill Barrett Corporation	10	$1.10	10	$0.98	9	$4.31	9	$6.39
COG	Cabot Oil & Gas	2	0.27	2	$0.12	2	$1.19	1	$1.58
CHK	Chesapeake Energy	7	0.78	3	$0.18	6	$1.73	6	$2.69
CRK	Comstock Resources	8	0.92	8	$0.52	11	$5.77	10	$7.20
EQT	EQT Corp	1	0.14	5	$0.24	3	$1.21	2	$1.59
GDP	Goodrich Petroleum	9	1.10	11	$1.26	10	$5.06	11	$7.43
PQ	PetroQuest Energy	11	1.11	9	$0.53	8	$2.01	8	$3.66
RRC	Range Resources	3	0.35	7	$0.50	5	$1.30	5	$2.16
SWN	Southwestern Energy	6	0.56	4	$0.24	4	$1.23	4	$2.02
UPL	Ultra Petroleum	4	0.39	1	$0.08	1	$1.18	3	$1.64
N/A	**Wexpro**	**5**	**0.44**	**6**	**0.45**	**7**	**1.82**	**7**	**2.71**
		Average	$0.65	Average	$0.46	Average	$2.44	Average	$3.55
		Median	$0.56	Median	$0.45	Median	$1.73	Median	$2.69
Source: Forms 10-K, 2014 and 2009 Weil Report.									

There has been a steady (and, in the case of 2013 to 2014, substantial) increase in Wexpro's costs each year of the audit period. Of the eleven companies reviewed, Wexpro is the only company whose costs increased every year. The steady increase in costs is due, at least in part, to Wexpro's "cost plus" production arrangement and resulting separation from volatile market factors. Under this production agreement, all of Wexpro's qualifying costs are passed directly through to QGC ratepayers.

This arrangement provides Wexpro less financial incentive relative to its peers in the exploration and production industry to adopt cost-control measures during periods of low gas prices (through a reduction in labor/headcount, for example).[124]

Comparison of Average Sales Price

While Wexpro's average costs on a per Mcfe basis compared to its peers over the past ten years appear reasonable, this does not necessarily mean that QGC customers are paying a relatively low cost for their gas commodity. As shown in the following table, Wexpro's average sales price was 3rd highest in 2013 and 2nd highest in 2014 within its peer group.[125] Unless market prices for natural gas begins to rise, or if

[124] We are not implying that Wexpro is not concerned with management and minimization of production costs. However, since most of these costs are recovered by ratepayers rather than Questar shareholders, there is clearly less of a corporate financial incentive to minimize these costs.

[125] We intended to compare Wexpro's average sales price with peers over the entire audit period. However, Form 10K contains data for gas sales only for the years 2013 and 2014. We requested average sales price data for the audit period on November 19, 2015, in request 13.01. We never received a response.

they continue to decline, Wexpro's average sales prices is likely to become the highest among the peer group below, possibly as early as 2015.

Table 4-5 – 2013 and 2014 Average Natural Gas Sales Price Statistics

2013 and 2014 Average Natural Gas Sales Price Statistics					
Symbol	Name	2013 Average Sales Price per Mcf		2014 Average Sales Price per Mcf	
		Rank	Amount	Rank	Amount
BBG	Bill Barrett Corporation	2	$3.96	1	$4.78
COG	Cabot Oil & Gas	6	$3.43	10	$3.41
CHK	Chesapeake Energy	11	$2.22	11	$2.54
CRK	Comstock Resources	7	$3.38	5	$4.16
EQT	EQT Corp	1	$4.18	3	$4.51
GDP	Goodrich Petroleum	8	$3.35	8	$3.75
PQ	PetroQuest Energy	10	$2.95	7	$3.83
RRC	Range Resources	5	$3.61	6	$3.98
SWN	Southwestern Energy	9	$3.17	9	$3.74
UPL	Ultra Petroleum	4	$3.66	4	$4.24
N/A	**Wexpro**	**3**	**$3.74**	**2**	**$4.57**
		Average	$3.42	Average	$3.96
		Median	$3.43	Median	$3.98
Source: Forms 10-K					

Comparison of Earnings

As shown in the following table, when compared to the entire peer group for the audit period, Wexpro is ranked second out of the eleven companies in terms of profitability on a per Mcfe basis.

Table 4-6 – 2005 through 2014 Net Income Statistics

2005 through 2014 Net Income Statistics			
Symbol	Name	Average Net Income per Mcfe	
		Rank	Amount
BBG	Bill Barrett Corporation	9	$0.33
COG	Cabot Oil & Gas	3	$1.38
CHK	Chesapeake Energy	8	$0.44
CRK	Comstock Resources	7	$0.68
EQT	EQT Corp	1	$2.00
GDP	Goodrich Petroleum	11	($3.87)
PQ	PetroQuest Energy	10	($0.40)
RRC	Range Resources	5	$0.77
SWN	Southwestern Energy	4	$1.32
UPL	Ultra Petroleum	6	$0.69
N/A	**Wexpro**	**2**	**$1.56**
		Average	$0.45
		Median	$0.69
Source: Forms 10-K, 2014 and 2009 Weil Report.			

In addition to being the second most profitable company in the peer group, Wexpro's earnings were also consistently positive and generally increasing year-to-year.

While Wexpro's earnings steadily increased during the audit period, its earnings *relative* to its peers varied greatly. This can be seen more clearly when the ten year audit period is split into a period of relatively high gas prices (2005 – 2008) and relatively low gas prices (2009-2014).

- From 2005 through 2008 (the first four years of the audit period), gas prices were relatively high and Wexpro's earnings on a per Mcfe basis were $1.34. While Wexpro was profitable during this period, it was not as profitable as its peers that could take full advantage of the high market prices. During this period, Wexpro ranked 8th out of 11 companies in terms of profitability and its net income per Mcfe was 72% of the median.

Table 4-7 – 2005 through 2008 Wexpro Net Income Statistics

2005 through 2008 Net Income Statistics			
Symbol	Name	Net Income per Mcfe	
		Rank	Amount
N/A	**Wexpro**	**8**	**$1.34**
		Average	$1.70
		Median	$1.87
Source: Forms 10-K, 2014 and 2009 Weil Report.			

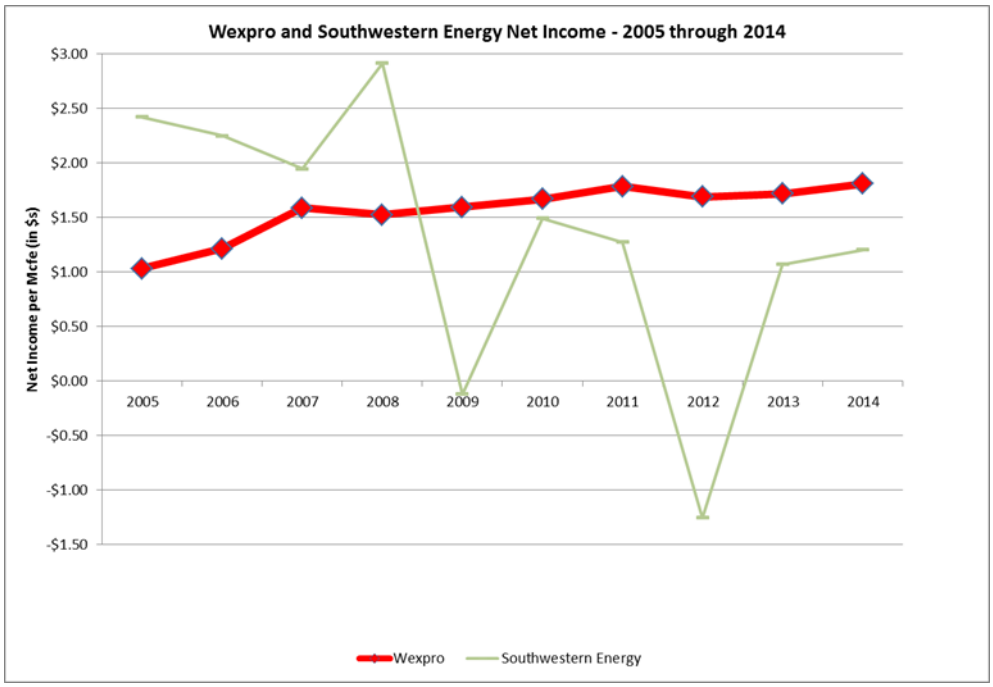
- During the period of low gas prices (2009 through 2014), however, Wexpro's earnings were substantially higher than its peers. Wexpro earned an average of $1.71/Mcfe during this period; whereas, its peer companies were generally unprofitable (both the average and median net income per Mcfe of the peer group demonstrated a net loss).

Table 4-8 – 2009 through 2014 Wexpro Net Income Statistics

2009 through 2014 Net Income Statistics			
Symbol	Name	Net Income per Mcfe	
		Rank	Amount
N/A	**Wexpro**	**1**	**$1.71**
		Average	($0.39)
		Median	($0.04)
Source: Forms 10-K, 2014 and 2009 Weil Report.			

The consistent and growing profitability of Wexpro is unique among Wexpro's peers in the E&P industry. Most of Wexpro's peer companies faced periods of substantial earnings volatility and losses during the ten-year audit period. For example, during the audit period, Southwestern Energy's net income on a per Mcfe basis ranged from a high of $2.92 in 2008 to a low of negative $1.25 in 2012. The net income charts for both Wexpro and Southwestern Energy are provided below.

Chart 4-5 – Wexpro and Southwestern Energy Net Income – 2005 through 2014



In summary, our review of Wexpro's earnings compared to its peer companies during the audit period strongly indicates that the Wexpro agreement provides the Company with earnings that are much less volatile and, except in periods of high gas prices, significantly higher than its peers.