- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application of Questar Gas Company for Approval of the Canyon Creek Acquisition as a Wexpro II Property	) Docket No. 15-057-10

HEARING PROCEEDINGS

REDACTED TRANSCRIPT

TAKEN AT: Public Service Commission
Hearing Room 403
160 East 300 South
Salt Lake City, Utah

DATE: Friday, November 6, 2015

TIME: 9:00 a.m.

REPORTER: Daren S. Bloxham, R.P.R.

Job No.: 265379

A P P E A R A N C E S

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I N D E X

EXHIBITS

P-R-O-C-E-E-D-I-N-G-S

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CHAIRMAN LEVAR: Good morning. We're on the record. We are here for the hearing in the Matter of the Application of Questar Gas Company for Approval of the Canyon Creek Acquisition as a Wexpro II Property.

And we're here to consider approval of the settlement stipulation that was filed in this matter. We'll start with appearances. So, of course, for the Utility?

MS. LARKIN BELL: Colleen Larkin Bell for Questar Gas Company.

CHAIRMAN LEVAR: Okay. Thank you.

MS. SCHMID: Patricia E. Schmid with the Attorney General's Office for the Division of Public Utilities.

CHAIRMAN LEVAR: Thank you.

MR. OLSEN: Rex Olsen with the Office of Consumer Services.

CHAIRMAN LEVAR: Okay. Thank you. Are there any other preliminary matters before we move forward?

MS. LARKIN BELL: Just a quick question on how you would like us to move for admission of our exhibits. In the case of the Company, we've provided an exhibit list and a binder with all of the attached exhibits.

The court reporter has one. And if we could move for the admission of those exhibits as indicated on the list, that's fine, or if you want to read everything into the record, we can do that. Just a preliminary question.

CHAIRMAN LEVAR: Okay. Is there any objection to them being entered as the list without reading each one individually.

MR. OLSEN: We have no objection.

MS. SCHMID: No objection. And the Division would like to do the same with its list if permitted.

CHAIRMAN LEVAR: Certainly.

MS. LARKIN BELL: Okay. With that, if you want to start with the exhibits. The Company would move for the admission of its exhibits, with the exception of one, and that is a separate handout that we have handed out both to the court reporter, the other parties, and the commissioners.

And we have marked this one as QGC Hearing Exhibit 6.0. It's very similar to Mr. Barrie L. McKay's testimony exhibit, with the exception that we have added a column to indicate what the proposed changes are as agreed to in the stipulation agreement.

And I don't want to move for the admission of that now. The parties have just now gotten a copy of that. I think what I will ask is after Mr. McKay provides testimony in support of the stipulation, we would move for admission of that hearing exhibit at that time.

CHAIRMAN LEVAR: Okay.

MS. LARKIN BELL: If that works.

CHAIRMAN LEVAR: Any objection to admitting all of the exhibits as described with this one exception at this point?

MS. SCHMID: No.

MR. OLSEN: No objection.

CHAIRMAN LEVAR: Okay. They'll be admitted. Thank you.

(Exhibits were admitted.)

MS. LARKIN BELL: With that, I would like to call Mr. Barrie L. McKay as our witness who will support our settlement stipulation in this matter.

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BARRIE L. MCKAY,

having been first duly sworn to tell the truth, was examined and testified as follows:

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CHAIRMAN LEVAR: Okay. Thank you.

MS. LARKIN BELL: Would it be all right for

Mr. McKay to stay here, or would you --

CHAIRMAN LEVAR: Oh, yes. Absolutely. That's fine.

MS. LARKIN BELL: Okay.

CHAIRMAN LEVAR: I think is there any objection if we can just go to all the witnesses, and then if there's any question from the bench, we save them until the end? Any objection to moving forward that way?

MS. SCHMID: No objection.

MR. OLSEN: No objection, Your Honor.

CHAIRMAN LEVAR: Thank you.

EXAMINATION

BY MS. LARKIN BELL:

Q. Mr. McKay, please state your name and -- name for the record.

A. Barrie L. McKay.

Q. And by whom are you employed?

A. Questar Gas Company.

Q. What is your title, your place of employment?

A. I'm vice president of regulatory affairs and energy efficiency.

Q. And did you file direct testimony in this proceeding consisting of nine pages and pre-marked as QGC Exhibit 1.0, with attached Exhibits 1.1 through 1.3

on August 31, 2015?

A. Yes I did.

Q. And if I were to ask you the same questions today that were asked in your pre-filed direct testimony, would your answers be the same?

A. Yes.

Q. Are you prepared today to summarize for the commission the settlement stipulation that was filed in this matter?

A. Yes, I am.

Q. Go ahead.

A. We have been -- I guess I wouldn't mind at this point pointing out this hearing exhibit that is essentially Exhibit 1.II, but was -- my counsel has already pointed we have added an additional column.

In our preparation for summary today, we thought it would be a useful tool as we walk through the stipulation itself. So with that said, I'm going to probably be referring to the stipulation pages, as well as this summary and try to kind of tie those together. I know we planned to have questions at the end, but if there's anything I'm saying along the way that there's questions about, feel free to --

MS. LARKIN BELL: Additionally, one other comment, if the Commission has any questions with regard to confidential exhibits, we are prepared to discuss those with you today.

But we would ask at that time that we request that the hearing be closed to the public, given that we do not believe that the settlement stipulation is confidential or that Barrie's testimony with regard to it will be confidential.

CHAIRMAN LEVAR: Okay. Thank you. If that issue arises, we'll deal with it.

THE WITNESS: Okay. First page of the stipulation is simply in summary form. I think the recognition that the Questar Gas Company, as well as Wexpro, Division of Public Utilities, Utah Office of Consumer Services, and Wyoming Office of Consumer Advocates were the parties that signed this stipulation.

The key takeaway on that first page is the recognition that both the Utah and the Wyoming Commission need to approve the stipulation in order for it to become effective.

The pages 2 and 3 I think simply are procedural history summary, recognizing that we have a Wexpro II agreement, which is why we brought the property in the first place.

Paragraph 2 is recognition of the Trail 2 stipulation. Key reason why that needs to be pointed out I think in our procedural history is that there was a settlement in that docket that both Wyoming and Utah approved that helped to govern the Wexpro property going into the future. And that the -- this application, the Canyon Creek application, complied with what was required there.

Wexpro did indeed purchase this property at its own risk. And they are required, since this property is within the development drilling area, to bring that before the Utah and Wyoming Commissions.

It does complete specifically -- when I say "complete," it makes it so that Wexpro now owns -- has 100 percent ownership in the Canyon Creek area. Previous to that, we had 70 percent. It was being provided to Questar Gas as a cost of the service, and this additional 30 percent, it has full ownership now.

As required, they also have -- we, Questar Gas, filed with a complete -- complete requirements of the Wexpro II agreement, which is all of the data identified in the Exhibits A through P. Following our application, the hydrocarbon monitor, according to what was laid out in the Wexpro II agreement, filed his report within the seven business days, both in Utah and in Wyoming. I think that will become part of the record also.

Other takeaway is that in this process of coming to this stipulation, understanding was improved through the process of holding two technical conferences, one here in Utah on September 17th, as well as on October 8, there was a technical conference held in Wyoming.

And ultimately the parties through numerous data requests and opportunity to sit down and walk through and better understand what was being proposed and the significant proposals I think that the parties have focused on have been the changes that accompanied this application. And this hearing exhibit summary I think is a good way of walking through that. So I'll refer back and forth to the actual stipulation itself, as well as this hearing exhibit.

But the terms and conditions I think is where it really starts to be recognized of what we are agreeing to as settling parties. In paragraph 12, it's simply recognition that the Canyon Creek acquisition will be approved and improved as a Wexpro II property and will function accordingly with the following additional agreements that have gone forth.

And that is in paragraph 13, there's -- that specifically relates to line 1 of this hearing exhibit.

The parties are essentially -- I would describe it as doing five things here within this paragraph. Number 1, we're recognizing that Wexpro is going to continue to be the one that designs their annual drilling program.

Next part of that sentence, we're recognizing that a drilling program might not always happen in the fall, for example. It might be a drilling program that's committed to or decided in the spring or some other time of year. So we're trying to make it clear that that could happen at a different time of the year.

And then the next part is that there is a moment in which Wexpro needs to commit or become obligated to a drilling rig. So we're recognizing that at that point in time, couple of things have to be taking place.

Number 1, the average of what they plan to go out and drill as far as their drilling plan. And we define the average carefully as the first five years -- the costs related to the first five years of production, divided by the production from that first five years' production. That's going to come up and create a cost per dekatherm. That cost per dekatherm needs to be at or below the five-year forward curve.

Now, the five-year forward curve was a term that we agreed to in the Trail stipulation. But it's something that we further defined here in the Canyon Creek stipulation to make sure everybody understood exactly what was meant by that and how Wexpro had been calculating it.

So that moves us to paragraph 14, which is just further defining on this hearing exhibit our line number 1. And that is the actual formula that makes up the five-year forward curve.

And the best way I have found to do it, and I think that we put together a pretty good summary, I'm just going to turn to the exhibit -- stipulation Exhibit 1 in what we've put together with the stipulation.

And in referring to that, the first part of the formula, which is A, which is identified as the NYMEX forward curve, and that shows up here on the stipulation Exhibit 1 as a blue line. And that blue line shows 60 months' forecast and has the estimated price as of that date.

And then the next part, B, which is the -- we recognize that we have a different price here in the Rockies, and so we have a basis difference that's identified as the next part of the formula. And that part shows up as a red line on this stipulation exhibit. And then these two need to be added together to come up with the Rockies adjusted price. That shows up as the green line on this graph.

And we recognize that that is five years' worth of forecasts. Now, the next part is the creation of the component of the formula D, which is simply adding up 60 months' worth of forecast, so that would be that green line, and dividing it by 60 to come up with that day's average for the next 60 months.

And to that, next thing we recognize -- and that is essentially the black line here on Exhibit 1. And you can see that there's some volatility in that black line. Sometimes it jumps up, sometimes it goes down.

And rather than have parties or Wexpro or whoever be looking at, I want to right this right at the low part or hit it at the high part, we then introduced the idea that we would smooth out this line by simply taking the latest 20 trading days and have -- so we add up the latest 20, divide that by 20, and that's what you see as the orange line. And that's our definition of the five-year forward curve.

So a point on that line on the day that Wexpro commits to or is obligated to continue forward with their drilling plan is the number that needs to be compared with what the forecast is of the next five years of production.

And essentially that helps to create or complete that comparison so that we know that that is a forecast. It's forecast in the future. It's comparing five years of forecasts that an outside third party is doing, comparing it with five years of forecasts for what Wexpro anticipates to be able to produce from a given drilling plan.

That has to be at or below in order for Wexpro to move forward. We like that as a good check to make sure that we're getting properties. They're coming to Questar Gas that are going to be at or below that on a forecasted basis. There's also some comparison later on that is also a good check, I think a good safety valve for our customers that we'll talk about later.

The next paragraph in the stipulation is -- actually, before I move to paragraph 15, let me make an observation is that the parties worked through this very carefully. And this Exhibit 1 is a -- comes from a worksheet that goes through each day. And each day that there's a trading day, it can be updated for one more day. And Wexpro does that. Company will be doing that.

We're offering that as something -- we know we do a lot of reporting, and we didn't come with any decision exactly of when and how often. We think it could be available at any time. But we think it might be wise for Questar Gas to be providing that maybe on at least an annual basis. Commission can take note of that. And however they might feel comfortable, if that's something they want more often.

But as you'll see here in a bit, we're going to be doing a calculation and an analysis on an annual basis. That seemed at least an appropriate opportunity to be providing that to all the parties. But it can be provided at other times during the year if the parties or the Commission wanted it.

That moves us to photograph 15. Paragraph 15 specifically relates to line 4 here in this hearing exhibit, and that's the recognition that the property that has already been developed, it's referred to as pre-2016 oil and gas properties, there was -- developed under a previous set of guidelines and terms will be governed over the remaining life of that property, as was set forth in the Wexpro I and II agreements.

That moves us to paragraph 16. And that's the part where there begins to be some significant changes in these models going forward. And that --

where the parties agree that the post-2015 properties, and that's both oil and gas, as well as the allowance for funds used during construction, all of those under the Wexpro I or Wexpro II agreement had returns higher than what is now being proposed. And what's being proposed is for the life of all of those properties going forward, they will be earning a Commission allowed rate of return as defined in the Wexpro II agreement.

For just memory purposes, that's something that's weighted between -- Utah's usage in a given year and Wyoming's usage, and that's weighted based on what the Commissions have allowed as their most recent allowed rate of return.

That moves us I think to paragraph 17. And 17 is doing three specific things. And it relates to line 6 here in the hearing exhibit. And as you can see here that the Company proposed just a 50/50 sharing. But as the -- we met with the parties, there was some concerns that we had worked through and have agreed upon.

And that's, first of all, we did agree that on a going forward basis that when there's new drilling or development wells that there would be a sharing of the costs. If, in fact, there happened to be dry hole cost, there would be a sharing of those costs 50/50.

Now, we recognize in the next part of this paragraph that although in the definition in Wexpro I and Wexpro II, a dry hole cost is identified as being a plugged and abandoned well or a well that has not passed the commerciality test. And that's defined as dry hole.

We break it out here in this paragraph. The reason we do is we recognize on those -- we're going to refer to them as non-commercial wells, they may still be produced if their costs, okay, are covered by the cash that could be received in selling the gas, okay?

So it's not such a bad well that it should be plugged and abandoned, but you can actually cover your cash costs. In that instance in this paragraph, you can see that the parties have agreed that the revenues and the related expenses from a non-commercial well will also be shared on a 50/50 basis.

Additionally, the parties have agreed that there will be a cap on what this sharing would be for the customers. And that cap is going to be limited to 4.5 percent of Wexpro's annual developed drilling that the customer would be responsible for. Now, there's also some additional parameters as it relates to dry hole that will come up here in paragraph 19, but I'm going to wait until we get there.

So let's move to paragraph 18. And 18 is dealing with line 7 here in the hearing exhibit. It's where the Company had proposed that there would be an opportunity for sharing of savings that resulted from wells that would be drilled after 2015 if certain parameters had been met.

And the biggest parameter is that the overall cost of service needed to be lower than the market price. That sounds really good until you get into figuring out, okay, what does market price really represent here? What all is included in the cost of service?

And so we go through an effort in this paragraph 18 to try to define all of the components that would go into this calculation so that it's clearly understood what the intent was. So paragraph 18(a) simply recognizes that we need to use the volumes that are going into the interstate pipeline.

In the past, there have been some variances or differences in that, but we are clarifying that those are the volumes that are intended to be used in this calculation. Paragraph B goes through the process of what needs to take place to determine what a market price is going to be.

And I should identify here, too, that we're trying to identify what this market price is and this cost of service price is for an IRP year. So we actually have an exhibit that we'll walk through here in a minute, but it's illustrative of calculating these rates or these prices for an IRP year.

I don't want people to think that they couldn't be calculated for some other 12-month period of time. It does need to be over a 12-month period for the comparison. And that will probably -- even be doing that as a company. But for this calculation to determine if there has been sharing occur, it will be the end of an IRP year.

Paragraph 18(c) specifically relates to how in cost of service price is going to be calculated. And it also recognizes that in this calculation that the cost for dry hole, that would be both those that are plugged and abandoned, as well as commercial, would be included in as a hurdle that would need to be able to be met before Wexpro begins to be able to receive any sharing of savings.

Paragraph D is simply an identification of timing and review rights, if you will. And that is each June, which would be following the IRP year, IRP year ends on May 31st, so in the month of June, we'll be calculating, Questar Gas, along with help from the records of Wexpro, what the market price is, what the cost of service price is.

Then after we go through this calculation, it's specifically pointed out that if there is indeed savings, that will show up as a separate line item that Wexpro will have on their operator service fee that we, Questar Gas, will be able to see. Questar Gas, in turn, will be separately identifying that for all parties to see in 191 account entry.

Then we recognize that the parties, particularly the Division here in Utah, as well as the Wyoming OCA, have the opportunity to audit and review that calculation. And if there is any concerns or disputes, that they would be resolved in front of the Commissions who have jurisdiction over the managing of the 191 account.

It's kind of a high-level summary of what we're trying to accomplish there. Parties then went through and tried to develop, just so there wouldn't be any doubt in anybody's mind, an illustration of how this calculation is going to work. So that shows up in settlement stipulation Exhibit 2.

I thought I'd just run through that example here as you look at that page. You can see that the first part of it, lines 1 through 14, is an illustration of how the market price, the average market price, will be calculated. That shows that we'll go out and we'll collect from June through May in column A what the first of the month index price has been on Northwest Pipeline.

Want to pause here for a minute. A key thing that at least in my mind I do in trying to differentiate parts of this agreement that we are -- have agreed on is this part that we're dealing with right now, which is a calculation of savings and how they might be shared, is all based on actual. And so it's outside verifiable numbers that really did happen.

Wexpro, on the other hand, tries its best up front when they're going through determining whether or not to drill and what those costs would be, that's based on forecasts. That's a five-year forecast that's out there. They're going to doing this. We're going to be able to review that. But as far as savings and everything, that's going to be verified and done on an actual basis. Here in A, we're picking up what the actual first month index price is again.

In column B, we're picking up what the actual cost of service into the interstate pipeline volumes have been. There's one thing to estimate but now we're picking up what actually had happened. We multiply those together for each month to come up with what a comparable market price may have been if Questar Gas would have gone out and purchased that gas on the open market rather than receiving it from Wexpro.

It's the total of all of those comparable market prices that you can see there in column C that -- line 13 -- is then divided by the total of cost of service volumes to come up with what we're defining as the average market price.

So we now have got one component of our formula, which is going to be the cost per dekatherm for the market price. Now we're looking to figure out and compare that to a cost of service price per dekatherm.

We've tried to show here the components that go into the calculation of that cost and what is needed. Obviously it's going to be the costs themselves. We recognize that there's going to be different components being brought together here. We wanted to give the impression that all of Wexpro I and II costs would be being brought into this calculation, that all of the pre-2016 plans or investment will be in there, all of the approved developed producing is going to be there, as well as new development wells.

We chose to break out those post-2015 into two different categories so that people could see particularly which volumes we're going to be comparing this and applying it to in the calculation of savings.

Also recognize that you could be adding additional properties that are approved and already developed. And then you're also adding properties through drilling in the future. That's why I wanted to break those two out on the post-2015.

Key thing to also remember is we're including any of the costs that have been incurred in that year related to dry hole in this calculation. You can see that in the asterisks there on line 18.

And to that we need to make sure that we are including the representative volumes. So, again, it's just a mirroring of that. All the volumes from those properties need to be included in this calculation. And then you can see in lines 23 through 25, we're simply going through and trying to illustrate the calculation of a cost per dekatherm.

It shows that you could calculate this cost per dekatherm for some subpart, but the key cost per dekatherm we're after here is the total. And so it is line 17, D-17, that number there that's going to be divided by the total volumes, which is in column D, line 21 that then calculates what the cost of service price per dekatherm ends up being. That I just described is illustrated in line 25.

So now that we've got these two components, we have a market price, we have a cost of service price, we're ready to check to see if, in fact, there's going to be savings, and that's what we're trying to illustrate in line 26.

So if that cost of service price is less than the average market price, then we're going to go through the calculation of what was shared and how that is determined. It would be -- it is taking what that savings amount is on a cost-per-dekatherm basis as showing in line 27. You're going to share this on a 50/50 basis, so you multiply it by 50 percent.

Then it's applied only to the post-2015 development well volumes. And then that dollar amount would be an entry that Wexpro would be doing in their operating service fee bill that we, Questar Gas, would also be making in the 191 account.

That essentially takes us through what we were trying to illustrate or show in paragraph 18(e). Now, while we're still on this page, the parties I think fairly observed that we don't want to with this change in this agreement make it so Wexpro by un -- some unforeseen thing in the moment was able to all of a sudden earn higher returns than had ever been anticipated even in the old agreement.

So there was a cap put on this, and that's in paragraph 19. And the parties agreed that in no event shall this shared savings ever have -- be a result of Wexpro earning higher than the base plus the 8 percent.

So we put a cap on that. That's identified on this worksheet or this Exhibit 2 of the settlement stipulation on line 29. We're trying to make everything be consistent, and we have accomplished that at that point.

But there's one other thing that we do here in paragraph 19, and that is related back to dry hole. And that the parties' intent here is that they recognize that as -- if, in fact, Wexpro were able to achieve that level of savings and were able to get back to the base plus 8 percent, during the era of Wexpro I and II, when they were earning that level of return, they, Wexpro, were taking on 100 percent of the dry hole costs.

So we recognize as they get to that point, we want to make sure that Wexpro again assumes that dry hole cost, all of it. So we make a statement here, the parties acknowledge that the effect of this cap and them assuming the dry hole costs could have a -- the effect of Wexpro assuming a greater portion than 50/50 on a dry hole, and customers assuming a lesser portion on that as you approach this cap on the earnings.

I should observe that I don't know if any of the parties think that that's necessarily going to happen tomorrow, but we wanted to make sure that as those that have identified and made a change that we're recommending to the Commission, we wanted that intent to take place if and when that happens down the road. So that's why we've tried to spell that out clearly there.

So that essentially takes us through paragraph 19. And paragraph 19, as you can see, it helps to clarify what we're showing here on hearing exhibit in both lines 6 related to the dry hole and line 7, which is the incentive and the -- incentive for Wexpro to help bring costs down. As they do, if they can do it below the market price, then there's an opportunity for sharing of those savings on just the post-2015 development wells.

That takes us to paragraph 20, which will correlate with line 2 from our hearing exhibit. And that's where the parties have agreed that over the next five years, so by year 2020, Wexpro will be moving their overall production of what they provide to Questar Gas down to 55 percent. So that in 2020, the cap, if you will, of the amount that they're providing to Questar Gas needs to be at 55 percent.

Last part of that paragraph recognizes that the minimum threshold that is specifically identified in the Trail stipulation continues to be in place as it relates to that. Should just add here we point this out later in the stipulation that other parts of that stipulation that may not be specifically called out here or being proposed be modified will continue to be in place.

So in this particular area, the calculations that go into making sure that Questar Gas is paying the minimum of cost of service or market, whichever's lower, as we reach this cap still stays in place.

Next paragraph 21 is the recognition that we wanted to try to bring a lot of what's now beginning to be a few more documents than one. In fact, it's going to be quite a few documents. We recognize that for someone to totally understand how all these properties should be handled and treated needed to read them collectively.

So we agreed that we will provide as a place on our website, and just in talking through it, it would be our Questar Gas website, as well as Wexpro's website, all relevant documents pertaining to management and implementation of cost of service production. We list those here, and recognize in paragraph 22 that they need to be read collectively to make sure that we have the proper understanding of that.

And, also, in paragraph 22, we recognize that anything else that hasn't been specifically called out in this stipulation continues in effect as it was intended to in any of the original documents.

And that essentially goes back and covers line 3 here in this hearing because we don't have a paragraph that specifically calls that out. But we recognize here in paragraph 22 that we will continue to have all approved, developed, producing, or pre-81 wells be at the Commission-allowed return.

I think those are the general -- the specific -- I shouldn't say "general." Those are the specific highlights related to this stipulation. There's some other paragraphs in here that I think are more general in nature.

But I would observe that I think that the results of this stipulation and what we've been able to work with with the parties produce what I would describe as the checks and the balances and the incentives to provide a cost-of-service relationship with -- I'm going to represent is Questar Gas -- with an exploration production Company, Wexpro, that provide the opportunity for continued savings.

We've enjoyed some wonderful savings through the years. We had significant change in the gas market that none of the people here in this room probably could have forecast, nor could anyone else, that occurred about a year ago. I think we've worked through a process that sets us up for opportunities to be able to have those savings in the future.

There's no guarantee. Wexpro is going to have a challenge to be able to meet, beat that five-year forward curve. But it's a great incentive, and we feel confident that we're going to be bringing gas that again is able to provide savings for us in the future.

Like the incentives that are set up for Wexpro to be able to go forward and be able to be incentivized to do good things for both of them, because they're going to get rewarded. We're going to get rewarded as customers and be able to receive lower than market price gas.

I think the result of this is in the public interest and is just and reasonable, and observe that I think that summarizes our testimony related to the stipulation.

Q. Thank you, Mr. McKay.

MS. LARKIN BELL: Before I forget, I would like to move then for the admission of QGC Hearing Exhibit 6.0?

CHAIRMAN LEVAR: Any objection?

MR. OLSEN: No objection.

MS. SCHMID: Objection.

CHAIRMAN LEVAR: That will be entered. Thank you.

(Exhibit was received.)

MS. LARKIN BELL: I failed to introduce Mr. Brady Rasmussen, who is the executive vice president of Wexpro. He is also available today should the commissioners or parties have questions. With that, I think our summary is concluded.

CHAIRMAN LEVAR: Thank you. Any -- any questions for them from the Division or Office, or shall we just move on?

MS. SCHMID: No questions.

MR. OLSEN: No questions.

CHAIRMAN LEVAR: Thank you. Ms. Schmid?

MS. SCHMID: Thank you. The Division would like to call Mr. Douglas D. Wheelwright as its witness.

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DOUGLAS D. WHEELWRIGHT,

having been first duly sworn to tell the truth, was examined and testified as follows:

EXAMINATION

BY MS. SCHMID:

Q. Good morning, could you please state your employer, title, and place of business for the record?

A. Yes. I am the technical consultant for the Division of Public Utilities. My business address is 160 East, 300 South.

Q. Could you briefly describe your activities on behalf of the Division in this docket?

A. Yes. I reviewed the application and participated in meetings with the Company, filed numerous data requests to obtain additional information concerning the filing and filed testimony.

Q. Do you have any changes to your testimony which was filed with the Commission pre-marked as DPU Exhibit No. 1.0D with associated exhibits?

A. No changes.

Q. If I were to ask you the same questions today as contained in that testimony, would your answers be

the same?

A. Yes, they would.

MS. SCHMID: The Division would like to move for the admission of Division Exhibits DPU Exhibit No. 1.0D through DPU Exhibit No. 1.5D as memorialized on the DPU witness list given to the parties and the court reporter in this docket.

CHAIRMAN LEVAR: Any objection to that motion?

MS. LARKIN BELL: No objection.

MR. OLSEN: No objection.

CHAIRMAN LEVAR: Thank you. That will be entered.

(Exhibits were received.)

Q. (By Ms. Schmid) Do you have a summary to give?

A. Yes, I do.

Q. Please proceed.

A. Thank you. Thank you, Commissioners. The objective of the Wexpro II agreement was to create a structure and a mechanism that could potentially allow additional properties to be included in future cost of service gas production.

The Canyon Creek acquisition, which is described in detail by the Company, is within the

Wexpro I development drilling area. And under the terms of the Wexpro II agreement, Questar Gas is required to bring this property before the Commission for approval.

This purchase includes an increased ownership in 110 existing and producing wells, along with 30 future well locations. The future drilling locations are in a field that is with known production and where Wexpro has experience with previous drilling in this field.

The calculations and assumptions used in this acquisition have been reviewed and evaluated by David Evans, the independent hydrocarbon monitor. On September 10th, 2015, Mr. Evans filed a report with the Division and indicated that in his opinion, the reserves and associated economic information presented by Wexpro were reasonable.

The specifics of the cost of service price projections from this acquisition are confidential but have been included in Exhibit L and L-1 of the filing. The natural gas from the additional Canyon Creek wells represent a small percentage of the total Wexpro production and will have a minor impact on the total price of cost of service gas.

A comparison of the total cost of service price from all Wexpro production and the projected market price for the next five years has been included as Exhibit 1.1 of my direct testimony.

As part of this application, the Company has included significant changes to the Wexpro agreements. The proposed changes would reduce the allowed rate of return for new development from the base rate of return, plus an 8 percent premium currently calculated at 20 percent to the Commission-allowed rate of return, currently 7.64 percent.

This lower rate of return will apply to new development in all fields and will allow Wexpro to begin drilling as early as next year. The lower rate of return will allow future drilling not only in Canyon Creek, but also in other fields, such as Pinedale and Trail. Additional wells can be drilled if the cost of service production is at or below the five-year forward price curve.

Another change calls for ratepayers to share 50 percent of the dry hole or non-commercial well costs and to potentially bear additional costs under a shared savings arrangement. The recommended changes to the Wexpro agreements have been discussed in detail with parties in Utah and Wyoming and are outlined in the settlement stipulation.

One of the primary concerns for this in the previous acquisition is the volume or percentage of the Questar Gas requirement that is provided by Wexpro. As part of the stipulation, Questar and Wexpro will continue to manage the combined cost of service production volume to 65 percent through 2019, but will limit the -- but will be limited to 55 percent beginning in the 2020 IRP year.

By managing to a specific volume target, Questar and Wexpro will be able to determine the pace of future drilling. The Division has reviewed the Company's analysis and recommends that the Canyon Creek acquisition be included under the Wexpro II agreement.

Approval of the Canyon Creek acquisition as a Wexpro II property represents the purchase of a long-term resource that could be advantageous to ratepayers for many years. The Division also supports the proposed changes to the Wexpro agreements as outlined. The Division believes that the terms of the stipulation agreement are just and reasonable and are in the public interest. That concludes my summary.

MS. SCHMID: Mr. Wheelwright is now available for questions. And before, however, you leave the Division, I would like to move for the admission of one additional exhibit.

CHAIRMAN LEVAR: Okay.

MS. SCHMID: In his summary, Mr. Wheelwright referenced a report from David Evans, the hydrocarbon monitor. That report was dated September 10, 2015, and filed with the Commission on September 14th as a highly confidential document. The Division would like to move for the admission of that report.

CHAIRMAN LEVAR: Any objection?

MS. LARKIN BELL: No objection.

MR. OLSEN: No objection.

CHAIRMAN LEVAR: That will be entered. Thank you.

MS. SCHMID: Thank you.

(The report was received.)

CHAIRMAN LEVAR: Anything further from the Division?

MS. SCHMID: Nothing further.

CHAIRMAN LEVAR: Then we'll move on to the Office and come back to all witnesses for questions afterwards.

Mr. Olsen?

MR. OLSEN: Thank you. The Division would like to call --

MS. SCHMID: Office --

MR. OLSEN: Office. Excuse me.

--oOo--

GAVIN MANGELSON,

having been first duly sworn to tell the truth, was examined and testified as follows:

EXAMINATION

BY MR. OLSEN:

Q. Could you for the record state your name and your position with the Office, please?

A. Gavin Mangelson, a utility analyst.

Q. During the course of -- did you participate in the review of the proposal from Questar Gas that's under consideration right now?

A. Yes.

Q. And as part of that, did you prepare testimony, direct testimony, on October 8, 2015?

A. Yes.

Q. Do you have any -- any summary you'd like to present at this time?

A. I do.

Q. Proceed, please.

A. The Office reviewed the Company's application, the report from the hydrocarbon monitor, and the Company's response to numerous discovery requests. We filed direct testimony raising certain concerns about the Company to include the Canyon Creek acquisition under the Wexpro II agreement.

During the drafting of this stipulation, the Office and others focused on crafting an agreement that would be durable and benefit and protect ratepayers for as long as natural gas is being extracted and provided under this agreement and not just for the foreseeable future.

Some of the specific provisions in this settlement that are important to the Office include maintaining the advantageous provisions of the Trail 2 stipulation that I identified in my direct testimony, more adequately defining the five-year forward price curve definition and the calculation of shared savings, resolving concerns identified in my direct testimony, and moving from managing Wexpro to a maximum of 65 percent of the IRP forecast demand to 55 percent in 2020.

I'd like to speak more specifically to the change in management of gas supply. I noted in my direct testimony that according to confidential Exhibits M and M-1, cost of service gas supply as a percentage of total gas supply is not expected to be near the historically high levels.

However, an updated version of Exhibit M-1 had been provided in response to a data request from the Division of Public Utilities. This updated exhibit demonstrates that new drilling across all existing properties will increase the cost of service gas supplies -- supply to levels higher than those cited in my testimony.

Therefore, the Office's earlier concerns about the high total percentage of Wexpro gas supplies remain at issue in this case. The settlement stipulation terms adequately address the Office's concerns.

The Office is confident that the proposed sharing of costs and savings as defined in the settlement stipulation will more closely align the operating incentives to Wexpro with what will be most beneficial to ratepayers.

In summary, the Office believes that adding the Canyon Creek acquisition to the Wexpro II agreement, coupled with the other provisions of the stipulation, is in the public interest and will result in just and reasonable rates. Accordingly, the Office respectfully requests that the Commission approve this stipulation.

Q. Mr. Mangelson, subject to the clarifications you've just provided in your sworn summary, would you -- and with the modifications inherent therein,

would you affirm the voracity of your prior testimony?
A. Yes, with the -- yeah.
Q. On October 8th?
A. Yes, in light of the issues that I've addressed in my statement.
MR. OLSEN: And with that caveat -- with that understanding, Your Honor, we'd like to submit the testimony.
CHAIRMAN LEVAR: Any objections?
MS. LARKIN BELL: No objection.
MS. SCHMID: No objection.
CHAIRMAN LEVAR: They will be entered.
(The testimony was received.)
MR. OLSEN: Mr. Mangelson has nothing further so --
CHAIRMAN LEVAR: Okay. Thank you.
Commissioner White, do you have any questions for any of the witnesses?
MR. WHITE: Just a couple. This is -- I'll direct this initially to Mr. McKay, but some of these may be convenient for others to opine on. The first one refers to paragraph 4 of the settlement stipulation with the closing price referenced of 52.7 million.
My question is is this the -- is this price the final price, or is there any potential change

beyond that, date of acquisition?

MR. McKAY: That would not be the final price. I would refer this to an exhibit that helps to walk through what would be closer to the final price. And then I'm going to pitch things to Mr. Rasmussen because it's in his testimony.

But if you'll turn to his Exhibit 2.2, I recognize that we're now going to confidential -- in a confidential exhibit, but I think we can have a discussion around this without bringing out the specific confidentiality points. It is public knowledge that it's 52.7, and that's what you're seeing there in testimony.

As you look at this exhibit, you can see that it needs to be adjusted for some revenue and O&M adjustments that happened at closing, and then also it needs to be adjusted for the dekatherms or, shall we say, the depreciation and depletion that has occurred since Wexpro has taken ownership.

So we've tried to illustrate that in line 5, which shows the depreciation amount up to the time that we filed. We estimated some -- the -- what the depreciation would be from August, September, and October.

And we now recognize that we're into

November. So we would need to -- I don't know if that -- I don't want to be bold -- I'll just -- the assumption is this, that if the property were approved, and let's say it went into effect on December 1, there would need to be at least one more month's worth of depreciation taken into fact and would impact what those final numbers would be.

And also recognize that these were estimates that were provided on what we thought the closing between the previous owner and ending up with the balancing of whether they were in balance or out of balance. So those numbers also would be updated for actual.

Then that's the dollar amount that you're seeing there on line 10. We're pointing out that that dollar amount would change, but it would be a reduced amount from that that would then go on Wexpro's books as the Canyon Creek Wexpro II property.

MR. WHITE: Thank you. That's helpful.

CHAIRMAN LEVAR: Nothing else from you?

MR. WHITE: Just a couple more, sorry.

Then on paragraph 13, this one might be appropriate for other parties to opine also, but in paragraphs 13 and 14, it refers to wording that states at the time Wexpro incurs obligation in connection with the drilling program.

I guess my question is there a common understanding -- I mean, is that a term of art that incurs obligation, or is there common understanding among the parties of what that would -- would entail or mean?

MR. McKAY: I would think that we absolutely talked about that. So we tried to word this to recognize that Wexpro can have an estimate of what might happen, and it can be out there looking in a field with a heavy drilling plan.

And they say, Hey, let's -- we're going to drill this many wells. We think this is what the costs are going to be. Now we need to have a drilling rig, and we need to be getting everything in line to be able to say, Yeah, let's go ahead and do this, assuming that we can meet the criteria.

They're going to go through all of that process. Then they're going to come to a point where they now are committing dollars. They're committing things that they will be doing going into the future. That's where we're saying "incur an obligation."

We recognize that typically happens during their fall planning season, and then those rigs are going to be up and drilling come next spring. But we also on the second part of that paragraph try to identify that maybe some other opportunities come up. They have an opportunity to go in with another partner on some wells. So it might not always be at that time.

But the key thing is when they incur and are now committed to where they're going to be paying out dollars for that obligation is what the intent of that would be, but I'll let others weigh in on it.

MR. WHEELWRIGHT: We did participate in those discussions, and that's in agreement with what we understood, that at some point Wexpro will need to make a decision and commit some resources, recognize that this will be a forecast.

They're looking at future prices and -- but at some point they do need to make a commitment to the drilling rig. That's what we understood would be the point where they would make a commitment for -- for future activity.

MR. MANGELSON: This paragraph is part of the Office's concern about better definition for the five-year forward curve. Previously it was explained that they would have to beat the five-year forward curve, but we wanted to understand at what moment in time those numbers needed to match.

And the Company explained that they might determine that they had -- that they could match those numbers at or better than the five-year curve, but then they would need to make the agreements to have the appropriate equipment, and the prices would change after that. So this is just designed to be a clarification.

MR. WHITE: Thank you.

MR. McKAY: Just for illustration -- okay, hasn't happened yet. Going forward, this is something that will be produced. There will be some day on this graph that you'll be able to put a circle around that point on that orange line that contractually Wexpro is obligated for a drilling rig things going forward.

That's what would need to be produced by Wexpro to show that they had met the criteria that the Office and the Division had been concerned about we wanted to have clarity on.

MR. WHITE: That actually is helpful. It sounds like it's more specifically defined as a contractual obligation that's incurred with them?

MR. OLSEN: For the record, perhaps, he was holding up a document that I think we need just to identify for the record.

MR. WHITE: Is that Exhibit --

MR. McKAY: This is Stipulation Exhibit --

well, Settlement Stipulation Exhibit 1. I'm sorry. That's a good point.

MR. WHITE: Thanks.

The last question I have is also with respect to paragraph 13, the discussion of potential more frequent than annual drilling programs. Is there -- I mean, is there potentially an example of, you know, when that might occur, what those circumstances would be around, more frequent?

MS. LARKIN BELL: Commissioner White, that may be a good question for Mr. Brady Rasmussen. Mr. Rasmussen has not yet been sworn. Shall we have him sworn and, perhaps, he can answer that question?

CHAIRMAN LEVAR: Sure.

--oOo--

BRADY RASMUSSEN,

having been first duly sworn to tell the truth, testified as follows:

--oOo--

MR. RASMUSSEN: As Barrie said, we typically format our drilling program in the fall, but with a smaller drilling program that might be likely here with -- with lower prices. And we're also -- we may have to look at that more frequently, do a smaller program.

Typically in the past, we could go -- contract out a rig for a year straight. We may not be doing that in view of our inventory of properties out there. We might have to focus on one field at a time.

It might make that drilling commitment smaller from time to time. You could have, you know, multiple times in the year where you'd actually have a rig contracted out for one portion of the first half of the year, a separate rig, if you got to that point, you could still beat that hurdle for the second half.

Also, you're dealing with recompletions where the rig commitment not -- is very short. We would have to still meet these obligations on a contract obligation on a recompletion well. It might just be one or two wells at a time.

And also on any outside operated wells that we are not the driller out there, we would be -- once we commit to drilling that well, we are -- we're kind of following their plans of the drilling program. We still have to meet these obligations, but we're kind of at the disposal of when that's proposed to us.

MR. WHITE: Thank you. I have -- I have no further questions.

CHAIRMAN LEVAR: Thank you, Commissioner Clark?

MR. CLARK: Thanks, Chair LeVar. I've got a question about paragraph 13 also. As you look at the drilling program in relation to the five-year forward price curve, how do you consider G&A costs in that evaluation? Are you looking at incremental costs? Are you looking at previously allocated cost?

MR. RASMUSSEN: Yes. On G&A on the drilling decision, we are looking at incremental costs on there. We do -- we are -- you know, which has a combination of Wexpro direct costs, corporate allocated costs, and the changes in that with the addition -- additional investment. And we're only capturing the true incremental costs to that drilling program that will be calculated on that.

MR. CLARK: Thank you. Now to paragraph 18(a). There's a reference there to the interstate pipeline. Is that Northwest Pipeline? Is it more or less than that? What -- help me in defining that term.

MR. McKAY: We left it so that it could be any interstate pipeline. But the key thing is that it's at that point that it's transferring from a gathering facility or a tail plant or a processing facility.

It's those volumes at that point that we're trying to identify there and not a summary of volumes upstream from there. And the purpose for that is we want them to be able to be comparable to where we typically, Questar Gas, are purchasing other gas, which is into the interstate pipeline.

MR. CLARK: Does Questar deliver volumes upstream of the pipeline?

MR. McKAY: Now Questar? You mean does Wexpro deliver volumes? They do from their wells depending on how things are gathered, okay? We, Questar Gas, need to take responsibility of how we're going to be getting those volumes to the interstate pipeline.

Sometimes we're getting those volumes at the tailgate of a Vermillion plant that Wexpro is a joint owner in, and that's right when it's going into an interstate pipeline.

Other times we're getting them upstream, and we need to have gathering -- we have gathering from a systemwide gathering agreement that we've had now with Tesoro. We also have other contracts with other gathering providers.

All of those, whatever volumes or dekatherms might be used in the transportation on the gathering or in the processing need to be removed out. That's why we're wanting to have it specifically be the volumes of when it goes into the interstate pipeline.

MR. CLARK: So -- so you're confident you can capture that discrete value?

THE WITNESS: That's a good -- good point. Let's be very forthright in that as we've tried to calculate that -- those numbers going back in the past, let's say the past 30 years here, we had not summarized those numbers or kept track specifically of what those volumes were in the past.

We can. On the record, we'll say this out loud, we can calculate on an actual basis today and going forward the volumes that are related to cost of service gas at the -- what's going into the pipeline, interstate pipeline. So we're going to be able to consistently have that information going forward.

We're still in the process of trying to verify and calculate what they actually were in the past. We think we have a pretty good estimate that we provided to the Division and the Commission, specifically in our IRP variance report.

We'll continue to do that. And if we can get more accurate information, we'll provide that at the time we have verified actual numbers. But going forward, we're confident that we'll be able to do that.

MR. CLARK: Be able to and you intend to?

MR. McKAY: Yes, by the intent of this stipulation, which I think the parties wanted to see, also. Yes, we do intend to.

MR. CLARK: Okay. Now in reference to paragraph 21, just a procedural matter. I think it's very useful that these reference documents are going to be available in -- as they've been described here.

Is any of this information confidential? For example, confidential information in guideline letters? And, if so, how do you intend to address that?

MR. McKAY: It's recognized that in the past, we had provided guideline letters under the umbrella of them all being confidential. Through our process of analysis and discussion and coming up with this stipulation, we, Company and Wexpro, have taken a more specific and careful review of all of those guideline letters and feel that they will be able to be provided without them needing to be confidential.

And so at this moment, our anticipation is that they will be able to be provided there. We did reference this in our discussion and thought that if, in fact, there were something, we can't promise things on future guideline letters, for example, that we would simply be providing that document in a redacted form on that website so that they'd be able to see everything else they could.

But, again, we would want to be able to have the reference for that guideline letter out there and people be able to see that it existed. Right now it's anticipated that they would not be confidential.

MR. CLARK: And then regarding the -- the availability of information about the actual cost of the Wexpro gas, I think you addressed this toward the end of your summary, Mr. McKay, but could you review again what's the -- what's the Company's intent -- if you need to consult, I'm happy to -- is there an understanding among the parties or does the Company have an intent regarding when and how and what intervals that information would be provided?

I think this was addressed at a technical conference recently, and -- and I'm interested in whether you're looking for direction from the Commission on that in this order?

MR. McKAY: Sure. To respond to that, I think it would be best if we were to return -- not return. Let's turn to my exhibit, and that's Exhibit 1.3. And for illustrative purposes, you don't have to, but this was an updated exhibit, so you can turn to Exhibit 1.3 updated, or if you have the other -- if you don't have that, I think the point I'm going to make can be illustrated off of the original 1.3.

But what I want to point out in this exhibit, it's a two-page exhibit, and the first page is the calculation that shows the cost of service price, which is I think what your question is referring to. We're also showing what the purchase price is.

So the reason I wanted us to turn here is that we, Questar Gas, are calculating this cost of service price using into-the-pipe volumes on a monthly basis. When I say "monthly," I want to make sure that that's understood that you need to calculate a cost of service price using 12 months' worth of data. So it's a 12-month moving total if you will.

We calculate that every month. We intend and have been providing that information in our quarterly reports in the IRP. And we would assume that that would be something we would continue to do with the backup behind those calculations.

If the Commission desired it more often than that, we also could do that. Right now that seems like a good standard to continue to have going forward. And all parties will be able to weigh in and look at it and view it.

MR. CLARK: So quarterly in the IRP with supporting documents?

MR. McKAY: Yes.

MR. CLARK: Thank you. That's helpful. That's all my questions --

CHAIRMAN LEVAR: Okay. Thank you.

MR. CLARK: -- Chair LeVar.

CHAIRMAN LEVAR: I was just wondering in paragraph 17, the stipulation, if there was a minor typographical error on the second line. Should there be the word "well" before the word "costs" on the second line of paragraph 17?

MS. SCHMID: Yes. Yes.

MR. McKAY: We would feel pretty comfortable if that were to be added there.

CHAIRMAN LEVAR: That term is defined in the Wexpro I and II agreements?

MR. McKAY: It is. You could say dry hole cost or non-commercial costs, but it is specifically. I think that's the point here is it's associated with wells. So I don't know if that it would be incorrect if people -- but that is the intent.

CHAIRMAN LEVAR: Thank you. My only other question is when is this stipulation scheduled to be considered by the Wyoming Commission?

MS. LARKIN BELL: November 18th.

CHAIRMAN LEVAR: Okay. Thank you. I think that's all from us then. Anything further from any party?

MS. SCHMID: Nothing further from the Division.

MR. OLSEN: We have nothing further.

MS. LARKIN BELL: Nothing further.

CHAIRMAN LEVAR: We are adjourned. Thank you.

(The proceedings concluded at 10:12.)

REPORTER'S CERTIFICATE

STATE OF UTAH)

COUNTY OF UTAH)

I, Daren S. Bloxham, a Notary Public and Certified Shorthand Reporter, Registered Professional Reporter, hereby certify:

THAT the foregoing proceedings were taken before me at the time and place set forth in the caption hereof; that the witnesses were placed under oath to tell the truth, the whole truth, and nothing but the truth; that the proceedings were taken down by me in shorthand and thereafter my notes were transcribed through computer-aided transcription; and the foregoing transcript constitutes a full, true, and accurate record of such testimony adduced and oral proceedings had, and of the whole thereof.

I have subscribed my name on this 17th day of November, 2015.

Daren S. Bloxham
Registered Professional Reporter #335