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Division of Public Utilities

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ACTION REQUEST RESPONSE

To: Public Service Commission

From: Division of Public Utilities
Chris Parker, Director
Energy Section
Artie Powell, Manager
Doug Wheelwright, Technical Consultant
Eric Orton, Utility Analyst

Date: March 21, 2015

Subject: Action Request Response regarding Docket No 15-057-19. QGC Replacement Infrastructure 2016 Annual Plan and Budget Update

In the Matter of Questar Gas Company's Replacement Infrastructure 2016 Annual Plan and Budget

RECOMMENDATION

The Division of Public Utilities (Division) recommends that the Public Service Commission of Utah (Commission) approve the proposed 2016 annual plan and budget increase as requested by Questar Gas Company (Company) and recommends that the Company reduce its 2017 Infrastructure Replacement Pilot Program (Tracker) budget by the same amount.

BACKGROUND

The final order in Docket No. 13-057-05, approved the continuation of the Tracker on a pilot basis. Along with that approval, the Company was then allowed to collect up to $65 million per year (with an annual automatic escalation based on the GDP Deflator Index). The approved program also includes Intermediate High Pressure (IHP) pipelines (also referred to as Belt Lines (BL)). The February 21, 2014 Report and Order[1] which allowed the Tracker to continue, required the Company to submit to the Commission, a projected budget each year, in November, for the next calendar year.

On November 16, 2015, the Company submitted its 2016 infrastructure replacement budget and plans to the Commission along with exhibits outlining the Tracker's projects. The Division provided a response and initial comments to the Commission on December 16, 2015 and the Company submitted reply comments on December 22, 2015.

On February 22, 2016, the Company injected a new filing into this docket when it sent the Commission its Replacement Infrastructure 2016 Annual Plan and Budget Update which requested that the Commission allow the Company to exceed its Tracker budget cap by $4 million. On that same day the Commission issued an Action Request to the Division directing the Division to review this filing for compliance and make recommendations. On February 23, 2016, the Commission issued a Notice of Filing and Comment Period, directing interested parties that initial comments on the Company's request are due on or before March 23, 2016, with reply comments due no later than April 6, 2016. This is the Division's response to the Action Request as well as its initial Comments.

ISSUE

In this filing the Company provided three attachments to its petition. Attachment #1 shows the previously filed budget in this docket along with the proposed budget changes. This attachment introduces the two new Feeder Line (FL) replacement projects; FL51 and FL89 at a cost of $4 million each. Budget amounts for FL51 and FL89 were not originally included in last fall's 2016 budget. The Company also decreased the budget for FL 24 and the IHP plans in Salt Lake

[1] Report and Order Docket No. 13-057-05, pages 73-76

County. These adjustments to the 2016 budget (both increases and decreases) result in a net increase of $4 million.

Attachment #2 proposes to show the age, linear feet and diameter of the segments of both FL 51 and FL89 that the Company is planning to replace in 2016. Attachment #3 provides two maps, each one showing the approximate location of the proposed replacement for FL 89 and FL 51 respectively.

The central point of the filing revolves around the words of paragraph 22.a. in the Partial Settlement Stipulation approved in Docket No. 13-057-05 stating "[t]he Company may request Commission approval to exceed the budget cap if there are exigent circumstances requiring immediate Capital expenditures." The Company's proposal is to take $2 million from the replacement of FL24 and another $2 million from the IHP work in Salt Lake County to provide the $4 million expected to replace a section of FL89. More importantly, the Company is requesting an additional $4 million be added to the 2016 budget to replace part of FL 51, making a total projected budget for 2016 of $70.89 million.

In the Division's mind, the real question revolves around the determination as to whether these two projects are "exigent circumstances requiring immediate Capital expenditures".

DISCUSSION

The Division examined the Company's filing, issued two sets of data requests and discussed the specifics of the filing with several Company representatives in order to gain a better understanding of the Company's plans and the requested increase in the 2016 budget cap.

FL 89

The FL89 age and linear footage that the Company plans to replace in 2016 is: 19,400 feet of 4 inch pipe installed in 1956, another 168 feet of 4 inch pipe installed after 1984 and 567 feet of 6 inch pipe installed after 1984 as well, for a total of 20,135 feet. Exhibit 7 of the Confidential Settlement Stipulation in Docket No. 13-057-05 shows that the Company planned on replacing the 19,400 feet of 4 inch diameter line of FL89 installed in 1956, but it was scheduled to be replaced many years in the future, based on its risk ranking and prioritization.

In this filing, the Company stated "during potholing for another project, the Company discovered a section of the line was actually 4-inches in diameter." During discussions with the Company, it was discovered that this statement didn't explain the situation adequately. Instead, what happened was that in March 2015, the Company was potholing FL89-3 (which was not included in any of the Master Lists and is not on the FL replacement schedule) when it discovered that this line (FL89-3) was 4 inches in diameter instead of 8 inches in diameter as the Company originally thought. A 4 inch line does not deliver as much gas as an 8 inch line and both FL89 and FL89-3 feed and connect to the regulator station VN0005. With this more accurate information, new pressure calculations were run which showed that, at times, the Vernal distribution system may have lower pressure than the Company previously thought. Based on these new calculations, it was determined that, at some point in the future, the pressure in Vernal's distribution system could be low enough to cause operational concerns on a Peak Day. To remedy this situation, the Company chose to replace a section of FL89, not FL89-3 (which was the line with the incorrect diameter).

FL89 is a 4 inch line and supplies the regulator station VN0005. West of VN0005 through to VN0001 (a Vernal city gate) is a 6 inch line that the Company replaced in 2004. The Company figures that by replacing this section of FL89 east of VN0005 (which was originally installed in 1956) with an 8 inch line the resultant increase in the capacity to VN0005 and VN0001 will be adequate for the Vernal system on a Peak Day. Currently, however, there is sufficient pressure in the Vernal system. The replacement of this section of FL89 is more of a pre-emptive move rather than providing the solution to a current or immediate problem.

FL 51

FL 51 was already on the Company's schedule to be replaced but like FL89, it was scheduled many years in the future based on its risk ranking and prioritization. The replacement has been moved forward due to a Weber County road project. The age, size and linear feet of the proposed replacement in 2016 is: 61,903 feet of 8 inch pipe installed in the summer of 1970 (this is, according to the Company, before the new standards became effective in the fall of 1970), 291 feet of 8 inch pipe installed in 1972, 22 feet of 1 inch pipe installed in 1974 and 210 feet of 8 inch pipe installed in 1975 for a total of 62,426 feet.

Regarding this replacement, the Division asked the Company to "Provide copies of all documentation from Weber County requiring that the line be relocated to accommodate a road project" as well as copies of all other correspondence between County officials and the Company regarding the replacement of the section of FL51. In response to data request 5.1, the Company provided maps from Weber County and an internal analysis. The "internal analysis" is the document showing that Company decided to replace the current 8inch pipe with a 12inch one. The "maps provided by Weber County" were copies of drawings from the engineering firm engaged by the County concerning this road project and, according to the Company, were given by the County to the Company and are dated October 1, 2014.

During its meeting with the Company the Division again asked for documents showing when the County first contacted the Company regarding the potential of replacing FL 51 to see if this project was "exigent" or not. The Company explained that it was informed verbally of the County's intentions to work on the road, and that it had no paper or electronic documentation as to when it was first informed by the County of its intentions to work on the road which would require the replacement of FL51.

EXIGENT CIRCUMSTANCES

To the Division's mind the pivotal question in this filing is the determination as to whether these two projects are "exigent circumstances requiring immediate capital expenditures." The Tracker is a method of rapid recovery of costs the Company incurs to replace its aging infrastructure. It is not a means to rapidly recover costs for system capacity enhancements (like the FL89 project) or moving pipe for road construction projects (like the FL51 project). The Division has concluded that these replacement projects would normally not qualify for inclusion in the

Tracker replacement projects that are "exigent circumstances requiring immediate capital expenditures". However, since the sections of pipe for these two replacements were installed before the implementation of the 1970 standard and were already on the replacement schedule, the Division believes that it is not unreasonable for the Company to reschedule the replacement of these lines and include these costs in the Tracker. Since these FL's were already on the schedule to be replaced and already qualified for inclusion in the tracker, the Division does not object to increasing the 2016 Tracker budget by $4 million but would recommend that the budget for 2017 be reduced by the same amount.

SUMMARY

As evidenced in this filing and elsewhere, the Company can chose to move money between projects and alter the filed schedule. In this filing it chose to reduce the budget to FL24 by $2 million and to reduce the Salt Lake County IHP budget by $2 million to cover the extra costs of replacing FL89. Thereby moving $4 million between projects in just the last few months, which demonstrates the flexibility in short term budgeting available to the Company. It is common practice for the Company to move projects around from year to year based on its own judgement, convenience and other factors suggesting the Company's flexibility in scheduling replacement projects. Additionally, the original FL replacement program had a much shorter expected life than it does today, thus demonstrating the rate of the replacement work is not too time sensitive so removing $4 million from the 2017 budget will not significantly hamper the progress of the Tracker. Finally, the Company has claimed no imminent safety concern as a reason for this increase to the Tracker program budget, the scheduling within the program nor for the replacement of these two segments (FL51 and FL89). All these things point to the pace and flexibility allowed within the Tracker

It is the Division's opinion, that the ratepayer need not be additionally burdened above the level to which they currently are with the Tracker program. The Division believes that the Tracker should be adjusted down by $4 million in the 2017 budget, so that the overall impact to customers is stabilized and remain at the current Commission approved level.

It should also be noted that, the Division is not comfortable with the Company including pipes that are as small as 1 inch in diameter or pipes that are newer than 1970 in the Tracker unless they are part of a larger replacement project. Replacing pipes which are contiguous with the project and are an inseparable and integral part of replacing the specified vintage portion is not unreasonable to do while the pipes are exposed.

CONCLUSION

The letter the Company filed with the Commission on February 22, 2016, outlining the Replacement Infrastructure 2016 Annual Plan and Budget, and asking for approval to exceed its 2016 budget cap is in compliance with paragraph 22a of the Partial Settlement Stipulation, in Docket No. 13-057-05. The Division recommends that the Commission approve the proposed increase in the 2016 budget of $4 million and recommends that the Company reduce its 2017 Tracker budget by that same amount.

As with the original budget in this docket, the Division notes that this recommendation should not be construed in anyway as an endorsement or preapproval that these costs are prudently incurred or are necessarily recoverable in the Tracker. This issue will be addressed after the Division does its audit of the expenditures for this program.

CC: Barrie McKay, Questar Gas Company
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