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State of Utah
DEPARTMENT OF COMMERCE
Office of Consumer Services

MICHELE BECK
Director

To: Utah Public Service Commission

From: Office of Consumer Services
Michele Beck
Dan Gimble
Eric Orton

Re: 09-057-07 Request for Comments In the Matter of Questar Gas Company's Integrated Resource Plan for Plan year: May 1, 2009 to April 30, 2010

Date: July 13, 2009

Copies to: Division of Public Utilities
Questar Gas Company

INTRODUCTION

Questar Gas Company's (Company or QGC) 2009 IRP was prepared based upon draft guidelines that were still in the process of being reviewed and finalized by the Commission. On March 31, 2009, the Commission issued an Order establishing permanent IRP guidelines for QGC, referred to in the Order as "2009 IRP Standards and Guidelines" (referenced as "2009 IRP Guidelines" in this memo.) While the Company will be required to prepare and file future IRPs based on the 2009 IRP Guidelines, the Commission requested that interested parties comment on the following:

- The adequacy of the IRP 2009 process and plan;
- Whether the information provided by the Company in response to the Commission's Order on the 2007 IRP is sufficient;
- Required changes in analysis, information, etc. that would be necessary for the 2009 IRP to meet the 2009 IRP Guidelines.

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The Office views these areas as related. Therefore, we provide our comments within the outline of the 2009 IRP Guidelines.

COMMENTS

I) Definition and Purpose

The guidelines indicate that one of the purposes of the IRP is that it may be used to evaluate the Company's requests for recovery of gas costs in various proceedings, including pass-through and general rate cases. The Office has a significant concern about some analysis presented within this IRP and its relationship to past and future general rate cases.

In QGC's 2007 rate case, a significant portion of the overall $11.9 million revenue requirement increase was to fund an accelerated pipeline expansion program to replace and upgrade its distribution system. The plan called for an annual investment budget of $45 million over five years. In the 2009 IRP, however, funding of the pipeline replacement program has been sharply reduced to $10 million a year. QGC claims this <u>78% reduction</u> in budget stems from the severe credit crisis, which has impacted the Company's ability to access capital markets and economically finance the pipeline expansion program.[1]

The Office is very concerned about the substantial budget reduction related to the pipeline expansion program noted in the 2009 IRP. Ratepayers are currently funding a $45 million pipeline expansion program, yet Questar Corporation has apparently decided to under-fund the program by $35 million due to budget cuts and potentially divert revenue provided by ratepayers to other activities. In addition, QGC provides no evidence in the 2009 IRP demonstrating that Questar's credit rating has declined and has had difficulties accessing capital at reasonable terms. This seems to be a matter that requires further investigation.

II) Reporting Requirements

The Office believes that the Company reasonably followed most of the filing requirements in the 2009 IRP Guidelines. The Office, however, notes that within the System Constraints and Capabilities section the Company only provides information relating to projects in the 2008-2009 time period. The Office believes that the Company needs to include additional information about upcoming projects in its next IRP in order to be in compliance with the requirement to report on projects for the "following two calendar years." Also, the Office would look forward to additional explanatory sections in the Company's upcoming variance reports in order for them to be compliant with this guideline.

III) Planning Process and IRP Development, Review and Public Comment

[1] QGC's "Explanation of Revised Feeder Line Replacement Funding Levels," pg. 4-15.

The Office does not believe that the latest quarterly report and near and long term gas quality and storage were addressed in any public meeting. The Office also notes that there were no informational meetings discussing confidential matters, although we are unaware of any confidential issues requiring such a meeting. In future IRPs, the Company could ensure compliance with this guideline by noting whether or not such issues exist for each case.

IV) Role of IRP in Ratemaking Proceedings

The Office notes that if the Commission does not follow up on the budget reduction impacting the pipeline expansion project within this docket, then it will likely become an issue in future rate proceedings.

V) Affiliate Relations

The Office is concerned that the budget reduction mentioned above may reflect a situation in which the financial considerations within Questar Corporation have influenced resource planning to the detriment of customers, which would be in direct conflict of this guideline. On page 4-16 of the 2009 IRP, QGC indicates that Questar Corporation has cut total capital expenditures for 2009 by $1.3 billion, which is a reduction of 50% from 2008 levels. The associated budget cut for QGC is a reduction from $138 million to $84 million. This budget cut needs to be investigated by the Commission in context of the reduction in the pipeline expansion program discussed by the Office above.

VI) General Guidelines and DNG Action Plan

The Office believes that the IRP section 2-6 Goals and Objectives can be seen as a precursor to fulfilling this guideline. However, we would look forward to a more specific action plan in fulfillment of this guideline in future IRPs.

VII) IRP Models

The Office believes that the level of description of IRP models is sufficient to meet the intent of this guideline.

VIII) Level of Detail

The 2009 IRP Guidelines state that the Company needs to provide "sufficient information and analyses to show how the Company reaches its resource selection conclusions as to the least-cost plan for providing energy services, including acquisition of natural gas storage, transportation, and distribution services,….." The Office believes that the

Company's consideration of alternatives and criteria used to make decisions in acquiring certain services or resources is lacking.

The 2009 IRP Guidelines also state that "the IRP must also address all relevant system, contractual, gas quality, operational and regulatory issues known to the Company at the time the IRP is submitted." The Company has increased it discussion of relevant issues impacting system planning and operations, but it is difficult for the Office to comment on whether the Company has identified "all known" issues that are relevant to planning and operations. However, we are concerned about the lack of discussion on issues such as Ruby Pipeline, the Kern River Expansion, the Sunstone, and Overthrust expansions and what impact these might have on supplies, contracts, gas quality, prices, etc. The Office submits that these are the types of issues that the Commission was referencing in its guidelines and would expect to see additional information in the next IRP.

IX) Specific IRP Components

A. General Information Requirements

The Company currently includes information that only partially satisfies the 2009 IRP Guidelines for general information requirements. In order to fully comply, it will need to make the following changes and additions:

- Add a description of IRP objectives for both gas supply and DNG functions of the Company.

- Change its presentation of load forecasts to match the guideline requirements.

- Present a discussion and analysis of a range of weather conditions, rather than relying solely on the use of a random weather year selected by the SENDOUT model.

- Include additional analysis about factors that will affect natural gas consumption such as alternative energy sources and changes in end uses.

B. 191 Account Issues

Although the Company discusses resource options such as Wexpro, transportation and demand-side resources, the IRP does not provide "economic assessment of all viable delivery, gas supply, load management and demand-side resource options on a consistent and comparable basis." The Office believes this is a critical function of integrated planning and looks forward to reviewing this type of analysis in future IRPs.

The Office continues to be concerned about the lack of detail included in the IRP regarding the gathering agreements. We note that it includes a relatively brief discussion of the System Wide Gathering Agreement, which is the largest, but only one of the gathering agreements. However, we would expect a detailed explanation of that contract compared to other gathering and transportation agreements as well as evidence that these contracts continue to benefit consumers. The Office believes that this additional information would also be required to fulfill the requirement for "discussion and analysis" included in the 2009 IRP Guidelines.

Many of the other requirements of the 191 Account Issues in the 2009 IRP Guidelines have not been included in this IRP and would need to be added to future IRPs in order for them to be consistent with the new guidelines. These additional issues include:

- The inclusion of a "results" section as specified in the guidelines.

- Additional discussion of Wexpo imbalances including 'terms, time-periods, volumes and fields where recoupment nominations have occurred and/or may occur". Specifically, the Office would like to see adequate discussion and analysis to clearly evaluate whether the imbalances are being handled in a way that benefits customers.

- Additional discussion and analysis on potential future gas quality issues. Given the significant time and resources spent by the Company and regulators addressing the coal seam gas and associated CO_2 gas processing issues, an in-depth analysis of gas quality issues should routinely be included in IRP filings as required by the new guidelines.

- An explanation of the company's efforts at reducing Lost & Unaccounted for gas and reducing natural gas emission in pipeline construction and operations activities.

- How industry, regulatory, and standard changes, may affect resource options.

- Identify specific resource decisions that show the business plan is consistent with the IRP.

- Evaluate the risks of various options listing flexibility in options and addressing future uncertainty.

- Analysis or information necessary to calculate avoided gas costs.

C. DNG Issues

The current IRP contains an overview of the system and its capabilities and constraints, but very little of the other requirements for DNG Issues included in the 2009 IRP Guidelines. The Office suggests that the following would need to be added to future IRPs in order to be in compliance of the guidelines:

- Additional information related to the identification of substantial projects including; feeder line, large diameter main, small diameter main, and measurement and regulation station equipment projects, with their associated capital budgets and long-range plan estimates, and a forecast of the revenue requirement impacts over a three year time frame.

- A summary of the analysis of alternatives evaluated for each project, including costs, benefits, and risk and compare each selected project with next best alternative along with the reason for its rejection.

- A comparison of each selected project with the next best alternative, including cost, benefit, risk, tradeoffs, etc.

- Discussion and analysis of how industry, regulatory, and standard changes, may affect resource options and costs.

- A range, not precise quantification, of estimated external costs affect on the selection of a resource.

- The integrity management plan with associated costs for the three-year time frame addressed.

- The DNG Action Plan outlining specific resource decisions and steps to implement the IRP consistent with the Company's budget and business plan for three years.

CONCLUSION:

The Office notes that the Company states its intention to use the 2009 IRP Guidelines in next year's IRP. In accordance with the Commission's request, the Office provided comments noting the sections that we believe would need to be modified or added in order for the next IRP to comply with the new guidelines. We also note that many of these new requirements will provide important and useful information in evaluating Questar's resource plan. Further, the additional information required will satisfy many of the concerns we have raised regarding insufficient information within this 2009 IRP. In order to ensure that the next IRP meets expectations, the Office recommends that the Commission provide specific guidance to the Company listing the items and issues missing from this IRP that would be necessary to be compliant with the new guidelines.

Finally, the Office has significant concerns about the reduction in budget for the pipeline expansion project and requests that the Commission require the Company to provide additional information in this area.