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State of Utah
DEPARTMENT OF COMMERCE
Office of Consumer Services

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MEMORANDUM

To: The Public Service Commission of Utah
From: The Office of Consumer Services
Michele Beck, Director
Bela Vastag, Utility Analyst
Eric Orton, Utility Analyst
Date: August 25, 2011
Subject: Comments Re: Questar Gas Company's 2011 IRP, 11-057-06

INTRODUCTION

On June 6, 2011, Questar Gas Company (Company) filed its 2011 Integrated Resource Plan (IRP) for the planning period June 1, 2011 to May 31, 2012.

The Utah Public Service Commission (Commission) invited comments which are due August 25th, 2011. The Office of Consumer Services (Office) submits these comments to the Commission regarding the Company's 2011 IRP addressing areas of inadequacy and recommendations for improvements.

COMMENTS

The Office focuses its comments on four areas of the IRP and makes the following recommendations to the Commission.

Wexpro Production

In the IRP section 9-5 entitled Cost-of-Service Gas the Company states: "Another important output from the SENDOUT modeling exercise each year is a determination of the level of cost-of-service gas to be produced during the upcoming gas-supply year." This statement is misleading. The reality is that the amount of Wexpro estimated annual production is not determined by the Company's model. Production decisions flow from Wexpro to the Company (model). There is no evidence to support the assertion that the quantity of gas Wexpro produces during the year is a decision that is reliant upon

the result of the SENDOUT model's calculation as the statement suggests. In fact, last year in response to a direct question from a Commissioner at a regularly scheduled IRP presentation, the Company clearly stated that they are a quantity taker from Wexpro. In other words, it is either disingenuous for Questar Gas to model something that they do not control or it is simply wasted effort. For example, what actions would the Company take if the model results indicated that production should be increased or decreased?

The Office remains concerned that there is no Questar Gas or consumer input involved in the production decisions of Wexpro. Absent stronger oversight, ratepayers cannot be assured that the production decisions result in least-cost service. Such oversight should include an auditable drilling and production plan and budget review before production decisions are made, and a budget-to-actual analysis that evaluated the outcomes of these Wexpro decisions and suggestions for improvements going forward.

Office Recommendation

Since Questar Gas is a quantity-taker from Wexpro, it would be more reasonable for Questar Gas to simply state that it gets the upcoming year's projected volume estimate from Wexpro, and then base its gas purchases on the difference.

The Office reiterates its comment made on this issue in previous memos to the Commission: *Ratepayers need to be confident that Wexpro gas supplies are being developed in a timely, thorough and least cost manner.* The Commission should direct the Division, to report on the reasonableness of Wexpro's proposed drilling plans and associated annual budgets **prior to** the implementation of these plans. Currently, the Division, through the Wexpro monitor, reports on whether the actual drilling that occurred and funds spent conform to Wexpro's pre-drilling plans and budgets, not that these decisions were wise, prudent or, most importantly, representative of the best interest of Questar Gas' captive customers. The Office recognizes that funding available for this increased regulatory oversight may need to be addressed.

SENDOUT Model

Questar Gas requested Ventyx (SENDOUT's creator), to comment on whether Questar had the SENDOUT model functioning properly. In a short letter to the Company dated April 24, 2008, Ventyx stated that the Company's system is one of the more complex systems currently being modeled and the large volume of Wexpro production and 21-year time horizon add to the modeling complexity." The Office asserts that the complexity Ventyx commented on does not equate to increased accuracy but is more likely to lead to greater inaccuracy. Further, Ventyx's comments about complexity are not a review of proper modeling.

Office Recommendation

The Office continues to recommend that the Commission order Questar Gas to engage an outside expert to provide the Commission a review of SENDOUT periodically (every

two-three years). ¹ The Office asserts that it is time for an independent in-depth examination of the effectiveness of the gas supply modeling of Questar Gas' SENDOUT model to determine if its constraints and results accurately reflect the realities faced by Questar Gas.

Gathering and Processing Issues

In this current IRP in section 7-1 it states: "The new monthly reservation charge increased from \$955,513 to \$1,060,315, approximately 11 percent. The Associated commodity charge went up over 14 percent from \$0.1816 Dth to \$0.20764 per Dth."

The gathering commodity rate attendant to the System-Wide Gathering Agreement (SWGA) between Questar Gas and Questar Gas Management Company (QGM) has been increasing for many years. Over the past ten years the Monthly Reservation Charge increased from \$361,552 to \$1,060,315 (293%) and the Commodity Charge likewise increased from \$0.10510 to \$0.20764 (197%) These increases require more close and careful scrutiny by Questar Gas and regulators, especially since the current price of the natural gas commodity is about the same as it was ten years ago. It is not clear whether these rates are reflective of industry trends, whether there may be more cost effective methods to manage the Company's needs, and fundamentally whether the SWGA is still in the public interest. The Office asserts that the IRP should incorporate additional analysis and justification of the SWGA costs.

The Office has asked Questar Gas data requests to obtain additional cost data upon which we could do some of our own analysis. For example:

- Office Data Request (DR) 1.8 in docket 10-057-17 asked: "Is QGC's gathering rate paid to QGM in excess of gathering rates paid by others?" The response from the Company was: "Billing of services under the SWGA is provided using a cost-of-service methodology. This cost-of-service methodology was approved by the Commission. While some gathering and processing service providers could theoretically charge rates less than their costs of service in the short term, in the long term, the provision of such services cannot be sustained. Either losses will be incurred, or returns to equity holders will not be sufficient to attract financing, or both."
- Office DR #1.15 in the same docket asked: "What is QGC doing to ensure that QGM's charges are lower of cost or market." The response referred the Office to the response to DR 1.8 above.

The Office is concerned that Questar Gas has not presented adequate evidence to demonstrate that the SWGA is in the public interest. Now that QGM is not a direct

¹ We proposed this in 2008 and have received no indication that any other verification process has occurred.

affiliate, a rigorous examination by the Company and regulators is warranted to evaluate the lowest gathering and processing prices for Questar Gas customers and the results should be presented to the Commission. The Office asserts that stating that the rates in the SWGA are cost based does not demonstrate that the costs are just and reasonable.

Office Recommendation

The Office recommends that the Commission require Questar Gas to include a more detailed analysis and substantial supporting evidence (including competing bids from other providers) that the SWGA remains the best option for serving its customers.

Reliance on Questar Pipeline Capacity

IRP section 4-2 to 4-3 states; “Additionally, Questar Gas and Questar Pipeline collaborate to identify model inputs to be certain the Questar Pipeline’s interstate pipeline system can provide the upstream capacity and access to supplies to meet Questar Gas’ supply needs.” The Office asserts that since there are four pipelines passing through Questar Gas’ service territory, the same type of collaboration should occur with each of the pipeline companies to ensure competitive rates for Questar Gas’ customers.

Within IRP Section 5-4 Modeling Issues it states: “...and that packages are not unrealistically distributed between KRGT and Questar Pipeline.” Statements such as this demonstrate the subjectivity in the decisions affecting gas supply and purchasing. It is not clear how “unrealistically distributed” is defined and from whose perspective it is being measured (e.g. shareholders or ratepayers.) Again, decisions regarding which pipeline to transport on should be based on the lowest price that maintains adequate reliability, supply and capacity. Evidence supporting the Company’s decisions should be clearly demonstrated to the Commission. The Office is concerned that the level of information that regulators and interested parties are allowed to see regarding these interoffice communications and decisions is insufficient to determine whether the Company’s pipeline decisions are the most cost-effective option.

Office Recommendation

The Office recommends that the Commission require the Company to include more information about its pipeline approach showing pipeline price comparisons, capacity availability, upstream supplies, constraints, etc. This evidence should be required to demonstrate to the Commission that the Company is getting the best rates and supply possible for its ratepayers from competing pipeline companies. The Office further recommends that the Commission order Questar Gas to clearly and thoroughly explain its collaboration with Questar Pipeline and each of the other three pipelines within its service territory.

CONCLUSION

The Office recommends that the Commission require the Company to include the following improvements in its next IRP filing.

- Questar Gas should clearly state that it gets the upcoming year's projected volume estimate from Wexpro, and then base its gas purchases on the difference.
- The Commission should direct the Division, representing all of Questar Gas' customers, to report on the reasonableness of Wexpro's proposed drilling plans and associated annual budgets **prior to** the implementation of these plans.
- The Commission should schedule a technical conference to analyze whether current Wexpro funding is sufficient and, if not, potential funding alternatives.
- The Commission should order Questar Gas to engage an outside expert to perform an independent in-depth examination of the effectiveness of the gas supply modeling of Questar Gas' SENDOUT model.
- The Commission should require Questar Gas to include a more detailed analysis and supporting evidence that the System Wide Gathering Agreement remains the most cost-effective option for serving its customers.
- The Commission should require Questar Gas to clearly explain its collaboration with Questar Pipeline and each of the other three pipelines within its service territory, and demonstrate to the Commission that the pipeline decisions it makes are the most cost effective.