

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application of Questar)
Gas Company to Provide Natural Gas) DOCKET NO. 12-057-04
Transportation Service to the Lake Side Power)
Plant Facility) REPORT AND ORDER
)

ISSUED: June 20, 2012

SYNOPSIS

The Commission approves a special contract for firm gas transportation service between Questar Gas Company and PacifiCorp.

By The Commission:

This matter is before the Commission upon the application of Questar Gas Company (“Questar”) for an order approving the Second Agreement for Firm Transportation to PacifiCorp’s Lake Side Generating Facilities (“Agreement”) entered into between the Company and PacifiCorp on February 15, 2012. The application was filed on March 2, 2012, accompanied by the Agreement and confidential testimony explaining the Agreement’s terms and Questar’s reasons for accepting them. Broadly, the Agreement describes Questar’s obligation to modify, construct, and install additional distribution facilities to provide firm gas transportation service to PacifiCorp’s expanded electrical generating facilities at the Lake Side power station. Additionally, the Agreement obligates PacifiCorp to pay monthly payments of a specified amount for a defined period of years for the firm gas transportation service Questar agrees to provide.¹

¹ Questar considers the terms of the Agreement to be commercially sensitive and presented them with a request they be treated as confidential information in accordance with Utah Admin. Code R746-100-16. No party opposed this request.

In accordance with a schedule established by Commission order,² the Division of Public Utilities (“Division”) and the Office of Consumer Services (“Office”) filed written testimony addressing the application. No other parties filed testimony or presented evidence. The Commission convened a hearing to examine the application on June 6, 2012.

PARTIES’ POSITIONS

Questar states it seeks Commission approval of the Agreement so that it may charge PacifiCorp a different amount for firm gas transportation service than provided in its tariffs. Additional considerations Questar mentions are the length of the Agreement, its fuel reimbursement provision, and the corresponding amendment to a pre-existing Commission-approved firm gas transportation agreement Questar refers to as the Lake Side 1 Agreement.³

The Agreement at issue in this docket calls for Questar to complete a series of construction projects in order to transport natural gas at volumes and pressures sufficient to meet PacifiCorp’s power generation needs when it begins operation of a new generating facility scheduled for completion by June 2014. Questar estimates the cost of these projects is about \$13.7 million. Questar testifies the contemplated improvements to Questar’s system will benefit existing and future customers. These benefits include: 1) increased capacity on Feeder Line 26 from Payson to Vineyard and, 2) increased system pressures in Salt Lake County, Tooele County, and northern Utah County. According to Questar, the increased system pressures will

² See Scheduling Order, Docket No. 12-057-04, March 27, 2012.

³ See *In the Matter of the Application of Questar Gas Company for Approval of a Firm Transportation Agreement with PacifiCorp*, Order Approving Agreement, May 5, 2005, Docket No. 05-057-02.

provide operational flexibility during maintenance and emergency response operations. Questar contends securing these needed system benefits independent of the Agreement would impose significantly higher costs on its customers. Consequently, Questar believes the terms of the Agreement are just, reasonable, and in the public interest.

Questar also testifies much of this construction is necessary even in the absence of the new service for PacifiCorp, particularly system enhancements in the Saratoga Springs area and replacement of a portion of Feeder Line 26. Together these two system improvements will cost about \$8.9 million and, Questar maintains, will benefit existing and future customers as already discussed. Taking into account the cost of these projects that would be necessary regardless of the Agreement, Questar views the improvements contemplated in the Agreement to result in an actual incremental cost of only \$4.8 million beginning in 2016. Questar asserts the Agreement will require PacifiCorp to pay more than the revenue requirement associated with this incremental cost.

The Division asserts the Agreement is in the public interest and recommends the Commission approve it as filed. The Division testifies the Agreement will produce financial benefits for all Questar customers and system operational benefits for customers in Utah County and the southern part of Salt Lake County. The Division reaches these conclusions after evaluating Questar's need to reinforce its system in the Saratoga Springs area to serve customer growth and the need to upgrade Feeder Line 26. The Division concurs the need for these system improvements is independent of the proposed service to PacifiCorp under the Agreement. The Division analyzed the total levelized revenue requirement Questar customers will pay with and

without the Agreement in effect. According to the Division, if the Agreement is approved and implemented, Questar's customers will pay substantially less. The Division also believes the system operational benefits will be of great value to customers.

The Division believes the Agreement is also in the public interest from PacifiCorp's perspective. The Division states PacifiCorp selected Questar to provide the gas transportation service described in the Agreement through a competitive bid process and that Questar's bid was equal or superior to all other bids. The only downside risk to Questar the Division identifies is the potential for the actual construction costs necessary under the Agreement to exceed the projections. This risk exists because PacifiCorp's annual payment under the Agreement is a fixed amount. The Division notes, however, Questar has included some contingency costs in the construction cost estimates.

The Office also investigated the Agreement, independently assessing Questar's reasons for entering into it. The Office has no objection to the Commission approving the Agreement but believes Questar improperly seeks relief beyond the proper scope of this proceeding and the approval explicitly requested in the application.⁴ From the Questar testimony accompanying the application, the Office concludes Questar seeks approval not only of the Agreement but also of the Company's plans to construct the required new facilities. The Office notes the Agreement does not specify the costs to construct these facilities or explain PacifiCorp's obligation to pay for their construction. The Office also argues Questar's testimony

⁴ Similarly, the Office argues the Division's testimony regarding the propriety of PacifiCorp's actions with respect to the Agreement is beyond the scope of this proceeding.

amounts to a request for the Commission to pre-approve a rate increase for GS1 customers outside of a general rate case or other appropriate rate proceeding. This controversy, however, was resolved when the Questar witness during cross examination testified that in this application Questar only seeks approval of the Agreement between itself and PacifiCorp, and no other findings, conclusions, or orders.⁵

DISCUSSION, FINDINGS AND CONCLUSIONS

Questar's testimony adequately supports approval of the Agreement as in the public interest. Having examined the terms of the Agreement and its underlying assumptions, the Division also urges Commission approval. Similarly, the Office, the only other party to offer evidence, concludes approval of the Agreement is appropriate. Based on these unopposed recommendations, the Commission hereby finds the terms of the Agreement to be just, reasonable, and in the public interest. The Agreement is approved, as requested in the application. The Commission makes no findings or conclusions with respect to testimony and other evidence presented in this matter addressing issues beyond the reasonableness of the terms of the Agreement. All other issues, including cost recovery issues, are reserved for an appropriate future proceeding.

ORDER

The Second Agreement for Firm Transportation to PacifiCorp's Lake Side Generating Facilities is approved.

⁵ See Transcript of Hearing, June 6, 2012, p. 13.

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DATED at Salt Lake City, Utah this 20th day of June, 2012.

/s/ Ted Boyer, Chairman

/s/ Ric Campbell, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Gary L. Widerburg
Commission Secretary
D#228439

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 20th day of June, 2012, a true and correct copy of the foregoing Report and Order was served upon the following as indicated below:

By Electronic Mail:

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