

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

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In the Matter of Questar Gas Company's )  
Integrated Resource Plan (IRP) for Plan ) DOCKET NO. 12-057-07  
Year: June 1, 2012 to May 31, 2013 ) REPORT AND ORDER  
)

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ISSUED: August 6, 2012

SHORT TITLE

**Questar Gas Company 2012 Integrated Resource Plan**

SYNOPSIS

The Commission determines Questar Gas Company's 2012 Integrated Resource Plan satisfies the requirements of the 2009 Standards and Guidelines.

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**PROCEDURAL HISTORY**

On June 8, 2012, Questar Gas Company ("Questar" or "Company") filed its Integrated Resource Plan for the period of June 1, 2012, through May 31, 2013 ("2012 IRP" or "Plan"). The 2012 IRP was submitted in accordance with the 2009 Integrated Resource Planning Standards and Guidelines contained in the Commission's March 31, 2009, Report and Order on Standards and Guidelines for Questar Gas Company in Docket No. 08-057-02 ("2009 Standards and Guidelines").<sup>1</sup>

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<sup>1</sup>Docket No. 08-057-02, "In the Matter of: the Revision of Questar Gas Company's Integrated Resource Planning Standards and Guidelines."

On June 13, 2012, the Commission issued an action request to the Utah Division of Public Utilities (“Division”) to review and provide comment on the 2012 IRP by July 9, 2012.

On July 9, 2012, the Division filed comments on the 2012 IRP.

### **SUMMARY OF THE 2012 IRP**

The 2012 IRP presents the Company’s annual forecasts, system and gas modeling activities, and resource selection results. The 2012 IRP also includes a discussion of regulatory, resource, and operational challenges which the Company will or could face in the future. Forecasts include annual temperature-adjusted system sales and throughput, system firm peak design-day gas demand, and residential usage per customer and customer additions. The Company uses its forecast information, along with other operational data, to evaluate gas supply needs and system infrastructure requirements. The Company also uses these forecasts to inform the development of its annual natural gas Request for Proposals (“RFP”) for base load and peaking gas supplies.

Information on proposed gas-supply packages received from potential suppliers, along with the load forecasts and information on Company-owned gas supplies and other resources, is entered into the Ventyx SENDOUT model, Version 14.0.0. SENDOUT is a gas supply planning and portfolio optimization model capable of performing Monte Carlo method/stochastic simulations on two variables, i.e., price and weather. The Company indicates information on heating-degree days, usage-per-customer-per-degree-day, and the number of customers are used within SENDOUT to calculate a customer demand profile. The Company

uses both historic and forecast gas pricing as the basis for projecting stochastic natural gas price inputs.

In conformance with the 2009 Standards and Guidelines, the Company's 2012 IRP includes an executive summary, modeling results, a distribution infrastructure/facilities action plan, and general guidelines. These Plan components are supported by the following specific sections and associated exhibits within the 2012 IRP: IRP background, customer and demand forecasts, system constraints and capabilities, purchased gas, cost-of-service (Company-owned) gas, gathering/transportation/storage, and energy efficiency programs (demand side management activities).

In conjunction with the development of the 2012 IRP filing and supporting the public input component of the 2009 Standards and Guidelines, Questar held several meetings including the IRP kickoff meeting on February 22, 2012, a technical conference on March 27, 2012, a confidential meeting on April 18, 2012, during which market-sensitive information was discussed, and a public meeting on June 21, 2012, to discuss the 2012 IRP. These meetings were attended by representatives of the Commission, Division, Office of Consumer Services, and other interested organizations.

The Company identifies the following goals and objectives in the 2012 IRP: 1) to project future customer requirements; 2) to analyze alternatives for meeting customer requirements from the standpoints of the distribution system, upstream capacity, and gas-supply source taking into consideration the inter-day load profile of each source; 3) to develop a plan using stochastic data and methods and risk management programs that will provide customers

with the most reasonable costs over the long term consistent with reliable service and stable prices within the constraints of the physical system and available gas supply resources; and 4) to use the guidelines derived from the IRP process as a basis for creating a flexible framework for guiding day-to-day as well as longer-term gas supply decisions, including those associated with cost-of-service gas, purchased gas, gathering, processing, upstream transportation, and storage. In addition, the 2012 IRP indicates a 2011 annual average first of month index price for natural gas on Questar Pipeline of \$3.75 per decatherm, an average first of month index price for the 2011-2012 heating season (November through March) of \$2.94 per decatherm, and a forecast 2012-2013 heating season gas price of approximately \$3.14 per decatherm.

The 2012 IRP contains the following results:<sup>2</sup> 1) an annual system sales forecast of 111.0 million decatherms in 2012 increasing to 120.0 million decatherms in 2022. For comparison, the 2011 IRP forecast ranged from 109.2 million decatherms in 2011 to 123.0 million decatherms in 2021, and the Company's actual 2011 weather-normalized natural gas sales were 112.5 million decatherms. The projected decrease between 2011 actual system sales and the 2012 forecast reflects the expected switching of large sales customers to transportation services in July of 2012; 2) a firm customer (both sales and transportation) peak natural gas demand projection of approximately 1.474 million decatherms at the city gates for the 2012-2013 heating season. For comparison, the 2011 IRP forecast was 1.281 million decatherms for the 2011-2012 heating season, and the Company's actual firm peak demand for

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<sup>2</sup> The projections contained in the 2012 IRP reflect the temperature and elevation compensation adjustments agreed to in a Settlement Stipulation and approved by the Commission on June 3, 2010, Report and Order in Docket No. 09-057-16, "In the Matter of the Application of Questar Gas Company to Increase Distribution Non-Gas Rate and Charges and Make Tariff Modifications."

the 2011-2012 heating season was 0.960 million decatherms; 3) a temperature-adjusted system throughput (sales and transportation volumes) forecast of 170.0 million decatherms in 2012 increasing to 205.0 million decatherms in 2022.<sup>3</sup> For comparison, the 2011 IRP forecast ranged from 170.0 million decatherms in 2011 increasing to 223.6 million decatherms in 2021, and the Company's actual 2011 temperature-adjusted throughput was 165.0 million decatherms; and 4) for the 2012-2013 period, a forecast total natural gas requirement of 117.7 million decatherms consisting of approximately 67.7 million decatherms of Company-owned natural gas (assuming completion of new development drilling projects) and 50.0 million decatherms of purchased natural gas. For comparison, 2011 IRP forecast was 115.2 million decatherms consisting of 70.1 million decatherms of Company-owned gas and 45.2 million decatherms of purchased gas, and the Company's actual 2011 weather normalized sales of 112.5 million.

The 2012 IRP indicates the actual temperature-adjusted residential usage per customer for the twelve months ending December 2011 was 83.5 decatherms, an increase of 1 decatherm from year-end 2010.<sup>4</sup> Based upon a modest increase in the number of customer additions (which include a larger proportion of multi-dwelling units), the Company predicts a decrease of 0.6 decatherms in annual average residential usage in 2012.

The 2012 IRP indicates for the October 2011 through March 2012 time period the Company hedged 6.3 billion cubic feet, or 32 percent, of its base-load purchased gas supplies at an average price of \$4.27/MMBtu. For comparison, the 2011 IRP indicates for the October

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<sup>3</sup> The Company expects electric generation to increase substantially in 2014 and beyond with major power plant expansions. See Plan, Page 3-1

<sup>4</sup> To complete this calculation the first six months of 2010 were adjusted to reflect the temperature and elevation provisions approved in Docket No. 09-057-16. See Plan, Page 3-2

2010 through March 2011 time period the Company hedged 5.6 billion cubic feet, or 23 percent, of its base-load purchased gas supplies at an average price of \$4.19/MMBtu.

Also of note, the Company provides a description of its planning, design, and construction efforts pertaining to replacement projects on its distribution system, information on the Magnum and Ryckman Creek gas storage projects and the Clay Basin storage expansion project, and a list of activities associated with compressed natural gas (“CNG”) including upgrading two CNG filling stations and adding one new public access station in Moab. The Company mentions Questar Pipeline Company’s (“Questar Pipeline”) proposed modification to facilities on its southern system which could benefit the Company from the purchase of processed gas from the new facilities. The Company also indicates it is expected that Questar Pipeline’s May 2011 through April 2012 liquids revenues would fall short of cost of service and any such shortfall would have the effect of increasing, during July 2012, the in-kind fuel reimbursement required of the Company and other Clay Basin shippers. In addition, the Company provides an update of the legal and analytical activities associated with the System-Wide Gathering Agreement (“SWGA”) between the Company and QEP Field Services.

### **COMMENTS**

The Division’s comments include: 1) a summary of the results of the 2012 IRP; 2) historical information on the IRP process, the Company’s demand-side management efforts and results, gas commodity and gathering rates, and gas transportation and storage issues; 3) a discussion of the Company’s hedging program, variance reports, and gas quality issues; and 4) a brief description of Questar’s integrity management obligations under the U.S. Department of

Transportation Pipeline and Hazardous Materials Safety Administration's ("PHMSA") rule addressing integrity management programs for gas distribution pipelines. The Division states Questar forecasts the costs for transmission and distribution integrity management will be approximately \$7 million per year in 2012 through 2014. The Division also mentions several other highlights from the 2012 IRP including: Questar Pipeline's proposed modifications to its southern transmission system; deemed savings of 459,700 decatherms and a total net benefit cost ratio of 1.1 for all ThermWise programs in 2011; and legal issues between Questar and QEP Field Services pertaining to the gathering rates and charges associated with the SWGA. The Division indicates the Company addressed all of the follow-up items from the Commission's December 16, 2011, Report and Order in Docket No. 11-057-06, "In the Matter of Questar Gas Company's Integrated Resource Plan for Plan Year: June 1, 2011 to May 31, 201." The Division believes the Company has made reasonable attempts to satisfy the 2009 IRP Standards and Guidelines and has also committed, through continuing discussions with parties, to continue to improve on details of some aspects presented in this IRP. The Division recommends the Commission acknowledge the 2012 IRP.

#### **COMMISSION CONCLUSIONS AND GUIDANCE**

We commend the Company for its efforts in preparing the 2012 IRP, managing the IRP process, and addressing Commission guidance from previous IRP orders. These efforts ensure the Company's 2012 IRP continues to provide up-to-date, valuable information on the Company's plans for, and challenges in, meeting its present and future responsibilities as a public utility. We also appreciate the Division's analysis and comments on the 2012 IRP. Based

upon our review, we agree with the Division's analysis and determine the Company's 2012 IRP satisfies the requirements of the 2009 Standards and Guidelines. We also offer the following guidance on the 2012 IRP.

First, since the SWGA audit, analysis, and legal proceedings have been ongoing for quite some time, are of great interest to the Commission, and may have a significant effect on Utah ratepayers, the Company should provide a quarterly update of the activities associated with the SWGA in future IRP quarterly variance reports until the issues surrounding the SWGA are resolved.

Second, pertaining to the Company's transmission and distribution integrity management programs ("IMP"), we observe significant cost increases for 2012 IMP-related activities from those presented in the 2011 IRP. For example, the estimated cost of the 2012 transmission IMP activities has increased 60 percent (from \$3.479 million to \$5.568 million) and that of the 2012 distribution IMP activities has increased by 43 percent (from \$1.0246 million to \$1.4720 million). While we recognize integrity management activities are important to ensure the safety and reliability of Questar's pipeline system and are required by federal law, the Company should proactively explain such dramatic deviations in cost estimates in future IRPs or IRP-associated meetings. We encourage parties to understand the nature of these cost increases, the increased requirements imposed by PHMSA's transmission and distribution integrity management rules ("Integrity Management Rules"), and whether the Company's cost estimates for its integrity management activities include costs associated with pipeline safety requirements in effect prior to the effective dates of the Integrity Management Rules.

Finally, based upon discussions and input during the Company's 2012 IRP pre-filing public and confidential meetings, we continue to encourage parties to meet with the goal of enhancing understanding of the SENDOUT model, including its setup, logic, and constraints.

**ORDER**

NOW, THEREFORE, IT IS HEREBY ORDERED, that

1. The Company shall follow the guidance provided herein.

DATED at Salt Lake City, Utah, this 6<sup>th</sup> day of August, 2012.

/s/ Ted Boyer, Chairman

/s/ Ric Campbell, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Gary L. Widerburg  
Commission Secretary

D#232226

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 6<sup>th</sup> day of August, 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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Administrative Assistant