

BEFORE THE UTAH PUBLIC SERVICE COMMISSION

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IN THE MATTER OF THE APPLICATION OF) DPU EXHIBIT 1.0 R

QUESTAR GAS COMPANY FOR APPROVAL) DOCKET No. 12-057-13

OF THE WEXPRO II AGREEMENT)

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Pre-filed Rebuttal Testimony
Of
Douglas D. Wheelwright
On Behalf of
Utah Division of Public Utilities
January 10, 2013

1 **Q: Please state your name, business address and title.**

2 A: My name is Douglas D. Wheelwright. I am a Utility Analyst in the Division of Public
3 Utilities (Division). My business address is 160 East 300 South, Salt Lake City,
4 Utah 84114.

5 **Q: On whose behalf are you testifying?**

6 A: I am testifying on the Division's behalf.

7 **Q: Did you previously file testimony in this Docket?**

8 A: Yes.

9 **Q: What is the purpose of your testimony in this matter?**

10 A: I will provide comments on the direct testimony filed by Ms. Michele Beck on behalf
11 of the Office of Consumer Services (Office).

12 **Q: Do you agree with the position of the Office that the Wexpro II agreement is
13 flawed and should not be approved without changes?**

14 A: No. While The Office acknowledges that the existing Wexpro I agreement has
15 been beneficial to customers and has resulted in lower rates, Ms. Beck believes
16 that the Wexpro II Agreement (Wexpro II Agreement or Agreement) should be
17 modified or changed but does not provide specific recommendations on which
18 items should be modified. The Office makes the following recommendation to the
19 Commission:

20 "The Office would prefer to see the agreement fixed rather than rejected, but is
21 uncertain what specific actions to recommend that would accomplish that goal."¹

22 While the Office has identified areas that concern it in other sections of the
23 testimony, the Office does not provide workable solutions to address these
24 perceived concerns. Further, the Agreement is the product of long-running
25 negotiations that included significant concessions from the Company and its sister

¹ Direct Testimony of Michele Beck, Page 18, Line 393.

26 company Wexpro. The Agreement filed with the Commission is the agreement on
27 offer and the Company is under no obligation to modify its offer of participation in
28 future Wexpro acquisitions.

29 **Q: Do you agree that the Wexpro I and Wexpro II agreements were designed to**
30 **address different needs?**

31 A: Yes. Ms Beck is correct that the Wexpro I agreement was created to resolve a
32 disagreement. The original agreement was the result of compromise by several
33 parties to create a workable solution. Given that the original agreement has
34 worked well for over 30 years without significant modifications, it is evident that the
35 terms of the agreement have created a working solution to a very complicated
36 issue. Since the Wexpro I agreement has worked well for an extended period of
37 time, using the same framework or format in the Wexpro II Agreement could
38 provide a framework for potential future acquisitions.

39 **Q: Do you agree that the Wexpro II Agreement is an expansion of the Wexpro I**
40 **agreement?**

41 A: No. I believe that all the parties involved recognize that the Wexpro I agreement is
42 limited and applies to a very specific geographic area. As stated by Ms. Beck, the
43 existing agreement is not intended to cover future acquisitions.² The Wexpro I
44 agreement covers a finite geographic area and the existing interests within that
45 area will eventually be depleted. The Wexpro II Agreement provides a no cost
46 option to benefit from possible future acquisitions by Wexpro. If this Agreement is
47 approved, there will be no impact to ratepayers. Any future impact to ratepayers
48 will be determined when specific properties are brought forward for consideration.

² Direct Testimony of Michele Beck, Page 3, Line 52.

49 The proposed Agreement provides a framework for the Company to present
50 specific properties for possible additions to the cost of service production.

51 **Q: Do you agree that the regulatory environment has changed since the Wexpro**
52 **I agreement was signed?**

53 A: While there have been changes in utility regulation, the responsibility to provide
54 just and reasonable rates remain the same.

55 **Q: Could the Company have taken a different approach and filed for approval**
56 **under the rules for procurement of large energy resources as suggested by**
57 **Ms. Beck?**

58 A: It is my understanding that this issue was explored in the early discussions relating
59 to a possible Wexpro II Agreement. The established guidelines under §54-17-401
60 require the energy utility to apply for approval of a resource decision. The
61 Commission then has 180 days to approve or deny the application. However,
62 during early discussions Wexpro representatives expressed strong opposition to
63 using the resource acquisition statute and its process to govern inclusion of
64 potential properties under a Wexpro II agreement. Even with the accelerated
65 timeframe identified in this statute, Wexpro would not be able to negotiate the
66 terms of a proposed purchase and then ask the seller to wait 180 days with an
67 uncertain outcome. Under the terms of this Agreement, Wexpro will complete the
68 purchase of the properties at its own risk before the properties are presented for
69 possible inclusion in the cost of service production.

70 **Q: Do you agree that the Wexpro II Agreement lacks oversight and is**
71 **unregulated?**

72 A: No. The Agreement calls for regular and ongoing review of the financial and
73 operational activities by independent monitors. The hydrocarbon monitor meets

74 quarterly with officials at Wexpro and provides reports to the Division. The
75 accounting monitor reviews the financial information for compliance with the terms
76 and provisions identified in the Agreement. The Division reviews these reports to
77 determine whether Wexpro and the Company are acting in a prudent manner. This
78 is similar to the oversight to other approvals given by the Commission. For
79 example, PacifiCorp has several contracts with Qualifying Facilities for which
80 PacifiCorp is required to file performance data, which the Division reviews to
81 determine the ongoing reasonableness of the contract terms, conditions, and
82 prices. Additionally, both Questar Gas Company (Questar Gas or the Company)
83 and PacifiCorp have extensive demand side management programs. Both
84 companies are required to file performance and budgetary reports on a regular
85 basis, which the Division, as well as other interested parties, reviews to ensure that
86 the programs continue to be cost effective.

87 **Q: Do you agree that all the guideline letters should be incorporated into the**
88 **body of the Wexpro II Agreement?**

89 A: No. Over the past 30 years there have been a number of letters dealing with
90 changes in accounting rules or other issues not addressed in the original Wexpro I
91 Agreement. A great portion of these letters deal with specific issues related to
92 individual wells that would not be applicable to any properties acquired under a
93 Wexpro II Agreement. If all these items were to be included as part of the
94 agreement, it would add volume without adding clarification. The guideline letters
95 also provide detailed descriptions of accounting rules that would not add to the
96 understanding of the Wexpro II Agreement. Restating or simplifying the content of
97 these letters could potentially cause confusion and conflict.

98 **Q: Do you agree with the concerns relating to binding arbitration?**

99 A: No. The same provision was approved and is included in the Wexpro I agreement.
100 The arbitration provision does not prevent the Division from exercising its duties or
101 from making future recommendations.

102 **Q: Do you agree that the Office is limited in their access to the information and**
103 **reports provided by the monitors?**

104 A: No. The Office would have access to all of the reports from the monitors through a
105 Commission proceeding or could initiate a GRAMA request.

106 **Q: Do you agree that other issues have not been adequately addressed like the**
107 **rate of return and how this proposal will affect the hedging practices?**

108 A: No. The Company has represented that the rate for both agreements has been set
109 to avoid any conflict in future development. Different rates of return could
110 potentially encourage inefficient development or a bias toward specific properties.
111 For example, a higher rate of return under the Wexpro I agreement (or a lower
112 return under the Wexpro II Agreement) could provide Wexpro an incentive to treat
113 the Wexpro I properties more favorably than the Wexpro II properties to the
114 detriment of rate payers. Having the same return under both agreements
115 balances the incentives to Wexpro to manage all of the properties prudently.

116 As stated in my previous testimony, the acquisition cost of a new property will earn
117 the Questar Gas weighted allowed rate of return set in the most recent general rate
118 case. (Currently 8.428%) The higher rate of return is allowed for future
119 development wells to compensate Wexpro for the potential risk of discovering non-
120 commercial or dry holes that it undertakes in drilling those wells. It is my
121 understanding that prior to the Wexpro I agreement, this risk was born by Questar
122 Gas' rate payers. Under the Wexpro agreements, the higher return compensates
123 Wexpro for that risk. This is no different than the higher return that third parties
124 presumably build into proposals when bidding into an RFP for which the utility

125 seeks Commission approval. The Commission does not regulate the return sought
126 by the third party but rather regulates the costs that the utility can recover through
127 its rates.

128 The concern that approval of this agreement will have an impact on the hedging
129 percentage is premature. Until specific properties are presented for consideration
130 and approved by both state Commissions, there is no impact to the cost of service
131 or to the current production levels. If at the time the Company seeks approval of a
132 resource under the Wexpro II Agreement the Commission determines the hedging
133 level is too great, the Commission can deny the inclusion of further resources.

134 **Q: How should the Commission analyze the proposed Agreement if not by**
135 **evaluating rates of return, hedging percentages, and other components**
136 **identified by the Office?**

137 A: The proposed Agreement gives ratepayers a no-cost option for future hedges. At
138 the time ratepayers are asked to participate in the hedges, the ratepayers, through
139 the hydrocarbon monitor, the Division, the Office, intervenors, and the
140 Commission, will have access to information on the cost of the hedge, expected
141 production, and forward price curves. Those are the relevant measures of whether
142 participating in the hedge is in the public interest and they will be known at the time
143 of decision. Future capital costs will be included only if the newly-drilled wells are
144 determined to be commercial at the time they enter production which provides
145 another safeguard for ratepayers. Another impediment to imprudence is the
146 Company's ability to direct the development and drilling of properties operated by
147 Wexpro. If Questar Gas wields that ability imprudently, disallowances are possible
148 under the agreement.

149 Unlike typical hedging programs, this one provides the opportunity for approval of
150 hedges at the time of the transaction (regulatory acceptance of the property being

151 the relevant transaction) with ratepayer participation and greater information. The
152 appropriate questions to be considered at the time a property is proposed for
153 inclusion are: 1) whether the anticipated amount of gas from the proposed property
154 at the acquisition price is a prudent hedge given the Company's needs and current
155 price forecasts; and 2) whether commerciality and the Company's ability to
156 participate in the direction and development of future drilling provide adequate
157 protection for ratepayers. The appropriate question to be considered in this
158 proceeding is whether this Agreement (not a hypothetical agreement not on offer)
159 is in the public interest because it is a no-cost opportunity to participate in future
160 hedging opportunities of a type that has proven to be successful for ratepayers and
161 the Company over the past 30 years.

162 **Q: Does that conclude your testimony?**

163 A: Yes it does.