BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF QUESTAR GAS COMPANY FOR APPROVAL OF THE WEXPRO II AGREEMENT	Docket No. 12-057-13

SURREBUTTAL TESTIMONY OF JAMES R. LIVSEY

FOR QUESTAR GAS COMPANY

January 24, 2013

QGC Exhibit 2.0SR

PUBLIC

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is James R. Livsey. My business address is 333 South State Street, Salt Lake City, Utah.

Q. Are you the same James R. Livsey who filed direct testimony in this Docket on September 18, 2012?

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. I will respond to two specific areas that are raised by Michele Beck's rebuttal testimony for the Office of Consumer Services: 1) the claim that there is a loss of "regulatory authority, review and influence" under Wexpro II; and 2) claims regarding the Encana/Northwest Natural Gas Joint Venture.

Q. **The Office's testimony states that "[i]t is misleading to call the Agreement a 'no cost option'" because "the cost of the agreement is the loss of regulatory authority, review, and influence over what could be a significant portion of future natural gas supplies impacting rates for Utah customers." (OCS Exhibit 1R, lines 30-35.) How do you respond?**

A. For over 30 years, the Division of Public Utilities has provided regulatory oversight of the Wexpro I Agreement. The Office may not be aware of how extensive this oversight has been. The Division has hired two monitors to assist it in this regulatory oversight. This same regulatory oversight will take place under Section V-12(b) of the proposed Wexpro II Agreement. The Division, assisted by the two selected monitors, an independent certified public accountant and an independent petroleum engineer (hydrocarbon monitor) , has the right to review the performance of the Agreement, just as in Wexpro I.

The accounting review under the Wexpro I Agreement involves multiple meetings with Wexpro and reviews that culminate in a yearly report that includes tests of monthly settlement calculations, reconciliation procedures and fluctuation analysis, tests of the annual marginal composite income tax rate, review of drilling in progress, review of depreciation, review of gas notifications to QGC, review of well classifications, accounting for asset retirement obligations, tests of well retirements and dry holes, tests of net well and production ratios, tests of deferred tax balances and adjustments, and a comparison of Wexpro's costs with the prior year. All findings by the accounting monitor are reported annually to the Division and staff of the Wyoming Public Service Commission.

The hydrocarbon monitor has quarterly meetings with the Division and Wexpro that include a thorough review of classifications and approvals of new wells, drilling and completion of wells, oil and gas production, field activity, operating expenses, uneconomic and shut-in wells, off-system gas and gas imbalances. Wexpro also responds to a variety of data requests from the hydrocarbon monitor. All findings by the hydrocarbon monitor are reported quarterly to the Division and staff of the Wyoming Public Service Commission, who then meet and confer with Wexpro and discuss the results of operations. In addition, as specific issues regarding application of the Wexpro I Agreement to various situations have arisen, Wexpro has consulted with the Division and its hydrocarbon monitor regarding handling of those situations, including adoption of guideline letters.

This level of regulatory oversight and review, which will occur after a Wexpro II property is approved, has been "normal and ongoing" for the entire 30-plus years of operation under the Wexpro I Agreement.

Q. Are you familiar with the Encana/NW Natural Gas Joint Venture that was approved by the Oregon Commission that the Office refers to?

A. Yes. I have reviewed the Oregon Commission Order approving the Stipulation, copies of the underlying agreements available on the Internet and reports published by NW Natural Gas and Encana describing the Joint Venture.

Q. The Office claims there are key differences between the Joint Venture approved by the Oregon Commission and the Wexpro II Agreement in this proceeding. Do you agree with that characterization?

A. No. There are several areas where the Office seems to be misinformed. Specifically, the Office's testimony states that "there are no premiums similar to what is included in Wexpro I or the proposed Agreement [Wexpro II]." (OCS Exhibit 1R lines 115-116.) Based on my review, this is not accurate. The Application filed by NW Natural describes the Joint Venture as follows:

> Under the terms of the Proposed Transaction, NW Natural and Encana would form a 'drill to earn' tax partnership by which NW Natural would gain a working interest in certain gas reserves in the Jonah Field, located in Sublette County, Wyoming. NW Natural would financially participate with Encana in drilling individual wells, and in exchange, the Company would earn a working interest in the gas produced in certain sections of the Jonah Field.[1]

NW Natural and Encana further explained this Joint Venture in a joint presentation made to the North American Gas Summit in October 2011. I have attached as QGC Exhibit SR 2.1 a slide from that presentation.[2] This slide shows that Joint Venture partner (NW Natural) earns a 50% working interest by paying 75% ($250 million) of the drilling costs. In return, Encana maintains a 50% working interest but only pays 25% of the drilling costs. The effect of this Joint Venture allows Encana to earn a significant uplift to projected returns or, in other words, a premium.

Q. Do you have any additional information that supports the fact that Encana anticipates earning a premium return on the Joint Venture?

A. Yes. In a presentation to investors by Encana in June of 2011, Encana stated that its anticipated after-tax return from joint ventures in the Jonah Field was 25%. I have attached as QGC Exhibit SR 2.2 this presentation.[3] Page 4 of this presentation is a summary of Jonah, Wyoming joint ventures. [redacted]

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[1] Northest Natural Application for Deferred Accounting, Docket No, UM 1520 (Ore. PUC January 31, 2011) at 1-2.
[2] Zadvorny, James and Cronise, Barbara, NW Natural – Encana Joint Venture, North American Gas Summit (October 3-5, 2011), Slide 10.
[3] http://www.encana.com/pdf/investors/financial/guidance/krp-stats-201107.pdf

Q. Are there other aspects of the Joint Venture that provide greater benefits to Encana than Wexpro receives under Wexpro II?

A. Yes. In the NW Natural/Encana Joint Venture, Encana keeps all condensate/oil. In contrast, under Wexpro II net revenues from condensate/oil are shared 54% to Questar Gas and 46% to Wexpro. This is a substantial benefit to Questar Gas's customers.

Q. The Office's testimony states that "NW Natural can elect to take its production in kind, sell the production or transport it to NW natural's distribution system. Alternatively, NW Natural can elect to have Encana sell the gas at market prices and use the proceeds to purchase gas. Thus, NW Natural ratepayers are not obligated to pay higher than market prices under this joint venture, in contrast to the terms of the current Wexpro I and proposed Agreement." (OCS Exhibit 1R lines 125-131.) How do you respond?

A. A careful reading of the Stipulation indicates that if NW Natural elects to sell its gas at market prices, NW Natural is still paying the embedded costs (approximately $5.15/Mcf) as a result of its investment in the Joint Venture.[4] Therefore, the Office is incorrect in saying that NW Natural ratepayers are not obligated to pay higher than market prices.

Q. The Office also claims that "the Joint Venture maintains normal regulatory review processes relating to prudence, dispute resolution and reporting requirements." (OCS Exhibit 1R lines 140-143.) Are you familiar with the terms of the prudence review referenced in the Stipulation?

A. Yes. The Stipulation provides that prudence reviews of the proposed transaction appear to be limited to two instances related to information that is later discovered and future decisions regarding Elective Wells as follows:

> If, in the future, new information, not made available to Staff and the intervening parties, arises which demonstrates that NW Natural knew, or should have known, something of consequence to the Proposed Transaction at the time of the Proposed Transaction, Staff and the intervening parties can then use that information to challenge the prudence of the Transaction. On this point, the Parties agree that a prudence finding

[4] Stipulation, Docket Nos. UM 1520, UG 204 (Ore. PUC April 19, 2011).

> by the Commission at this time should apply only to the Company's decision to enter into the Proposed Transaction, and not to any subsequent decisions the Company might make in terms of exercising its discretion to manage the contract. The Parties specifically agree that a prudence finding by the Commission as this time should not, for example, extend to a future decision by the Company to participate in drilling Elective Wells, as that term is defined in the Carry and Earning Agreement.[5]

This prudence review seems to be limited and not as broad as the Office contends.

Q. Are you familiar with the dispute resolution provision in the Carry and Earning Agreement which was attached to the Stipulation as an exhibit and approved by the Oregon Commission?

A. Yes. Encana and NW Natural agreed to binding arbitration with respect to any matters regarding the Carry and Earning Agreement. Section 24 <u>Dispute Resolution</u> of the Carry and Earning agreement provides:

> The Parties agree to resolve all disputes concerning or relating to this Agreement pursuant to the provisions of this Section 24. The Parties agree to submit all disputes to binding arbitration in Denver, Colorado.[6]

It is my understanding that disputes regarding Encana's decisions to drill, pace of drilling, well classification and so forth may only be brought before an arbitration panel and are not subject to Oregon Commission review. This is similar to the binding arbitration provision in the Wexpro II Agreement at Section V-13. Wexpro wanted to ensure that disputes regarding well classification and drilling decisions be brought before an arbitration panel just as disputes under Wexpro I would be resolved.

Q. Are you familiar with the reporting requirements that the Office refers to?

A. Yes. I have reviewed the reporting requirements referenced in a letter from NW Natural to the Oregon Commission.[7] They appear to be similar, if not less comprehensive, than

[5] Stipulation, Docket Nos. UM 520, UG 204 (Ore. PUC April 19, 2011) at 6.
[6] Carry and Earning Agreement, Exhibit 10.1, Northwest Natural Gas Company Form 10-Q (May 4, 2011), www.faqs.org/sec-filings/110504/northwest-natural-gas-co_10-Q/ex10-1.htm#b.
[7] Report of Management Duties and Responsibilities Under Carry and Earning Agreement and Joint Operating Agreement, Docket Nos. UM 1520, UG 204. (Ore. PUC May 27, 2011).

the reporting and review that take place under the Wexpro I Agreement. The same reporting and review is anticipated under the Wexpro II Agreement.

Q. What do you conclude?

A. The Wexpro II Agreement is an exceptional opportunity for Questar Gas and its customers. The Wexpro I Agreement has been mutually beneficial to Wexpro, Questar Gas and its customers. I believe Wexpro II meets all of the Office's concerns. I have shown that there is ongoing and thorough regulatory oversight. The NW Natural/Encana Joint Venture does not have more favorable terms than those in Wexpro II with regard to a premium return for the producer, an option for the utility not to take gas when it is priced higher than market, prudence reviews, dispute resolution by arbitration and reporting requirements. In fact, the anticipated producer return appears to be higher in the Joint Venture than in Wexpro II. For all of these reasons, I believe the Commission should approve the Wexpro II Agreement to provide utility customers the option to continue the cost-of-service gas program which has been tremendously beneficial to them over the last 30 years.

Q. Does this conclude your testimony?

A. Yes.

State of Utah)
) ss.
County of Salt Lake)

I, James R. Livsey, being first duly sworn on oath, state that the answers in the foregoing written testimony are true and correct to the best of my knowledge, information and belief. Except as stated in the testimony, the exhibits attached to the testimony were prepared by me or under my direction and supervision, and they are true and correct to the best of my knowledge, information and belief. Any exhibits not prepared by me or under my direction and supervision are true and correct copies of the documents they purport to be.

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James R. Livsey

SUBSCRIBED AND SWORN TO this ____ day of January, 2013.

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Notary Public