

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application  
Of Questar Gas for Approval of the  
Wexpro II Agreement

Docket No: 12-057-13

~~~~~  
HEARING BEFORE THE  
PUBLIC SERVICE COMMISSION  
~~~~~

TAKEN AT: Heber M. Wells Building  
160 East 300 South  
Salt Lake City, Utah

DATE: January 30, 2013

TIME: 9:20 a.m.

REPORTED BY: Kellie Peterson, RPR

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

APPEARANCES

For the Division Of Public Utilities:

Patricia Schmid, Esq.

Attorney General's Office

160 E. 300 S.

Fourth Floor

Salt Lake City, UT 84111

For the Office of Consumer Services:

Gerald Jensen, Esq.

Attorney General's Office

160 E. 300 S.

Fourth Floor

Salt Lake City, UT 84111

For Questar Gas:

Colleen L. Bell, Esq.

Gregory Monson, Esq.

QUESTAR CORPORATION

333 S. State Street

PO Box 45433

Salt Lake City, UT 84145-0433

	INDEX	
	Witness	Page
1		
2		
3	BARRIE L. MCKAY	
4	Examination by Ms. Bell	10
5	Examination by Mr. Jensen	18
6	Examination by Commissioner Clark	44
7	Examination by Chairman Allen	68
8	Examination by Mr. Monson	72
9	Further Examination by Mr. Jensen	73
10	JAMES R. LIVSEY	
11	Examination by Ms. Bell	78
12	Examination by Mr. Jensen	83
13	Examination by Commissioner Clark	89
14	Examination by Chairman Allen	92
15	Examination by Mr. Monson	94
16	DOUG WHEELWRIGHT	
17	Examination by Ms. Schmid	95
18	Examination by Mr. Jensen	101
19	Examination by Commissioner Clark	116
20	Examination by Chairman Allen	119
21	Further Examination by Ms. Schmid	121
22	MICHELE BECK	
23	Examination by Mr. Jensen	124
24	Examination by Mr. Monson	129
25	Examination by Commissioner Clark	141

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

INDEX CONT.

Examination by Chairman Allen 142

EXHIBITS

No.	Description	Page
OCS 1D	Direct Testimony of Ms. Beck	124
OCS 1R	Rebuttal Testimony of Ms. Beck	124
OCS 1SR	Surrebuttal Testimony of Ms. Beck	124
DPU 1.0D	Direct Testimony of Mr. Wheelwright	96
DPU 1.0R	Rebuttal Testimony of Mr. Wheelwright	96
DPU 1.0SR	Surrebuttal Testimony of Mr. Wheelwright	96
QGC 1	Direct Testimony of Mr. McKay	10
QGC 1R	Rebuttal Testimony of Mr. McKay	78
QGC 2	Direct Testimony of Mr. Livsey	78
QGC 2SR	Surrebuttal Testimony of Mr. Livsey	78

Hearing Before the Public Service Commission

January 30, 2013

PROCEEDINGS

COMMISSIONER CLARK: This is the time and place duly noticed for a hearing in the matter of the application of Questar Gas Company for approval of the Wexpro II Agreement. This is the commission docket No. 12-057-13, and as you can see, Chairman Allen and myself, Commissioner Clark, are on the stand today. I believe you are all aware of the Notice of Recusal that was filed by Commissioner Thad LeVar earlier in this a matter.

We have a preliminary matter to take up. Before we do that, let's have appearances of counsel.

MS. BELL: Yes, Colleen Larkin Bell and Gregory B. Monson on behalf of Questar Gas Company.

COMMISSIONER CLARK: Thank you.

MS. SCHMID: Patricia E. Schmid, Assistant Attorney General, representing the Division of Public Utilities.

MR. JENSEN: Gerald Jensen, Assistant Attorney General, representing the Office of Consumer Services.

COMMISSIONER CLARK: Anyone else wish to identify themselves? Thank you. Pardon me just a minute while I find my papers that I need. I don't believe we have anyone on the phone this morning, do we? Thank you.

I think we should begin by addressing the motion

1 filed by the Division on January 28th, entitled, "Division of  
2 Public Utilities' motion opposing Office of Consumer Services'  
3 briefing request and request for expedited treatment and  
4 shortened response time." So we have the motion. Ms.  
5 Schmid, is there anything else you would like to offer before we  
6 hear from other parties?

7 MS. SCHMID: No.

8 COMMISSIONER CLARK: Ms. Bell? Mr. Monson?

9 MR. MONSON: We also filed a response that you  
10 have and so we don't need to expand upon that, but we do want  
11 to say that we think maybe the Commission could make a  
12 decision on this after hearing the evidence today. In other  
13 words, you may find you either need or don't need briefs after  
14 you hear the evidence.

15 COMMISSIONER CLARK: Mr. Jensen?

16 MR. JENSEN: Well, I find this a  
17 cart-before-the-horse kind of matter because we never filed a  
18 motion to make the post hearing brief, though it was indicated in  
19 Ms. Beck's testimony. We probably would agree with Mr.  
20 Monson, that we would like to hear the evidence, but we would  
21 like to reserve the opportunity to file a post hearing brief on the  
22 legal issues that face the Commission. I didn't realize that it  
23 was going to be so controversial. I thought the Commission  
24 might want to hear what the legal issues are.

25 COMMISSIONER CLARK: We'll be off the record.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

(A discussion was held off the record.)

COMMISSIONER CLARK: We will come back to this issue after we've heard the evidence this morning.

MS. SCHMID: Excuse me, as the proponent of the motion, may I respond to Mr. Jensen?

COMMISSIONER CLARK: Oh, pardon me, surely.

MS. SCHMID: As the Division stated in its motion, the Office, early on, mandated, or strongly encouraged, the Commission to establish a procedural schedule that included an opportunity for legal briefing. As noted, immediately before the briefs of the Office dealing with legal issues was to be filed, the Office declared that it was not going to do legal briefing and would address the matters through testimony. To do otherwise, except for the matters of jurisdiction, would be to disregard the Commission's procedural order and would be incorrect because the arguments have already been waived. Thank you.

COMMISSIONER CLARK: Thank you, Ms. Schmid.

MS. BELL: I would like an opportunity to add further to that. The Company's position is along the same lines as the Division's position. The committee, the Office did have an opportunity to fully brief these issues. We delayed the schedule so that they could do that. They withdraw their desire to do that.

Certainly, if this Commission determines at the close of the hearing today that there are any hearing issues, or

1 post hearing briefing type issues that they need to hear, we  
2 would support that. But we do want to reserve the right to  
3 object to the Office's attempt to try to now do what they could  
4 have done in the prehearing schedule as the Division memo fully  
5 outlined. Thanks.

6 COMMISSIONER CLARK: Thank you. Mr. Jensen,  
7 any final comments? This is an opportunity to.

8 MR. JENSEN: Well I guess it goes without saying,  
9 I was not the attorney that did that and I would just like the  
10 opportunity of briefing the legal issues. My understanding is that  
11 a post hearing brief is not out of the ordinary for this  
12 Commission. I do find it--and it is not a significant matter,  
13 although Mr. Proctor indicated that he wouldn't file a dispositive  
14 motion in his email prior to the deadline of October 26th, and  
15 that may be a difference without a distinction.

16 But, anyway, to me, there are legal issues here. It  
17 just seems to me, regardless of what the history of this has  
18 been, that the Commission may want to be briefed on what the  
19 legal--the cases, the Supreme Court cases and such, have held  
20 on the issues that are being addressed. It just seems to me like  
21 it's a matter of information to the Commission to better help you  
22 make a decision.

23 COMMISSIONER CLARK: Thank you. Ms. Bell or  
24 Mr. Monson, would you like to call your first witness?

25 MS. BELL: Yes. The Company would like to call



1 Mr. Barrie L. McKay.

2 BARRIE L. MCKAY, called as a witness and having  
3 been duly sworn, was examined and testified as follows:

4 COMMISSIONER CLARK: Please be seated.

5 EXAMINATION

6 BY-MS.BELL:

7 Q. Good morning, Mr. McKay.

8 A. Good morning.

9 Q. Please state your full name for the record.

10 A. Barrie L. McKay.

11 Q. And by whom are you employed?

12 A. Questar Gas Company.

13 Q. And what is your title?

14 A. I am the general manager of regulatory affairs and  
15 energy efficiency.

16 Q. Did you file direct testimony in this proceeding  
17 consisting of ten pages and premarked as QGC Exhibit 1.0 with  
18 attached exhibits 1.1 through 1.4, on September 18, 2012?

19 A. Yes.

20 Q. Did you file rebuttal testimony consisting of 17  
21 pages and premarked as QGC Exhibit 1.0-R, on January 10th,  
22 2013?

23 A. Yes.

24 Q. If I were to ask you the same questions today that  
25 were asked in your pre- filed testimony and your rebuttal

1 testimony, would your answers be the same?

2 A. They would.

3 MS. BELL: I would like to move to admit Mr.  
4 McKay's testimony and exhibits.

5 COMMISSIONER CLARK: Any objections? They  
6 are received.

7 BY MS. BELL:

8 Q. Have you prepared a summary of your testimony?

9 A. Yes, I have.

10 Q. Would you please provide it to us?

11 A. I will. My testimony explains the tremendous  
12 benefit Questar Gas has received from the Wexpro cost of  
13 service gas production. Specifically, customers have saved  
14 over \$1.3 billion over the 30-year history of the Wexpro I  
15 Agreement. I also described the portions of the Wexpro II  
16 Agreement deemed with how a property can be included in and  
17 identified as a Wexpro II property, and I also explain the  
18 differences between the Wexpro I Agreement and the Wexpro II  
19 Agreement.

20 Questar Gas and its affiliates have always been in  
21 the exploration and the development business and have  
22 supplied--and have supplied a significant portion of the gas  
23 needed for Questar Gas' customers. The Wexpro I Agreement  
24 was entered into in 1981 but it was limited to specific  
25 properties.

1 Now it's interesting that at that time, the  
2 Commission specifically identified and supported the  
3 continuation and development of gas reserves for the benefit of  
4 the utility customers. This Wexpro II Agreement has done just  
5 that we feel. It's philosophy is based on the continuation of  
6 being able to have cost of service gas available for Questar Gas  
7 customers in the future.

8 It really wasn't until the following the spinoff of  
9 QEP that our CEO, Mr. Ron Jepson, gave us a charge in the  
10 regulatory area, as well as the Wexpro area, to see if we could  
11 find a way to be able to give customers at Questar Gas an  
12 opportunity to continue receiving this benefit. So in the fall of  
13 2011, we began public meetings here in Utah, as well as in  
14 Wyoming, with the Commission and other interested parties.  
15 Following that initial meeting, we continued to have meetings  
16 with the Division of Public Utilities, the Office of Consumer  
17 Services here in Utah, as well as the Wyoming Office of  
18 Consumer Advocates, and then in September of last year on the  
19 12th, in 2012, the Wexpro II Agreement was signed by the  
20 Company, Wexpro, the Division, and the Wyoming OCA.

21 Now there were several changes that we did  
22 attempt to make in the Agreement in an effort to address some  
23 of the concerns raised by the Office here in Utah, but,  
24 ultimately, the Office determined not to sign the Agreement. In  
25 their direct testimony, they identified three specific areas of

1 concerns. Those three areas dealt with the guideline letters,  
2 the arbitration provision, and the regulatory oversight.

3 Now I think finally, after the back and forth rebuttal  
4 and then the surrebuttal, I think we have a solution on guideline  
5 letters. We have explained that it was impractical to specifically  
6 identify which guideline letters may or may not apply at any  
7 given time, but I think in Section 4-2P, as in pop, of the Wexpro  
8 II Agreement, we had the opportunity to file those things that  
9 may be needed.

10 We are recognizing and will observe that Ms.  
11 Beck's surrebuttal testimony also suggests this, that there is a  
12 need to specifically identify which guideline letters may apply to  
13 a particular piece of property. We think, in compliance with that  
14 portion of the Wexpro II Agreement, that when we file any piece  
15 of property for this Commission's approval, we will identify the  
16 specific guideline letters that are applicable to that property,  
17 and we feel that this should resolve that issue, and we have an  
18 agreement on that.

19 The other--the other provision was the arbitration  
20 provision, and Wexpro, right from the beginning of this, was not  
21 willing to enter into a new agreement unless they continue to  
22 have some of the protection that they viewed as being a  
23 non-regulated entity continue. And so this particular provision,  
24 although it's never been used, was something that they were  
25 very strong in desiring. And so we were able to put that and

1 have it be a continuation of the same provision that had been in  
2 Wexpro I and we brought that into Wexpro II.

3 We do note that it was a concern, the arbitration  
4 was even back in Wexpro I Agreement, and the Supreme Court  
5 specifically addressed that issue and observed that arbitration is  
6 a favorable means to resolve disputes and specifically approved  
7 that the Division was okay in agreeing to arbitration in the  
8 Wexpro I Agreement. We feel that that's great evidence to be  
9 able to have them be able to do the same with Wexpro II.

10 In addition, I think all the parties in the case, in  
11 some time or another in their testimony now, have referred to  
12 the Northwest Natural and the Encana joint venture, and we  
13 specifically cite that very similar provision related to arbitration  
14 exists so that Encana, another non-regulated E&P company  
15 goes into an arbitration provision to resolve any disputes that  
16 may occur in that joint venture.

17 Third matter, the regulatory oversight was not  
18 specifically addressed in the Office's surrebuttal testimony but  
19 was identified earlier in the direct testimony, and we feel that  
20 we have shown--my testimony has shown that the Commission  
21 has the authority to review and approve any property that may  
22 be brought before them to be included in the Wexpro II  
23 Agreement.

24 And then, in addition, we described the extensive  
25 regulatory oversight by the Division and the two independent

1 monitors specifically laid out in the Agreement to provide that  
2 oversight. And this oversight was specifically found to be  
3 appropriate and very detailed in the Wexpro I Agreement. We  
4 have attempted to mirror that same type of oversight and review  
5 in the Wexpro II Agreement.

6           Finally, in the Office's rebuttal and surrebuttal  
7 testimony, there is a focus on the belief that the Company has  
8 not demonstrated that the Wexpro II Agreement is in the public  
9 interest. I would respectfully disagree there. Is an agreement  
10 that has provided a plentiful cost of service and saved  
11 customers over \$1.3 million in the public interest? Yes. Now  
12 that would be Wexpro I. Now is an agreement that gives  
13 Questar Gas an opportunity, or an option, to be able to have the  
14 access to that same parameters related to cost of service gas in  
15 the public interest? It would be a resounding yes there, also.

16           Lastly, it was 20 years ago, or about that, I came to  
17 work for then Mountain Fuel and have since--our name has  
18 changed to Questar Gas during that time. Very frankly, I will say  
19 that that little book, which is the Wexpro I book, sat on my desk  
20 with the pages unturned, but in the last two or three years, I  
21 have become intimately aware of the details in this agreement  
22 and I have come to appreciate the original writers of this  
23 agreement, their thoroughness and their completeness, in  
24 putting together an agreement that at the time, we may not have  
25 anticipated lasting this long, but their thoroughness and

1 exactness has been a tremendous benefit. And I have gone  
2 through section by section, page by page, paragraph and even  
3 some cases, word by word. I am impressed with what we have  
4 in that agreement, and then recognize that it is the same  
5 wording, in many cases, that we have attempt to bring forward  
6 to the Wexpro II Agreement.

7 What is most amazing about this is that in the  
8 Wexpro I Agreement, the Court determined that it was because  
9 Questar, or Mountain Fuel, had had on its books the property  
10 already recorded out there, the wells and that, that they should  
11 be able to have the opportunity to have a cost of service gas.

12 The great thing about Wexpro II is Questar doesn't  
13 have to invest anything. It's Wexpro that is going to go out on  
14 its own, at its risk and purchase property. That, in turn, brought  
15 before this Commission and the Wyoming Commission and  
16 assuming that that approval takes place, we then, Questar Gas  
17 and our customers, will have an opportunity to have the cost of  
18 service gas. This truly is in the public interest and I do urge the  
19 Commission to approve the Wexpro II Agreement.

20 Q. Does that conclude your summary?

21 A. It does.

22 MS. BELL: Mr. McKay is now available for  
23 examination.

24 COMMISSIONER CLARK: Ms. Schmid?

25 MS. SCHMID: No questions.

1 COMMISSIONER CLARK: Mr. Jensen?

2 MR. JENSEN: Questions.

3 EXAMINATION

4 BY-MR.JENSEN:

5 Q. Mr. McKay, the Office certainly does not take the  
6 position that is opposed to lowering costs for ratepayers and the  
7 benefits that have come about from Wexpro I aren't to be  
8 applied. The question is, is moving forward. You talk about, in  
9 your testimony, about the benefit of, or the reason, the reason  
10 then Mountain Fuel and Wexpro agreed to the Agreement back  
11 in late '70's, early '80's was so that Wexpro wouldn't be subject  
12 to the Public Service Commission. Help me understand what it  
13 is that you are so interested in avoiding by being--having  
14 disputes arbitrated in front of the Public Service Commission?

15 A. I will observe that, first, I'm a Questar Gas  
16 employee and we do have our executive vice president that will  
17 can speak specifically to that.

18 Q. But you raised it in your testimony.

19 A. And I did --

20 Q. I will read it if you want but you are the one that  
21 raised the issue.

22 A. So let me respond to that. Specifically, my  
23 understanding is that as the Wexpro I Agreement came into  
24 existence, and, obviously, we brought the same concept forward  
25 into Wexpro II, but as it came into existence, there was some



1 passionate feelings within our corporation of whether or not an  
2 E&P company would come under the jurisdiction of a regulatory  
3 body, a utility structure, which is what Mountain Fuel was--or  
4 that Questar Gas was at that time; and, therefore, recognizing  
5 that people don't, or parties don't always see eye to eye on  
6 particular issues, recognizing that this Commission is prepared,  
7 and as well as the Division and the Office who actually signed  
8 that Agreement, do not always keep on staff E&P oil and gas  
9 experts, that is not what their normal on a regular day-to-day  
10 responsibilities are, they came forward and the parties agreed  
11 that if a dispute related to oil and gas and Wexpro, this  
12 non-regulated entity, in their execution of that agreement, if  
13 there was a dispute over that, that it would go to a panel, okay,  
14 of oil and gas experts. Wexpro would choose one, the disputing  
15 party would choose one, together those two would choose a  
16 third, and then the issue would go before that panel and be  
17 determined and decided, and Wexpro agreed to that and the  
18 Division agreed to that.

19           And that was identified because this was a concern;  
20 obviously, it was a question before the Supreme Court, and they  
21 simply observed that arbitration is a good thing and in this  
22 instance for this purpose and just this specifically in Wexpro II.  
23 Okay, specifically for the execution and responsibilities of  
24 Wexpro under this agreement. So that is the genesis, or that is  
25 the root of the concern, which I think specifically answers why

1 that happened in that particular agreement, and it's that same  
2 concern that existed today as Wexpro went forward saying, how  
3 are we going to do another agreement.

4 Q. Well, so recordkeeping is taken out of the  
5 jurisdiction of the Commission; is that correct?

6 A. Okay. Now you're switching from arbitration to  
7 recordkeeping and I--

8 Q. Well, just a minute; I mean, is recordkeeping going  
9 to occur by Wexpro?

10 A. Wexpro always is keeping track of their records and  
11 their responsibilities and their reporting because they are  
12 monitored, they are reviewed by the Division, and so they are  
13 there providing whatever document and information is needed,  
14 so--

15 Q. But that is not available to the Commission under  
16 the proposed agreement; is that right?

17 A. I don't know if I could characterize it's not available  
18 to them. I think it's the responsibility of the Division in their  
19 monitoring role to make sure that all the things that are  
20 specifically laid out for the regulatory review and the  
21 implementation and the drilling of properties are specifically out  
22 there. The Division is to go and do that. I would observe that I  
23 think the Commission could have access to any of those reports,  
24 if they desired them, from the Division and wanted to look at  
25 them.

1 Q. Well, help me understand what kind of disputes you  
2 would see taking place under the proposed agreement that  
3 would be subject to arbitration.

4 A. That one, I will observe you should talk to the  
5 senior vice president of Wexpro. I am not dealing with the every  
6 day-to-day experience, but I do think there is specific issues  
7 related, and I can go to a higher level here, related to oil and  
8 gas issues, and I think he can give you an examples of what  
9 those disputes might be. I do know this: That to date, they,  
10 that is Wexpro, the Division and others, have been able to work  
11 through their differences of opinion. They certainly had them  
12 and they have been able to work through those issues without  
13 needing this particular provision to be invoked.

14 Q. Would you identify some of those issues that they  
15 have worked through?

16 A. I can at a summary level. Again, I am happy to  
17 have your ask our senior--or our executive vice president, but I  
18 do know that the accounting orders that have come up that are  
19 new, that haven't been identified at the time of the Agreement, I  
20 do think the way that they handle and treat certain kinds of  
21 wells have been some of those issues, and I'm going to stop  
22 with those two and let someone who is more intimately involved  
23 with the development of those speak to it.

24 Q. Kind of what I am understanding is, is there really  
25 haven't been disputes.

1 A. Oh, I wouldn't say that but you should fairly ask him  
2 that question.

3 Q. Okay, I will make a note of that. Does this  
4 arbitration panel that is in the proposed agreement decide  
5 things based upon the public interest?

6 A. I would certainly think that public interest issues  
7 would be before that panel and they would have the opportunity,  
8 if that is brought before them, to be able to decide on those  
9 issues.

10 Q. Would they be duty-bound to make a decision  
11 based upon the public interest?

12 A. I think they would be bound to make the wisest  
13 decision, and if the wisest decision is in the public interest, I  
14 certainly hope they make that decision.

15 Q. Is the Public Service Commission obligated to make  
16 a decision in the public interest?

17 A. I think they specifically have that laid out.

18 Q. At all times. Right? If the proposed agreement is  
19 not approved, will Wexpro buy these properties anyway?

20 A. That's a great question and I think that gives me an  
21 opportunity to explain what's changed within our corporation.  
22 As I mentioned in my summary, we have always been an E&P  
23 company, and immediately following the Wexpro I Agreement,  
24 we had an E&P portion of our company that went out and bought  
25 properties, developed them very successfully and even to the

1 point where, obviously, a couple years ago, we spun off that  
2 portion of that company.

3 It's in our DNA, it's in our genes, so, yes, I think  
4 you could anticipate that within the Questar umbrella, that we  
5 would have the desire to go forward and purchase and develop  
6 new properties. What's different is Mr. Ron Jepson, our CEO,  
7 and when he became there and gave us a specific charge, it  
8 was different than where we were in the early '80's. He said,  
9 "You know what? We recognize this; the Wexpro I Agreement  
10 has been a great agreement for the Company. It has been a  
11 great agreement for the customers. Can we find a way to at  
12 least give customers an option in the future?" He gave us a  
13 charge. That would not have been the case prior to that.

14 Q. You keep referring back to Wexpro I Agreement and  
15 I understand that and that is part of this case, but how Wexpro I  
16 came about is an entirely different scenario than how this  
17 proposed agreement has come about; is that not correct?

18 A. There were different circumstances, yes.

19 Q. Explain what those different circumstances were. I  
20 mean, explain the circumstances that led to Wexpro I.

21 A. In a quick summary, the Company had been  
22 producing both oil and gas from wells for--since 1929. In the  
23 '70's, there began to be a dispute specifically related to the oil  
24 portion of those wells. From the Company's prospective, we felt  
25 that the oil and the revenues from that were things that should

1 go to the shareholders. I don't think there was ever any  
2 question on where the natural gas should go. It's when the  
3 Commission decided that those oil revenues, or benefits from  
4 that, should go to the customers, that we have a dispute.

5           The resolution of that is an amazingly detailed  
6 regulatory viewed sharing of the oil revenues, and as well as  
7 specifically outlining the details for the cost of service portion of  
8 the gas. It's turned out to be a great agreement, which is what  
9 we wanted to match or emulate in the development of the  
10 Wexpro II Agreement.

11           Q.     Am I correct in understanding that Mountain Fuel  
12 had actually spun off properties to Wexpro that the Commission  
13 and the Office thought really should--the ratepayer should be  
14 compensated for?

15           A.     I think that is the part that is related to the oil  
16 properties and that was what was at dispute.

17           Q.     How long did that dispute last?

18           A.     I think it was a few years that it got appealed and  
19 went back and forth, so I hope we have learned from our  
20 experiences.

21           Q.     But the Wexpro I Agreement comes about as a  
22 result of years of dispute, two trips to the Supreme Court, and  
23 compromises on all sides, doesn't it?

24           A.     I think those were fairly described what occurred  
25 and in the final result of Wexpro I.

1 Q. And when the Court authorized--when the Supreme  
2 Court finally gave its blessing to the Agreement that was  
3 entered into, didn't it treat it as a compromise?

4 A. I think they could treat it as what needed to be  
5 proper or legal.

6 Q. But don't they talk about the end ess litigation that  
7 was going on and that at some point, it has to come to a  
8 conclusion?

9 A. I think in any dispute or hearing before a group,  
10 anything needs to eventually need to come to a conclusion. So  
11 if it's early or late, I guess it doesn't matter as long as it can  
12 come to a conclusion.

13 Q. Well, my point, is when the Supreme Court made  
14 that determination, were they thinking they were endorsing an  
15 agreement that was to live in perpetuity, or were they dealing  
16 with the specific facts in front of them for a specific agreement  
17 that had at least an end date at some point?

18 MR. MONSON: I object to the question. It calls for  
19 Mr. McKay to get in the mind of the Supreme Court, I believe.

20 MR. JENSEN: I don't think it calls for him to get in  
21 the mind of the Supreme Court. I think it calls for whether or  
22 not he's familiar with the Supreme Court's opinion on the issue.  
23 That is why I would like to brief the case, if you want to know  
24 the truth, but I think he is capable of answering. I suspect he's  
25 read that opinion and knows.

1 COMMISSIONER CLARK: Do you have an opinion,  
2 Mr. McKay?

3 THE WITNESS: If you will repeat the question. I  
4 may, but I don't--I am not going to ever think that I know the  
5 minds of the Supreme Court.

6 BY MR. JENSEN:

7 Q. Well, you are not being asked to know the mind of  
8 the Supreme Court. You are being asked to know what the  
9 situation was back in 1981, one probably in the minds of the  
10 people at Mountain Fuel, but, two, it was written by the Supreme  
11 Court, and the point is, did the Court endorse the Agreement of  
12 1981 thinking that it was going to be an agreement that would  
13 last in perpetuity with Mountain Fuel or did they make the  
14 decision based upon the facts before them and that specific  
15 agreement?

16 A. I think that they recognized, as we did and all the  
17 parties, that the life of the field was what we were trying to have  
18 reach an agreement on. And we recognize that there is a point  
19 of which the properties and Wexpro I will terminate. They won't  
20 last forever. And, hence, the reason why we have looked for a  
21 way to be able to continue that.

22 Q. Thank you. This is a hypothetical and it may not  
23 even be pertinent. If Mr. Monson wants to object, I probably  
24 won't fight him on it. We talked about the low price environment  
25 of natural gas today. Is that something that you would have



1 foreseen ten or 12 years ago at Questar?

2 A. Coincidentally, your identification of that many  
3 years ago actually has gas prices being pretty low at that time.

4 Q. Really?

5 A. Yes.

6 Q. And how are you at projecting prices of natural gas  
7 ten years out?

8 A. I think we use a third party, and that's what we  
9 recognize, that there is a lot of different estimates that are out  
10 there. In fact, we not only use one third party but we use  
11 several, and we average those prices on what people are  
12 forecasting, and we recognize they are forecasts.

13 Q. And is it possible that natural gas prices go lower  
14 than they are today; is that in your scenario?

15 A. We always have a high case and a low case. We  
16 would be--we would not expect, given our knowledge and  
17 experiences, that you are going to necessarily have a lower  
18 prices in the future, but you may. We certainly think that you  
19 are going to have higher prices and I think there are more out  
20 there that are viewing an increase in prices in the future than  
21 there are a reduction in prices.

22 Q. I'm having a tough time grasping, and I have had  
23 for some time here, that the difference between what the E&P  
24 aspect of Wexpro is and what the regulated function of Questar  
25 is; could you help me in understanding the difference?

1 A. I can speak from the regulated side because that is  
2 where my life--my professional life.

3 Q. Okay.

4 A. So I do know that we regularly have reporting  
5 requirements that we are considered a monopoly and, therefore,  
6 we need to have a regulatory body to review our costs and,  
7 some cases, our practices, and we willingly submit to that in  
8 providing our reports. I can go into more detail there but I think  
9 that is a good setup there.

10 While on the other hand, Wexpro is not a  
11 monopoly. Wexpro is out there in a competitive environment  
12 that does not need to necessarily be viewed or regulated by a  
13 Commission set forth to regulate monopolies and that is  
14 probably the best setup to begin with.

15 Q. And are there any functions that Wexpro does that  
16 really ought to fall under that reporting requirement or review of  
17 costs or review of practices by the Public Service Commission?

18 A. I guess I--they don't have general rate cases. They  
19 certainly are in the business of providing the cost of service  
20 gas, so as far as that goes, this agreement, and also the  
21 Wexpro II Agreement, which obviously is modeled after it, after  
22 Wexpro I, they will need to follow that, those practices, those  
23 procedures.

24 The Division has been identified, as well as the  
25 OCA in Wyoming. It was the Wyoming Commission staff in

1 Wexpro I to be monitors, to see and make sure that that they  
2 are following what was specifically laid out in the Agreement.  
3 And that reporting and information is available on quarterly and  
4 annual bases, and, certainly, if this Commission wanted to have  
5 access to it, I think that they could receive that.

6 COMMISSIONER CLARK: Mr. McKay, you began  
7 your answer, you held up something; can you identify what that  
8 was?

9 THE WITNESS: Sorry, I held up the a copy of the  
10 Wexpro I Agreement that has the characteristics that I described  
11 and I also referred to in my testimony, the Wexpro II Agreement,  
12 which was patterned after that and has those same  
13 characteristics, that the Division, to summarize and bring it all  
14 together, the Division has the responsibility for the monitoring  
15 and the reviewing in both agreements, and that if this  
16 Commission desired information about either one, they could  
17 simply obtain that by asking or having the Division provide it to  
18 them.

19 BY MR. JENSEN:

20 Q. You raise the issue of a rate case. Explain to me  
21 what you think would be the differences between a rate case  
22 and what you envision to be a hearing to approve a property by  
23 the Commission under the proposed Agreement. What  
24 differences between those two hearings? The proposed  
25 agreement requires that for a property to be brought in under

1 the Agreement, it has to be approved by the Commission.

2 Correct?

3 A. Correct.

4 Q. Explain to me the difference between a rate case  
5 hearing and a property acquisition hearing.

6 A. Okay. Well, rate case, I assume that you referring  
7 to a general rate case?

8 Q. I am.

9 A. A general rate case, by statute, is laid out to be  
10 240-day process. We now need to give the Commission notice  
11 in advance that this is timely. We have already given the  
12 Commission notice that we plan to file a general rate case this  
13 coming year. There's standard date of requests that we will be  
14 going forward and preparing. I will, maybe at the same time  
15 here, show you some similarities. There are some standard  
16 information in the Wexpro approval of property that we have  
17 also laid out specifically, that we would be putting together at  
18 the same time.

19 But now back to the general rate case, we would  
20 file the direct testimony requesting numerous different aspects.  
21 It could deal with the return on equity. It could deal with  
22 investment infrastructure, cost of service, rate design, several  
23 issues that are out there. What would be before the  
24 Commission--and that is quick summary and I can go into more  
25 detail of that if you desire, but, in contrast, in the proceeding

1 before the Commission on approval of a Wexpro II property,  
2 Wexpro will have already purchased the property at their own  
3 risk.

4 We, Questar Gas, will come before them and  
5 provide to them, and this is identified in section 4-2 and it is  
6 kind of a summary list of all the information that will be  
7 provided, the pricing, the assumptions that were used by  
8 Wexpro in purchasing the property, the location of it, the  
9 historical production, forecasting estimated drilling costs, will be  
10 providing some estimates of what we think the cost per  
11 decatherm from that field would be, or from that particular  
12 purchase would be over the life of the property. I tried to think  
13 of anything that would be out there as it specifically relates to  
14 that property and how it would function based on the cost of  
15 service and the returns that are identified in this Wexpro II  
16 Agreement. We would provide that estimate to the Commission  
17 and the parties.

18 Upon our filing, on that same day, it's specifically  
19 identified that the parties to that case, and we would file with  
20 the Division, the OCS would also get a copy of that filing, but,  
21 specifically, the monitor, the hydrocarbon monitor, would get a  
22 copy of that filing, and then within seven business days, that  
23 monitor will file with this Commission their analysis and review  
24 of the all of the data that is specifically outlined there in section  
25 4-2, and give their opinion on the thoroughness of it, whether or

1 not it makes sense. They may say that's right inline, or no, I  
2 think they have overreached here or isn't wise there, but they  
3 will give their opinion, and then the parties, the Division, the  
4 Office, I am sure, will have an opinion in this case. There may  
5 be others in Utah.

6 At the same time, we are also filing up in Wyoming,  
7 and they will be able to have their opinion and make their  
8 recommendations to the Commission of whether or not they  
9 want to take this option. If they don't want to take this--and I  
10 should say, when they take this option, it is specifically laid out  
11 how a property that we are familiar with now for over 30 years,  
12 how those costs get assigned, how the commerciality of a well is  
13 determined, how all of that is laid out, or whether or not we want  
14 to have this property go into that template.

15 If the answer is yes, then it goes in and Wexpro  
16 continues to separately--now they will separately record, identify  
17 all that information as it relates to that property so that we can  
18 separately track it and see and make sure that it's complying  
19 with the Wexpro II Agreement, and we will go forward. If the  
20 Commission, in either Utah or Wyoming, say no, then Wexpro is  
21 free to develop that, just like our Questar E&P did in the past  
22 for its own benefit in any way that it wants to.

23 Q. All right. In the agreement, it indicates that  
24 Questar Gas Company will manage gas volumes. How is this  
25 done and what's the goal here? Is it done to maximize benefit

1 to customers or is it done to maximize the return to the  
2 Company?

3 A. That particular explanation is in section 4-8 of the  
4 Wexpro II Agreement. The intention of that description there  
5 was to memorialize in writing the ability that our manager, or  
6 general manager, of gas supply currently does within the  
7 Wexpro I Agreement. We wanted to call it out here in the  
8 Wexpro II Agreement. And she manages whether or not volumes  
9 are going to flow from a Wexpro well that they have drilled for  
10 the benefit of customers, and that is code word, really, for  
11 whether or not they are going to determine to shut a well in or  
12 continue to have that well flow.

13 And in some instances, I am getting into our IRP  
14 analysis here, but we have a model, a description of it, that  
15 helps us determine if it's better or more advantageous for us to  
16 shut in that gas or to continue to take that gas. Typically, it's  
17 always good to continue, for our customers to continue to have  
18 that gas flow. On rare occasions it may not be, but we wanted  
19 Questar Gas, the general manager in Questar Gas, to be able to  
20 be the one that's determining that for the best interest of the  
21 customers.

22 Q. How is the management of gas volumes be  
23 overseen?

24 A. Well, by our general manager. They oversee that  
25 and then we report this specific information to the Commission

1 quarterly. We have a forecast of what our demand is going to  
2 be, as well as the production that is going to be coming from  
3 Wexpro there any given year, as well as the purchase gas that  
4 we are going to have.

5 We provide variance reports each quarter that have  
6 an explanation why there is a variance from it. Sometimes it's  
7 due to weather, sometimes it's due to pricing or costs,  
8 sometimes it's due to the demand on our system, but we will  
9 explain all of those things in our variance report. And then  
10 annually, we also file integrated resource plan that reports on  
11 some of the things that we have done last year, as well as our  
12 projection for the next year.

13 And, finally, any time a party has interest or  
14 concerns in what's being done with the management of our gas  
15 supply, we will hold regular meetings and be able to sit down  
16 and explain to them those questions.

17 Q. And is that--under this Agreement, is that the limit  
18 of their option is to sit down with you and have you explain it, or  
19 do they have an option of taking the matter to the Public Service  
20 Commission?

21 A. I'm sure, if they didn't feel the Questar Gas was  
22 acting prudently. These costs flow through to customers.  
23 These specific costs, management gas supply, occur in what we  
24 call a general pass-through case. And we have had concerns in  
25 the past where they have questioned those costs and brought



1 them before this Commission.

2 Q. If the Commission issues any order with respect to  
3 Wexpro gas volumes in an IRP or other regulatory proceeding,  
4 would that be binding on Questar?

5 A. If the Commission ordered us to do certain things,  
6 it certainly would be binding on us.

7 Q. All right. Let me go back to Wexpro I. I meant to  
8 ask you, when Wexpro I was put together, what was the rate of  
9 return in that?

10 A. Well, there's a couple of rates --

11 Q. Okay.

12 A. --of return that are identified. There is a base rate  
13 of return and then there is a premium rate of return. Which  
14 return are you wanting me to tell you what it was?

15 Q. I want you to identify both.

16 A. Okay. Now the base rate of return that Wexpro  
17 would receive on a property was 16 percent, and then  
18 depending on whether or not a property was viewed as an oil  
19 property or a gas property for their development, it was a plus  
20 five to that, or a plus eight.

21 Now there is also another return that was identified  
22 for property that was producing cost of service gas, and we  
23 have come to call those prior Company wells. Those prior  
24 Company wells were recorded on Questar Gas' books, and the  
25 return that was on those properties, I can't specifically recall but

1 I could find that out if you desire. It would be whatever the  
2 Commission's allowed return was in 1981.

3 But that would have been a return that was set by  
4 this regulatory body. And then all of those--well, the base rate  
5 of return is adjusted on an annual basis, as well as the  
6 Commission's allowed rate of return rate here in Utah is  
7 adjusted any time we have a general rate case.

8 Q. But the base rate of return to Wexpro in the 1981  
9 Agreement has been retained in the proposed agreement; is that  
10 correct?

11 A. The process and concept for determining that base  
12 rate of return has been, yes. In fact, they match. That was one  
13 of the things we set out to do.

14 Q. In fact, the numbers are the same; I mean, it's a 16  
15 percent for the base?

16 A. No. Now the--let's make sure that is clear. No, the  
17 return today is not 16 percent. You asked me what it was back  
18 in 1981. But that 16 percent return is adjusted each year,  
19 based on what returns are for 20 identified companies at the  
20 time, and they are still that same portfolio of companies that are  
21 identified to be used in the Wexpro II Agreement. And so today,  
22 that return calculates to be about 12.41.

23 Q. Okay, I guess I am not clear on this. The return  
24 paid to Wexpro by the Company is 20 percent, is it not?

25 A. On an oil property today, it is approximately that

1 level, and that is calculated in a manner that you have about 12  
2 percent base rate of return. Did I say oil? I meant to say gas.

3 Q. You said oil. Do you mean gas?

4 A. I certainly did so, thank you.

5 Q. Okay.

6 A. On a gas property, it would be a 12 percent plus  
7 the eight percent premium, which equals 20 percent today.

8 Q. And was that the same that was set out in Wexpro  
9 I?

10 A. That is. I am telling you what that is. That is in  
11 Wexpro I today.

12 Q. And that is being retained in the proposed  
13 agreement?

14 A. Yes indeed.

15 Q. Now my question is, are the conditions, the  
16 financial conditions in the marketplace, the same today as they  
17 were in 1981?

18 A. They are different because you will notice that in  
19 1981, it was at 16 percent, and the market conditions that the  
20 Wexpro I Agreement set out to capture, that we desired to also  
21 continue and capture in the Wexpro II Agreement, was to have  
22 that rate of return adjusted by this pool of companies. And so it  
23 does reflect today what those allowed returns, and it's the  
24 allowed returns on these 20 companies, that impact that base  
25 rate.

1 Now what didn't change ever in Wexpro I, and that  
2 is designed not to change in Wexpro II, is the premium. That  
3 was at eight percent. That continued to stay there, and it never  
4 was intended to change in Wexpro I, and it didn't, and it's also  
5 not intended to change in Wexpro II. What was intended to  
6 change was the base, and the base did change in Wexpro I, and  
7 it will also, in Wexpro II, change, depending on how the market  
8 changes.

9 Q. Thank you.

10 A. You're welcome.

11 MR. JENSEN: Can we go off the record for just a  
12 minute?

13 COMMISSIONER CLARK: Off the record.

14 (A discussion was held off the record.)

15 MR. JENSEN: We have no further questions of in  
16 witness.

17 COMMISSIONER CLARK: Thank you, Mr. Jensen.  
18 Redirect?

19 MS. BELL: We don't have any redirect at this time.

20 COMMISSIONER CLARK: We are going to take a  
21 break at about 10:30, so you can all plan for that.

22 EXAMINATION

23 BY-COMMISSIONER CLARK:

24 Q. Mr. McKay, I have a few questions for you. First I  
25 would like you to address Wexpro's participation in the

1 application process. There is a sentence or two about this in  
2 the Agreement. I think that is at section 4-3E, if you want to  
3 have that in front of you.

4 A. I am on that page.

5 Q. Okay. Can you elaborate on how you would expect  
6 Wexpro II to participate in the application process?

7 A. We, Questar Gas, will be the entity that is formally  
8 applying to the Commission for approval. I think the parties,  
9 and really all those involved, recognize that what we wanted to  
10 be able to put before the Commission is all the analysis and  
11 work and effort that Wexpro had gone through in determining  
12 whether or not they wanted to purchase a property on their own,  
13 at their own risk.

14 And so they, Questar--I mean Wexpro, will be,  
15 essentially, the provider of all of the data and the information  
16 that we have identified here, that we, Questar Gas, will be  
17 providing. I would think that there may be data requests. We  
18 also recognize that there's an opportunity, sometimes, for  
19 technical conferences. They would be available, I think, for  
20 obviously the answering of those data requests; they would be  
21 there at the technical conferences; they would be able to  
22 provide any of the information that is out there.

23 But we recognize that we, Questar Gas, are the  
24 regulated utility. They have, and they meaning Wexpro, have,  
25 from time to time, come here in helping us, Questar Gas, fulfill

1 our regulatory obligations, particularly in the IRP process. I  
2 would think that they would be a player in that. Additionally to  
3 that, they work with and would be providing this information to  
4 the monitor, or any others that the Division so identifies, that  
5 would be working in what the Division's responsibilities are. So  
6 I think they are very--they are available, they can be provide  
7 information but we, Questar Gas, will be the formal applicant  
8 before the Commission.

9 Q. Does that mean a Questar witness, one or more  
10 witnesses, are conversant and familiar with all of the information  
11 that's developed by Wexpro initially and information that may  
12 originate with Questar, that witnesses will be available to  
13 sponsor that information, to respond to questions regarding it, to  
14 testify as to its veracity?

15 A. I think, ultimately, the answer to that would be yes,  
16 but recognizing that we, Questar Gas, don't normally employ  
17 someone that has all that expertise. Parties set out to try to  
18 have an independent third party be able to verify that  
19 information that was used in the process that Wexpro went  
20 about, and so I would anticipate that those specific questions  
21 for the verification, whether or not the analysis was done in  
22 standard procedure, or the things that are typical in the  
23 industry.

24 That is why we have that outside third party  
25 monitor, that if needed, could provide evidence on the record as

1 it relates to the answer of those questions, and I think the  
2 hydrocarbon monitor was very willing to be involved in that  
3 process. There is a clear line though that expertise and their  
4 position, that they didn't want to weigh in on what they viewed  
5 as the Division's or the Office's position; and that was to  
6 recommend to the Commission whether or not this property  
7 should be included in the cost of service going forward. That  
8 was something they felt like those parties needed to make the  
9 decision on. But all the information to be able to rely on  
10 whether or not what, ultimately, is before the Commission and  
11 it's kind of played through that.

12 Let's say an example, that we come out, a piece of  
13 property is purchased and it's estimated that it's maybe \$5 a  
14 decatherm going forward; how good was that analysis; how well  
15 was it thought out; does the purchase price and the estimated  
16 cost of service and the drilling and the anticipated success of  
17 those wells merit that that's a reasonable price; is there a range  
18 around it.

19 That, all that information is why we have that  
20 independent monitor that can be out there, which I think is the  
21 drive of that question. And then a party may say, "You know  
22 what? Five dollars is higher than what we think it ought to be.  
23 Our recommendation is no."

24 Maybe another party says, "Wow, I really think that  
25 is great deal. Long haul, if we are able to do that, that would be

1 wonderful," and they would put that before the Commission.

2 Ultimately, it's the Commission that would  
3 determine whether or not they think that is a wise choice.

4 Q. So those kinds of judgments would be made in  
5 relation to forecasts of the kind that you were discussing earlier  
6 in your examination, I expect; am I right about that?

7 A. Yes, yes. And the other observation, the reason I  
8 hesitated with the yes is that some of the costs that will be  
9 included in that estimate will be known costs related to wells, at  
10 least we anticipate wells that are currently in existence,  
11 production that is currently happening, data and information on  
12 wells that been drilled in the same field. So in some ways, it  
13 will have historical information for existing producing wells.

14 Now related to the forecast, we are going to drill--or  
15 Wexpro will be drilling other wells and that is the forecast based  
16 on best knowledge of the time, so it's a combination.

17 Q. And would the Commission expect to have  
18 Questar's best information about forecasts and other market  
19 alternatives to the particular acquisition that is the subject of  
20 the application?

21 A. Certainly. We have tried to list what  
22 we--that type of information. If we miss specifically  
23 characterizing it in a manner that catches somebody's eye, that  
24 is why we have that last one there that says, "Any other data  
25 request or appropriate information," but that is the information



1 that we would hope is available before the Commission in  
2 making that decision.

3 Q. Do you have a view on whether or not it would be  
4 useful to identify, in advance of the first presentation of a  
5 specific property for consideration, the data requirements and to  
6 amplify on the list that is in the application, at least potentially?

7 A. Yes, assuming that the agreements approved, I  
8 would welcome that opportunity. And I will observe that I think  
9 that there are some good examples in the past when we  
10 proceeded forward with new types of mechanisms, that that has  
11 been very helpful. We want to be as transparent as possible.

12 We have even gone so far as even to have the  
13 regulatory body layout the formatting, the timing, and the  
14 presentation of the data, and then would be happy to timely sit  
15 down and make any tweaks or adjustment to that. I think that  
16 would be a great idea.

17 Q. Related to that, and, again, assuming the  
18 Agreement is approved, as a property is presented in an  
19 application, would it be Questar's duty to present all that it  
20 knows that is pertinent to the decision before the Commission?

21 A. That certainly is the intent of what I am kind of  
22 referring back to, in section 4-2, the laundry list is--we are trying  
23 to provide all the knowledge that we have of the property itself.  
24 You had inferenced Questar Gas specific property--well, not  
25 property but Questar Gas specific need within our gas supply

1 area; we would anticipate providing that. Also, it would be  
2 helpful in making a decision.

3 Q. I am going to ask you a question that somewhat  
4 restates the question that you received earlier, but if you have  
5 any additional response, I would like to have it for the record.  
6 Does Questar have a view of the future market conditions that  
7 makes the Agreement that is before us attractive or important as  
8 a device for managing future gas costs for customers?

9 A. Yes, we do. Here is our view, and there is more  
10 than just this, but, in summary, I will observe we think gas  
11 prices are low right now. We think that there may be out there.  
12 E&P companies, or people that own assets that are producing  
13 gas, that may be at a point where choosing to sell those assets  
14 would be wise for them. And we also think, coupled with that,  
15 that we think gas prices are going to rise in the future.

16 We have learned, looking in hindsight, that when  
17 we had big run up of gas prices, in '07, '08, '09, there was a  
18 strong communication to us, can we expand Wexpro; can you do  
19 more drilling; whatever you can do to bring more cost of service  
20 production to the customers, can you do that. And at that time,  
21 they were really high-priced assets. It's kind of a wrong time to  
22 be buying. When everybody wants something, there is a  
23 premium that wants to be paid.

24 We think that there may be some properties that we  
25 can get at reduced value, so this is a great opportunity, we feel,

1 to be able to have this option now. Granted, we have got to  
2 have the other--the Utah Commission and the Wyoming  
3 Commission to say, "Yes, we agree with you," but can we get  
4 properties that we have seen that can produce going into the  
5 future. And so we want to be able to have that option for  
6 customers.

7                   Something that Mr. Livsey can more fully explain,  
8 but it's what we have been able to receive the benefit from  
9 today is, in the '30's, there were properties that were purchased  
10 and brought into the cost of service; in the '40's, there were;  
11 '50's; '60's. In '81, we stopped bringing properties into, and so  
12 to be able to have a continuation of this really sets up to be a  
13 great opportunity for our customers now.

14           Q.       Regarding the guideline letters, they are  
15 incorporated by reference into the Agreement, I believe; am I  
16 correct in that understanding?

17           A.       Yes.

18           Q.       Is there any reason why those couldn't be received  
19 into this record as a late file exhibit, or in some manner so the  
20 Commission will have the entirety of the Agreement in front of it,  
21 as it can considers the Agreement?

22           A.       I will simply observe that they may have done the  
23 same thing in Wyoming, already.

24           Q.       There is not a--

25           A.       There is no problem with being able to do that.

1 COMMISSIONER CLARK: Counsel?

2 MS. BELL: No, we would be able to do that. We  
3 can receive that as a late file confidential exhibit. It's very  
4 important for Wexpro to maintain confidentiality out of those  
5 guideline letters, but we can do that, yes.

6 COMMISSIONER CLARK: Anyone else want to  
7 comment on that as a process? Okay, thank you. We will be off  
8 the record.

9 (A discussion was held off the record.)

10 COMMISSIONER CLARK: We will be in recess for  
11 ten minutes.

12 (Whereupon, a break was taken.)

13 BY COMMISSIONER CLARK:

14 Q. Mr. McKay, just a few questions on the Agreement  
15 itself. First with respect to section 1-11, in subsection C,  
16 there's a reference to notifying the parties and the staff of the  
17 Wyoming Commission, and there is a similar reference in  
18 section Roman numeral 5, 15B; are you able to enlighten us on  
19 why the particular inclusion of the Wyoming staff, or the  
20 Wyoming Commission staff, in those contexts?

21 A. Yes. As to understand that, you need to know that  
22 at the time of the Wexpro I Agreement, the OCA in Wyoming  
23 didn't exist. Their regulatory structure was such that when a  
24 case was filed, a portion of the Commission staff, and I don't  
25 know the proper wording, would separate themselves or create a

1 body like unto the Division in Utah today, and they would  
2 espouse or champion positions before the Commission. And  
3 they were the parties that had testimony before the Commission,  
4 championing the supporting of the Wexpro I stipulation and  
5 Agreement, and they were also the parties at the table that were  
6 hammering out the particulars of that Agreement.

7 Now fast forward to 2011 and 2012, when we are  
8 putting together a Wexpro II Agreement, and recognizing that  
9 they, the Wyoming Commission staff, are going to still have  
10 some responsibilities as it relates to Wexpro I, we simply  
11 recognize that when Wexpro makes a filing to identify, in this  
12 case, about dry holes, that they will be making it with the  
13 Wyoming Commission staff because that reports going to also  
14 go to them, and it also will go to the OCA up in Wyoming. So it  
15 is just the recognition that that is where the report was going to  
16 go.

17 But we have not setup, with the Wexpro II  
18 Agreement, any anticipation of the Wyoming Commission staff  
19 being a monitor or a reviewer that has been defined to be the  
20 OCA in Wyoming for Wexpro II.

21 Q. In the Wexpro I Agreement, there's a section that  
22 defines exploratory drilling, and we noticed that is not present in  
23 the Wexpro II Agreement; yet, there are some references to  
24 exploratory drilling activities in Wexpro II Agreement. So I have  
25 a question about why the distinction between the agreements.

1 A. Good question. That is actually section 5, I think,  
2 in the Wexpro I.

3 Q. And in Wexpro II--

4 A. Yes, that section doesn't--

5 Q. --where we see some reference to exploration is in,  
6 for example, sections 1-23, 2-2A, 5-8, and 5-14.

7 A. Right. I think we could generally say, and be safe  
8 to say, that the references that you are seeing related to the  
9 use of the word exploration is just to describe their approach of  
10 going out and developing the field. What it specifically refers to  
11 in the Wexpro I Agreement was that there was an idea of trying  
12 to do an exploratory drilling. That was a specific point that was  
13 determined to not be included in the Wexpro II Agreement.

14 There's greater risks associated with exploratory  
15 drilling, and we have set out to only have properties that were  
16 identified as producing wells, improving developed areas, and  
17 so we specifically written that out, or quote, not included that  
18 section in the Wexpro II Agreement. The references that you  
19 might see, I think, are just regular developments in fields of  
20 properties that they already have purchased and that are being  
21 developed.

22 Q. Then if you can look at section Roman numeral  
23 2-2B, this is another matter of just an effort to understand  
24 terminology, in the Wexpro I Agreement, there's a reference in  
25 the subparagraphs to productive oil reserves, or to prior Wexpro

1 wells and productive oil reserves. In the Wexpro II Agreement,  
2 those phrases are deleted and the term, "Wexpro II oil  
3 properties," is used, except that in subparagraph B, there's a  
4 reference to producing oil wells and productive oil reserve in the  
5 Wexpro II Agreement, as opposed to Wexpro II oil properties; is  
6 there a distinction in those terms? Is this just--is there a  
7 difference here or not?

8 A. Let me speak to my level of understanding. As we  
9 sat and tried to write this paragraph--

10 Q. And if--

11 A. And then I would like to recognize--

12 Q. --if Counsel would like to clarify this?

13 A. Either they could, or you may want to defer to Mr.  
14 Livsey.

15 Q. Okay.

16 A. But our intent in trying to write this paragraph in  
17 Wexpro II is this: We set out, recognizing that these properties,  
18 oil reservoirs and prior Company wells, 101, 105 property, would  
19 not exist in Wexpro II, and so we tried to take that out of the  
20 writing so that it would be clear that those properties didn't.

21 We--and I think this may be one of the instances  
22 recognized that are referenced to, an area of development could  
23 be in a similar type of formation; and, hence, the reason for that  
24 language still being there, but I would observe that let's have  
25 this subject to James, or Mr. Livsey to more fully explain it.

1 Q. Thank you. And now to section Roman numeral  
2 2-2E, I would invite you to look at the last sentence. That  
3 sentence refers to the product of 1/12th of something, and I'm a  
4 little confused about what the math is there, what is being  
5 multiplied by what? In the Wexpro I Agreement, that sentence  
6 ends with a reference to a rate of return, or the product of  
7 1/12th of that portion of the investment, and I don't see another  
8 term in the algebra that is here --

9 A. Our effort--

10 Q. --or the math that is here.

11 A. I actually think our effort was to try to mirror that.  
12 Now exactly what is pertaining to, I am going to let Mr. Livsey,  
13 who is our witness on these sections, accurately describe it the  
14 first time.

15 Q. Okay, because just to be more precise about this,  
16 what I am looking for is the absence of the phrase, "Multiplied  
17 by the base rate of return," which is present in Wexpro I but not  
18 here.

19 A. Okay.

20 Q. It seemed to me that might be inadvertent because  
21 the rest of sentence is the same and it refers to a product of  
22 something, and so I need some help with that.

23 A. Okay.

24 Q. Regarding section 3-10, we have the phrase,  
25 "Economically delivered," in that first sentence, "If natural gas is



1 developed from Wexpro II gas properties at any time that cannot  
2 be economically delivered into the Company's distribution  
3 system." What is your understanding, your layman's  
4 understanding, of what that means?

5 A. We actually have properties like that today in  
6 Wexpro I, and in some instances of which we have had rights to  
7 be able to drill wells. It's become wiser for us to sell the gas at  
8 those locations, rather than go through the expenses of  
9 gathering and transporting that gas nearer to us so we can get  
10 the value of that gas when such gas is economical for us to try  
11 and bring it all the way here to where our customers are. So  
12 this contemplated the ability for this gas to be sold and then the  
13 benefit of that to be given to Questar Gas.

14 Q. Thank you. Now I would invite you to turn to  
15 Exhibit C. Do you see the chart in the middle of the page?

16 A. Uh-huh.

17 Q. In the Wexpro I Agreement, the composite tax rate  
18 formula that is described here is described as multiplying the  
19 term RI by the rest of the term that is present there, as opposed  
20 to equaling that term. So I'm wondering whether the math is  
21 different, or the formula has changed, or this is inadvertent.

22 A. Is there a specific--where is it you're referring to?

23 Q. I am looking at the composite tax rate formula in  
24 the chart, and if I believe if you look at the Wexpro I  
25 Agreement's expression of this, you will see that there is not an

1 equal sign between the term RI and the rest of the equation.

2 A. Okay. Our intent, and I was involved with this  
3 creation, was to simply observe what the formula is for each of  
4 these states. And so let's walk through, maybe, a couple of  
5 them for an example. I think your question is referring to the  
6 use of the equal sign, and I--we are saying that for the State of  
7 Utah, this composite rate formula is determined by taking this  
8 three-factor formula, okay, and this is investment, it's revenues,  
9 and it's wages. That is what the investment part plus the  
10 revenues and then the wages, which is actually a typical district  
11 gas formula that is actually used by this Commission to allocate  
12 overhead, which is something that is used commonly in the tax  
13 world, it's divided by three. So that is the method of which the  
14 calculation for Utah State Tax applies.

15 In Wyoming, you will notice, and in this, that they  
16 have a zero, and that is simply because in Wyoming, you can  
17 weight all of those investment, revenues, and wages, but they  
18 do not have a state tax and so it ends up being zero. You will  
19 see that in Colorado, they simply have a factor that is used for  
20 revenue, and then you have similar ones in Montana, New  
21 Mexico, where they have these pieces of properties.

22 This is used as an example to show that this is the  
23 impact of investment, wages, or revenues that will occur in  
24 these states, in determining the composite tax rate that will be  
25 used in the calculation of the Wexpro Agreement costs. And we

1 even have --

2 Q. So the equal sign is supposed on there?

3 A. Yes. I mean, that is simply--that is how Utah,  
4 Wyoming, Colorado is used, so yes, that was our intent. And we  
5 have used a formula there because we know from time to time,  
6 states change the way they do the calculation of their taxes and  
7 we wanted it to be dynamic.

8 Q. Let me invite you to turn back to Roman numeral  
9 section 4-8, page 15.

10 A. I'm there.

11 Q. I would just like to followup on some questions you  
12 received about this section. First, just as some background,  
13 can you describe the ownership of the drilling area and the gas  
14 under the Wexpro I Agreement as compared to the Wexpro II  
15 Agreement? Are there differences; if so, what are they and--

16 A. The differences are probably best be identified by  
17 observing that there were what we call prior Company wells.  
18 There was property and rights to be able to drill that existed in  
19 Mountain Fuel at the time and those wells were producing and  
20 those--that investment was recorded on Questar, or shall we say  
21 Mountain Fuel's books, now Questar Gas' books.

22 And under Wexpro II, that was I think one of the  
23 greatest benefits that we have is that Wexpro--or, I mean,  
24 Questar Gas doesn't need to go out and buy property at its risk;  
25 instead, Wexpro will be going out and buying the property at its

1 risk. The similarity between these prior Company wells and the  
2 purchase of these properties that Wexpro, in the Wexpro II  
3 Agreement, is that both of those properties, that prior Company  
4 well in Wexpro I and the property, the acquisition cost of a  
5 Wexpro II property, will earn this Commission's allowed rate of  
6 return weighted with Wyoming's allowed rate of return based on  
7 volumes. So there is some differences. There is some  
8 consistencies between the two.

9           Now, Wexpro I starts and Wexpro goes out and  
10 drills a well in a development drilling area. As that asset, those  
11 costs are recorded on Wexpro's books, and they were, from that  
12 time forward, recorded there. And the return and costs that they  
13 could charge us, based on cost of service, are set forth in this  
14 Wexpro I Agreement.

15           Likewise, with Wexpro II, Wexpro will have gone  
16 out, purchased the property; that property will be on their books.  
17 That is a difference between the two. But it will be--it will earn  
18 at the authorized Commission's allowed rate of return. But then  
19 any drilling that they have for a gas well or an oil well will mirror  
20 what occurred, and does occur, in the Wexpro I Agreement, and  
21 that property will be recorded on Wexpro's booking, albeit  
22 separately, so that it can be reviewed and analyzed by the  
23 Division; reporting the costs that will be charged to us, Questar  
24 Gas, would be separate also. We have what we call a Wexpro  
25 operator service fee under Wexpro I. We will have a Wexpro

1 operator service fee under Wexpro II and that will be separately  
2 identified.

3 Q. And the gas itself, is it Wexpro's gas? At what  
4 point does it become Questar Gas? And is that question  
5 answered differently under the two agreements?

6 A. When that gas comes out of the well and we,  
7 Questar Gas, pay for that at cost of service, we will take--there  
8 is a key definition here in the delivery point, we, essentially,  
9 take custody of that at the delivery point. And then it's our gas  
10 and we need to figure out how we are going to transport it, if it's  
11 going to go on the Interstate pipeline, the Questar pipeline, if it  
12 comes down Overthrust or on Northwest, whatever that gas may  
13 need to do, we, Questar Gas will be responsible.

14 And this particular section 4-8 is referring to the  
15 person who has that responsibility, and that is the general  
16 manager, ultimately, of the gas supply, and they are the ones  
17 that are going to put it into storage, transporting it, or using in  
18 our system, wherever we need it.

19 Q. If the general manager determines that the gas will  
20 be shut in for some period of time, can Wexpro sell the gas to  
21 someone else?

22 A. No, that is Questar Gas' gas. We will go out of  
23 balance, assuming that the other producers are also, or other  
24 people in the well that have rights to gas, are continuing to take  
25 that. And it's actually a carefully monitored portion of our

1 variance report that we file with the Commission, of whether or  
2 not we are out of balance or in balance, of whether we have  
3 been taking more or less, but it remains Questar Gas' right to  
4 have that gas used by whatever we need.

5 Q. And at what point does that right,  
6 when--for example, when a property is presented to the  
7 Commission, and under the Agreement, if it's approved and the  
8 Commission accepts the property, is that the point when all the  
9 gas reached through that property is then at the call of Questar  
10 for--exclusively at the call of Questar for Questar customers?

11 A. If it works, if a property is approved as a Wexpro II  
12 property, I think it would be from the date of approval by this  
13 Commission that we, Questar Gas, would have claim for that  
14 cost of service gas going forward. I think up to that point, it  
15 would remain as Wexpro property that they had purchased at  
16 their own risk.

17 Q. And do you have a sense of how much of Wexpro's  
18 gas, on a rough basis, comes to Questar for Questar's  
19 customers as in relation to other purchasers?

20 A. Yes. We typically, and this is going to be over a  
21 30-year period here, have enjoyed the benefit of cost service  
22 gas ranging from as low as being in the 30 percents to up as  
23 being as high as in the 60 percents. But over that period of  
24 years, we have been typically around about 45, 50 percent.

25 Right now, we are enjoying a higher percentage.

1 Lots of times, and I am giving you actual numbers, there's lots  
2 of times that will be a product of what the weather is on any  
3 given year. Last year, we didn't really have as cold of winter as  
4 we have been blessed with having this year; and, therefore, the  
5 percentage of the total will vary accordingly.

6 Q. So just to make sure I understood your answer, I  
7 think what you are telling me, that in, for example, last year,  
8 Questar received relatively half of the gas that Wexpro  
9 produced?

10 A. Okay, I am sorry, last year, or in always, every  
11 year, whatever Wexpro produces for Questar Gas, we receive.  
12 What I answered the question, and maybe I misunderstood the  
13 question, but when I answered the question as to what  
14 percentage of costs of service gas, or Wexpro gas, was that of  
15 the Company's total gas that was used. But always, Wexpro gas  
16 belongs--the cost of service gas belongs to Questar Gas.

17 Q. And there is other gas that is not cost of service  
18 that Wexpro sells to other --

19 A. To my knowledge, Wexpro does not have any other  
20 properties that they are selling to third parties. That function,  
21 or that way of developing gas, was done by QEP in the past.  
22 We have mentioned that that is kind of in our genes. We will  
23 probably set out and go and do that.

24 The whole purpose of the Wexpro II Agreement was  
25 to give us, Questar Gas, an opportunity to have an option on

1 that as we go into the future. If we take the option, great; if not,  
2 then Wexpro, in whatever sequestration, record area of our  
3 Company will move forward with developing that, but it will be  
4 separate, independent. It won't be gas that Questar Gas has  
5 access to.

6 COMMISSIONER CLARK: Thank you, Mr. McKay.  
7 Chairman Allen?

8 CHAIRMAN ALLEN: Thank you, Commissioner  
9 Clark.

10 EXAMINATION

11 BY-CHAIRMAN ALLEN:

12 Q. Good morning, Mr. McKay.

13 A. Good morning.

14 Q. It has been a while, hasn't it?

15 A. It has.

16 Q. Let me revisit that last question so I am sure I am  
17 absolutely clear. Wexpro has no other customers that they deal  
18 with; that is a QEP function that gone to Denver; is that correct?

19 A. At this time, that is my understanding.

20 Q. Okay, great. I am curious about the hydrocarbon  
21 monitor. What does the hydrocarbon monitor do? What are  
22 their assignments? How broad is--is their position one of being  
23 proactive, reactive, or both?

24 A. I would think both, and good people to ask would  
25 be the Division, as well as Mr. Livsey, but the hydrocarbon



1 monitor has specific duties that are laid out there.

2 So the proactive part of it would be to know that  
3 Wexpro is drilling wells. Their responsibility is to be there,  
4 review those wells, make sure that they qualify as commercial  
5 wells, and whether or not they would be included in the Wexpro  
6 operating service fee or that agreement, to be gas that comes to  
7 Questar Gas. They have monitoring to make sure that the way  
8 that they've been developing the field is in an approving and  
9 wise manner.

10 And there is probably other specific things that you  
11 can ask, that there's additional monitors, an accounting monitor  
12 to make sure that costs associated with these are property  
13 calculated and accurately recorded and then charged to  
14 Questar.

15 Q. Does that monitor, does the accounting monitor  
16 determine the reasonableness of operating fee, also?

17 A. They certainly have the opportunity to make sure all  
18 the costs of the user were reasonable, to make sure all the  
19 costs that are included there are proper, right, reasonable to be  
20 incurred. And when we say monitor, I mean, ultimately, it's the  
21 Division's responsibility. They have that right to be able to come  
22 and to review that. In the execution, or the carrying out of that  
23 responsibility, they have the opportunity to hire two monitors,  
24 and they have done that, and my understanding is that is the  
25 function that they performed for the life of the Agreement thus

1 far.

2 Q. And my guess is I will be asking this question of  
3 other parties today, but I am also curious, just from your view  
4 point, do you see these monitors as generally interacting with  
5 the Division? For instance, they are going to have a lot of  
6 responsibility here; in your mind, do you see them having quite  
7 an interactive experience or do you see them simply supplying  
8 reports and it's up to the Division to dig deeper?

9 A. No, my understanding is it is very interactive. They  
10 are there on ground level, understanding and knowing what is  
11 happening at Wexpro. They are also there at ground level in  
12 meeting with the Division, providing reports, making  
13 recommendations on things that they should do going forward,  
14 receiving direction and recommendations from the Division on  
15 how to perform that function since they are, essentially, their  
16 agent.

17 Q. Do you think when it comes to managing ongoing  
18 drilling, if you find out that you're developing property that has  
19 been approved and you're managing it and you're out of the  
20 money; for some reason, the market takes an unanticipated turn  
21 to less expensive gas, whose job is it at some point to say,  
22 "Okay, this property is out of the money and it's time to shut in,"  
23 or "It is not time to shut in," or "We have too many fixed costs to  
24 shut in," how does that decision get made?

25 A. Well, I think we have got great examples of what

1 Wexpro has done for years, and they are very sensitive and they  
2 are going to do this in conjunction with a monitor who is  
3 determining whether or not a particular well is commercial. The  
4 determination of whether or not that well is commercial is they  
5 are using current gas prices.

6           So they, Wexpro, need to be drilling and having  
7 their finding costs as low as they can, and to my knowledge,  
8 Wexpro has always been drilling wells that at that time were  
9 lower than what purchase gas prices would bring. And,  
10 obviously, with hindsight, we can see when markets take a  
11 downturn, that those wells may have been higher priced than  
12 what the current prices are. But in their drilling on any given  
13 year, and I think you will see that as it bears out as you see the  
14 historical costs get reported to you, this year, for what Wexpro  
15 costs are, that their costs are in areas that are less expensive,  
16 than can meet the criteria so that the well will be a commercial  
17 well.

18           So first and foremost, we have got a great provider  
19 of our cost of service gas and that is Wexpro that is out there  
20 and efficiently doing that. We will be able to, in consultation  
21 with them, provide input and direction under the Wexpro II  
22 Agreement. And, also, I think the monitors, which are the  
23 Division, are there realtime, observing whether or not those  
24 properties are meeting that criteria of hopefully being less than  
25 what the current price of gas is and purchased out there, and

1 that is to date exactly what Wexpro has done.

2 Q. Okay, thank you. Let me see if I have any more  
3 here. I think most of my questions have been answered, and  
4 they have been, thank you.

5 CHAIRMAN ALLEN: Commissioner, back to you.

6 COMMISSIONER CLARK: Counsel, any questions  
7 based on our's?

8 MR. MONSON: Just a couple.

9 EXAMINATION

10 BY-MR.MONSON:

11 Q. You had some questions from Commissioner Clark  
12 about whether Wexpro would provide testimony in a case where  
13 you file an application for approval of a property to be included  
14 in the Agreement, and I think you misunderstood the question,  
15 or maybe I did, but assuming that was Commissioner Clark's  
16 question, would Wexpro provide a witness, if needed, to provide  
17 evidence on why it acquired a property and so forth?

18 A. Certainly, they would, and we, Questar Gas, would  
19 be the applicant, but we would anticipate that they would be a  
20 witness in the proceeding and be able to provide and answer  
21 any of those questions that I think Commissioner Clark was  
22 specifically asking.

23 Q. That's the only question I have.

24 COMMISSIONER CLARK: Thank you. Anything  
25 else for this witness?

1 MR. JENSEN: Yes, I do.

2 FURTHER EXAMINATION

3 BY-MR.JENSEN:

4 Q. Mr. McKay, in response to a question from  
5 Commissioner Clark, I thought you indicated, and correct me if I  
6 am wrong, you indicated that once this agreement is approved,  
7 then you will--then Wexpro would be free to buy some of those  
8 low priced properties; is that correct?

9 A. Well, no. Once it's approved, the property that they  
10 would have already--well, maybe we are talking about right now  
11 whether or not they are going out and buying a property, and if  
12 that is the case, Wexpro actually has the opportunity to do that  
13 today. Our Company could have started another E&P company  
14 as soon as we had a spin off. Our CEO, Mr. Jepson said, "Hey,  
15 let's see if we can try a different path here," but there is nothing  
16 that necessarily stops them from doing it right now. You can  
17 ask them, but I think right now, we are very interested to see if  
18 this can move forward and we would like to have this be an  
19 approach that we move forward with.

20 Q. Well, if this Agreement is not approved, does  
21 Wexpro still buy properties?

22 A. They certainly could, yes.

23 Q. There is no reason not to? I mean, it makes sense.  
24 Right?

25 A. Correct. If they see a property that they want to, at

1 their own risk, to buy and develop, they are welcome to do that  
2 today.

3 Q. And why does the Agreement change whether or  
4 not a property will be--why does the approval of the proposed  
5 agreement change the calculus here on whether or not a  
6 property is to be bought?

7 A. I don't know that it necessarily does.

8 Q. I mean, you are going to buy the properties,  
9 anyway?

10 A. We can.

11 Q. Okay. Now on a question that Commissioner Allen  
12 asked, Questar is locked in to purchasing its gas from Wexpro.  
13 Correct? Let's say it another way; Questar only buys its gas  
14 from Wexpro.

15 A. That is incorrect. We do pay our Wexpro operator  
16 service fee, I think this is what you are going at, and that gas  
17 that is delivered to us, we pay what is called a cost of service  
18 price. But we buy gas from other people, and we have to, so  
19 not all of our needs are met by Wexpro.

20 Q. I see. And how much of your needs are met by  
21 Wexpro?

22 A. That was a question that I think one of our good  
23 commissioners asked me and that has varied through the years.  
24 I mentioned that that has been as low as in the 30's and it's  
25 been as high as the 60's. Over the average of the life of this

1 Agreement, it has been about 50 percent.

2 Q. So if the gas on the market is lower than this  
3 agreed price that you have with Wexpro, are you still buying  
4 from Wexpro?

5 A. We certainly are and that is actually anticipated in  
6 the Wexpro Agreement. When you say buying, we still receive  
7 gas and we pay our Wexpro operator service fee. We recognize,  
8 and even in the writing of the Wexpro I Agreement and carefully  
9 in the writing of the Wexpro II Agreement, we realize that it  
10 wasn't a lower of cost or market but, in fact, it would be a cost  
11 of service, and that is why we always try to call it a cost of  
12 service gas.

13 Q. So we can conceive a situation, then, in which your  
14 pay more than market price for the gas to buy from Wexpro?

15 A. In the short run if you look back over our 30 year of  
16 existence, we have had moments when that price has been  
17 exactly as you have described. Over the long run, it has  
18 produced \$1.3 billion of savings.

19 Q. How many years has it been that you have actually  
20 paid a higher price than the market price?

21 A. I think that's shown on an annualized basis. We  
22 had a year or two--I don't know on exactly. You could return to  
23 my Exhibit 1.2, this is a good example of it right now, that we  
24 probably had a one- or two-year period back in '95 and '96, and  
25 then we have recently, we will have about a three- or four-year

1 period where we have had that happening here.

2 Q. That is currently the situation. Right?

3 A. Yes. Correct.

4 Q. And has been for the last two or three years?

5 A. Yes.

6 Q. So why approve the Agreement?

7 A. Because I think there are some great opportunities  
8 to buy right now and we want to have a long run prospective,  
9 not short run, and that is what will be before the Commission is  
10 a property that if we want to take a long run prospective, we can  
11 do it. Everybody, if they want a short run, they can weigh in that  
12 way.

13 Q. No more questions.

14 COMMISSIONER CLARK: Thank you. Any followup  
15 from Counsel?

16 MR. MONSON: No.

17 COMMISSIONER CLARK: Mr. McKay, you're  
18 excused. Thank you very much for your testimony.

19 MS. BELL: The Company would now like to call Mr.  
20 Jim Livsey.

21 JAMES LIVSEY, called as a witness and having  
22 been duly sworn, was examined and testified as follows:

23 EXAMINATION

24 BY-MS.BELL:

25 Q. Good morning, Mr. Livsey; would you please state



1 your name for the record?

2 A. James R. Livsey.

3 Q. And by whom are you employed?

4 A. Wexpro Company.

5 Q. What is your title?

6 A. Executive vice president and chief operating  
7 officer.

8 Q. Did you file direct testimony in this proceeding  
9 consisting of six pages and premarked as QGC Exhibit 2.0 with  
10 attached Exhibits 2.1 and 2.2, on September 18, 2012?

11 A. Yes.

12 Q. Did you also file surrebuttal testimony consisting of  
13 seven pages and premarked as QGC Exhibit 2.0SR and attached  
14 Exhibits 2.1SR through 2.3SR, on January 24, 2013?

15 A. Yes.

16 Q. If I were to ask you the same questions today that  
17 were in your direct and surrebuttal, would your answers be the  
18 same?

19 A. Yes.

20 MS. BELL: I would like to admit Mr. Livsey's direct  
21 testimony and surrebuttal testimony with the exhibits.

22 COMMISSIONER CLARK: Any objections? They  
23 are received.

24 BY MS. BELL:

25 Q. Have you prepared a summary of your testimony?

1 A. Yes, I have.

2 Q. Would you please give that to us?

3 A. Yes.

4 Q. Commissioners, thank you for the opportunity to  
5 present testimony. My direct testimony provides a brief  
6 overview of the background for the original Wexpro Stipulation  
7 and Agreement and describes how properties the Commission  
8 approves for inclusion of the Wexpro II Agreement will be  
9 developed.

10 Questar Gas' predecessor Mountain Fuel supply  
11 has always been in the exploration development business, and  
12 over 50 years, developed a cost of service gas supply which has  
13 been beneficial to Questar Gas customers. The Wexpro I  
14 Agreement was entered into in 1981 to allow this program to  
15 continue but was limited to a finite set of specific properties.  
16 Although those properties have continued to produce gas for  
17 much longer than originally anticipated, their reserves are  
18 limited.

19 Questar Gas is now proposing the Wexpro II  
20 Agreement to allow customers to benefit in the future from cost  
21 of service gas on new properties. Under this Agreement, the  
22 Wexpro will acquire properties at its own risk and expense. If  
23 the properties are located within the development area of the  
24 Wexpro I Agreement, Questar Gas will propose that they be  
25 included in the Wexpro II agreement.

1                   If this Commission and the Wyoming Commission  
2 approve the properties, they will be developed under the same  
3 terms and conditions applicable to the Wexpro I properties. The  
4 Company is not asking the Commission to approve properties  
5 that may be proposed in the future but only to approve the  
6 Agreement to provide Questar Gas and its customers an option  
7 to participate in the continuation of the cost of service gas  
8 program.

9                   This is a particularly good time to be proposing this  
10 option. Today's low gas price environment makes this an  
11 advantageous time to consider acquisition of gas reserves. My  
12 surrebuttal testimony responds to two aspects of the rebuttal  
13 testimony of the Office of Consumer Services.

14                   First the Office claims that the Wexpro II  
15 Agreement is not a no cost option because it gives a regulatory  
16 authority and review of the program. I believe the Office fails to  
17 recognize the extent of regulatory oversight that takes place  
18 under Wexpro I. The Commission will always have the option to  
19 approve the inclusion of any properties under the Wexpro II  
20 Agreement.

21                   Additionally, the Division, assisted by accounting  
22 and hydrocarbon monitors, thoroughly reviews all aspects of  
23 Wexpro's performance under the Wexpro Agreement. Wexpro  
24 provides significant reports to the Division and its monitors  
25 respond to many questions from them. This same level of

1 regulatory oversight and review will continue under the Wexpro  
2 II Agreement.

3 Second, the Office suggests that a joint venture  
4 and arrangement between Encana and Northwest Natural  
5 contain significant differences that illustrate why Wexpro II may  
6 not be in the public interest. I believe carefully reviewed the  
7 joint venture and believe that properly understood, it illustrates  
8 what an extraordinary deal Wexpro II is for the customers of  
9 Questar Gas.

10 Encana expects to earn a return much higher than  
11 Northwest Natural's regulated rate of return. Information  
12 provided by Northwest Natural and Encana, in various press  
13 releases and public presentations, confirms that the return  
14 anticipated by Encana is actually significantly higher than the  
15 Wexpro return that Wexpro has the opportunity to earn on  
16 successful wells under Wexpro I and II.

17 In addition, Questar Gas will never pay for a dry  
18 hole under Wexpro II, and Questar Gas receives the benefit of  
19 54/46 sharing of liquid net revenues while Northwest Natural  
20 does not. Northwest Natural customers will pay for its  
21 investment in the joint venture whether it takes or sells less gas.  
22 Previous reviews in the joint venture are limited to new  
23 management decisions by Northwest Natural and disputed about  
24 Encana's activities under the carrying and earning agreement  
25 are to do so by binding arbitration. Finally, Northwest Natural

1 and Encana's reporting requirements are similar, if not less,  
2 comprehensive than those under the Wexpro II Agreement.

3 In conclusion, Wexpro is willing to purchase  
4 properties at its own risk and provide Questar Gas and its  
5 customers with an option for cost of service gas going forward.  
6 Customers will bear no expense unless and until the  
7 Commission thoroughly reviews and approves their inclusion in  
8 Wexpro's cost of service program. I urge the Commission to  
9 approve the Wexpro II Agreement.

10 MS. BELL: Mr. Livsey is now available for  
11 examination.

12 COMMISSIONER CLARK: Question, Ms. Schmid?

13 MS. SCHMID: No questions.

14 COMMISSIONER CLARK: Mr. Jensen?

15 MR. JENSEN: As a matter of fact.

16 EXAMINATION

17 BY-MR.JENSEN:

18 Q. Mr. Livsey, the prior witness kind of passed the  
19 buck to you on Wexpro I. I would like you to--first, let me ask,  
20 how long have you been with Wexpro?

21 A. For 22 years.

22 Q. So you actually came in after the original Wexpro I  
23 Agreement was entered into; is that correct?

24 A. That's correct.

25 Q. Okay. Can you give us some background as to how

1 Wexpro I comes about?

2 A. The Wexpro I Agreement was entered into, in 1981,  
3 to settle and provide resolution as to how the properties would  
4 be developed going forward with respect to gas and oil  
5 development, oil sharing. It called for who would pay for  
6 expenses and who would provide that development.

7 Q. And it actually comes about as a result of a lawsuit  
8 that goes to Utah Supreme Court; is that right?

9 A. There was a dispute relative to ownership of oil  
10 proceeds that was a primary driver toward the Wexpro  
11 settlement.

12 Q. So back to the questions I was asking Mr. McKay,  
13 really, this is a compromise of a very litigious situation.  
14 Correct?

15 A. The Wexpro I Agreement provided resolution of a  
16 variety of issues and provided clarity as to how the properties  
17 would be developed going forward.

18 Q. And when the Supreme Court ruled on that the  
19 second time around, did they anticipate that the Wexpro I  
20 Agreement would continue in existence in perpetuity?

21 A. The notion was that the contract would apply to the  
22 reserves for as long as they produced.

23 Q. But it would, ultimately, have a termination point?

24 A. I think that there was no termination provision. In  
25 fact, it was attached to the properties and as long as they

1 produced --

2 Q. As long as they produced?

3 A. --the contract provisions would be applicable.

4 Q. But properties don't produce forever.

5 A. No.

6 Q. And are those properties still producing?

7 A. Yes, they are.

8 Q. And how long will they continue to produce? What  
9 kind of reserves do those current properties have; do you know?

10 A. The reserves that we have now anticipate a life of  
11 ten plus years.

12 Q. All right. Is it fair to say that the Wexpro II  
13 Agreement contains the same type of oversight provisions as  
14 the first Wexpro Agreement?

15 A. Yes.

16 Q. Is it fair to say, then, that the Commission, as a  
17 result, will be losing some of its regulatory oversight capabilities  
18 under Wexpro II?

19 A. I would say they are not losing anything. They are-  
20 -in fact, the oversight that will be provided will be as it is in  
21 Wexpro I.

22 Q. Well, they are the same?

23 A. Which is the same and as it has occurred, uh-huh.

24 Q. Doesn't the Commission typically have oversight  
25 jurisdiction over the supply of fuel to Questar?

1 MR. MONSON: I am going to object to the  
2 question. It calls for a legal conclusion. I have been not  
3 objecting to a lot of questions like this, but when he uses the  
4 word jurisdiction, then I think that crosses the line. But if it  
5 helps in this examination and in this case, Questar Gas will  
6 stipulate that the Commission does not lose any jurisdiction as a  
7 result of this Agreement, nor could it. The parties can't agree to  
8 take away the Commission's jurisdiction.

9 MR. JENSEN: Well, that's the whole point of the  
10 Agreement is to do that.

11 MR. MONSON: I don't think it can be done.

12 MR. JENSEN: I think you're absolutely right. I  
13 agree. That is what the Agreement does.

14 Q. My question is, does the Commission have  
15 regulatory oversight over the supply of gas to Questar?

16 A. The oversight with Wexpro II is--follows the same  
17 form that exists with Wexpro I.

18 Q. Okay. Why does Wexpro want to be clear of  
19 oversight by the Commission? What is it that the Commission  
20 does that is so egregious to Wexpro?

21 A. Again, the oversight mechanism that is laid out in  
22 Wexpro II is as it is laid out in Wexpro I.

23 Q. I understand that. Why did they want to get rid of it  
24 in Wexpro I?

25 MR. MONSON: I object to the form of the question.



1 That implies they had jurisdiction that they got rid of. I don't  
2 think that is the case but--

3 COMMISSIONER CLARK: Mr. Jensen, would you  
4 like to rephrase your question?

5 MR. JENSEN: Yes, I would.

6 Q. Mr. McKay makes the statement in his testimony  
7 that, quote, Wexpro was only willing to enter into Wexpro I  
8 agreement and continue the cost of service program if it could  
9 be assured that doing so would not subject it to regulation by  
10 the Commission, end quote. What is it about the Commission  
11 that is so objectionable to Wexpro?

12 A. Again, the mechanism the Wexpro II mirrors the  
13 mechanism in Wexpro I that has worked effectively for 30 years.

14 Q. You are not answering my question.

15 A. And what was a primary feature of Wexpro I was  
16 the notion that Wexpro would operate as an independent,  
17 unregulated E&P company and that's an industry that we  
18 operate in; and, therefore, it's critical that we be allowed to  
19 continue to operate as an independent, unregulated E&P  
20 company.

21 We work with partners. We develop and cooperate  
22 with industry partners. We have particular requirements for the  
23 areas that we develop, that we operate in, and it's critical for us  
24 to operate in that role, that we are unregulated, and we are able  
25 to work just as independently of all of those partners that are in

1 the fields that we develop in.

2 Q. When Questar buys gas from an entity other than  
3 Wexpro, what oversight does the Commission exercise in that  
4 transaction?

5 A. By Questar, you mean Questar Gas?

6 Q. Yes.

7 A. And when they buy gas, that's under the review of  
8 their 1-91 pass-through case and the mechanisms associated  
9 with that.

10 Q. But this proposed agreement cuts out that 1-91  
11 review, does it not?

12 A. These items--the costs, the Wexpro Agreement  
13 costs, are part of the 1-91 account and are submitted for  
14 approval as part of the 1-91 process.

15 Q. Okay. No further questions.

16 COMMISSIONER CLARK: Thank you.

17 EXAMINATION

18 BY-COMMISSIONER CLARK:

19 Q. Mr. Livsey, you were present during the  
20 examination of Mr. McKay, I believe.

21 A. Yes.

22 Q. And he referred to you and your expertise and  
23 qualifications and position with Wexpro in answering some  
24 questions he received from me and others. Do you have  
25 anything to clarify, or add, to his responses?

1           A.       There was a question about Wexpro development  
2 drilling, I believe, development oil drilling, paragraph 1-18 as it  
3 related to productive oil or gas reservoirs, 1-18B. And the  
4 notion there is if Wexpro drills in a predefined productive oil and  
5 gas reservoir as defined in the original Wexpro Agreement, then  
6 products will be classified as either gas or oil. The oil will be  
7 deemed a gas well or oil well, accordingly, if it's drilled in this  
8 producing interval that is already set forth in Wexpro I. So that  
9 is the intent of that provision as the question was, as it related  
10 to 1-18.

11                       With respect to the question on 11-2E, as the--from  
12 the proceeds of the sale of oil and natural gas, I believe there  
13 was a question; such returns will be calculated for each monthly  
14 income statement and be the product of 1/12th of that portion of  
15 the investment of Wexpro. The intent there is that Wexpro's  
16 investment will be divided by 12 to come up with a monthly  
17 investment number that we will earn our return on, which is the  
18 base rate plus five percent. And that return will be deducted  
19 from that month's oil and natural gas proceeds, to come up with  
20 a net amount to be shared with Questar Gas. So that is the  
21 intent of that language.

22                       So I think those are two areas that I remember in  
23 particular that were related to the contact and if I am missing  
24 anything --

25           Q.       So thank you for that clarification, particularly

1 regarding 2-2E. So is your description of how this paragraph is  
2 to operate materially different than the provision of--the analysis  
3 provision in the Wexpro I Agreement?

4 A. It's intended to be the same, that we will monthly  
5 calculate oil proceeds to be shared, and part of that calculation  
6 will be the return on investment each month, prorated to a  
7 monthly number. That is why we divide by 12, so...

8 Q. Okay. So the Wexpro I Agreement has the  
9 additional phrase at the end of the sentence, multiplied by the  
10 base rate of return; is that implied in this --

11 A. I think that is implied by the applicable return, is  
12 the language that would be appropriate there.

13 COMMISSIONER CLARK: Okay, thank you.

14 Chairman Allen?

15 CHAIRMAN ALLEN: Thank you, Commissioner  
16 Clark.

17 EXAMINATION

18 BY-CHAIRMAN ALLEN:

19 Q. Mr. Livsey, my questions will be similar to what I  
20 asked Mr. McKay, and that is, in your view on the other side of  
21 that fence, do you see the role of the monitors, both  
22 hydrocarbon and accounting, be proactive and involved with the  
23 Division, or do you see them as simply being reactive and in a  
24 reporting position; what is your take on it?

25 A. I think they are proactive and we have a meeting

1 from the hydrocarbon monitor quarterly. He comes review every  
2 well, reviews our operation, reviews our development plan. I  
3 know he meets at the same time with the Division,  
4 representatives from the Division reports on that verbally, then  
5 he provides a quarterly written report regarding the things that  
6 he is looking at. The accounting monitor dialogues in a similar  
7 fashion with the Division, as well as us, as they go through our  
8 annual test and reporting process; so very much proactive.

9 Q. Thank you. Do you, in your position at Wexpro, do  
10 you follow these three projections that Questar usually uses? I  
11 think Global Insight and those; do you follow those carefully in  
12 those projections in your own industry, in your own business?

13 A. I am aware of the projections that they used as part  
14 of their planning process, and, obviously, what we look at would  
15 be five-year projections, the forward curve, if you will, as we  
16 think about our development decisions.

17 Q. From your view point, would you agree there is  
18 upward pressure on prices more likely than downward?

19 A. That would be our view.

20 Q. Okay, thank you.

21 COMMISSIONER CLARK: Any questions based on  
22 our's?

23 MR. MONSON: Well, based on all the questions?

24 COMMISSIONER CLARK: Pardon me, yes.

25 MR. MONSON: Yes, I just have one question.

1

## EXAMINATION

2

BY-MR. MONSON:

3

Q. Mr. Livsey, Mr. Jensen asked you about the context for the Wexpro I Agreement being a resolution of litigation a compromise. I just want to ask you, has that compromise proved to be beneficial to both the customers of Questar gas and Wexpro Company, and is that a basis for proposing Wexpro II?

8

9

A. Yes, it has, and as mentioned by Mr. McKay, it proved to be an enduring and very workable document that we think has applicability to the future.

10

11

12

Q. That is all.

13

COMMISSIONER CLARK: Thank you. Anything else?

14

15

MR. JENSEN: No questions.

16

COMMISSIONER CLARK: You are excused. Off the record.

17

18

(A discussion was held off the record.)

19

COMMISSIONER CLARK: Ms. Bell, does that conclude your case?

20

21

MS. BELL: Yes, it does.

22

COMMISSIONER CLARK: Thank you very much. Ms. Schmid?

23

24

MS. SCHMID: Thank you. The Division would like to call Mr. Douglas Wheelwright as its witness.

25

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

DOUGLAS WHEELWRIGHT, called as a witness  
and having been duly sworn, was examined and testified as  
follows:

EXAMINATION

BY-MS. SCHMID:

Q. Good morning.

A. Good morning.

Q. Could you please state your full name, by whom  
you are employed, and your position with that employer, for the  
record?

A. My name is Douglas D. Wheelwright. I am a utility  
analyst with the Division of Public Utilities.

Q. On behalf of the Division, have you participated in  
this docket?

A. Yes, I have.

Q. Did you prepare and cause to be filed what has  
been premarked for identification as DPU Exhibit No. 1.0D, your  
direct testimony; DPU Exhibit No. 1.0R, your rebuttal testimony;  
and DPU Exhibit No. 1.0SR?

A. Yes, I did.

Q. If I asked you the same questions today, would  
your answers be the same?

A. Yes, they would.

MS. SCHMID: With that, the Division moves for the  
admission of DPU Exhibit No. 1.0D, 1.0R and 1.0SR.

1 COMMISSIONER CLARK: Any objections? They  
2 will be received.

3 MS. SCHMID: Thank you.

4 Q. Mr. Wheelwright, do you have a summary you would  
5 like to present today?

6 A. Yes, I do.

7 Q. Please precede.

8 A. Thank you, Commissioners. The Division of Public  
9 Utilities is a signatory party to this Agreement and supports the  
10 intent of this application. It is the Division's view that the  
11 production under the current Wexpro I Agreement has provided  
12 substantial benefits to Questar Gas customers in the form of  
13 lower prices and by limiting the exposure to price variability.

14 While the existing Agreement has worked well for  
15 over 30 years, the terms of that Agreement cannot be modified.  
16 The current Wexpro I Agreement defines a specific and finite  
17 geographic area and does not allow new properties to be added.  
18 Due to the nature of oil and gas production, the current  
19 properties will eventually cease production, taking with them the  
20 hedging benefits they have provided ratepayers in the past.

21 The objective of the Wexpro II Agreement is to  
22 create a structure and a mechanism that could potentially allow  
23 additional properties to be included in future cost of service gas  
24 production. The Agreement has been proposed in a way that  
25 could provide a benefit of gas reserve development for Questar



1 Gas customers while providing sufficient incentives to Wexpro to  
2 improve and develop and manage those properties and accept  
3 the risks that are inherent in the development of natural gas  
4 reserves.

5 The proposed Wexpro II Agreement is patterned  
6 after the Wexpro I Agreement and designed to work in much the  
7 same, same way. The proposed agreement calls for regular and  
8 ongoing review of the financial and operational activities by two  
9 independent monitors. The hydrocarbon monitor currently meets  
10 quarterly with officials at Wexpro and provides regular reports to  
11 the Division.

12 The accounting monitor audits and reviews the  
13 financial information for compliance for the terms and provisions  
14 identified in the current agreement and will continue with the  
15 same level of oversight with the proposed agreement. Neither  
16 Questar Gas, nor its ratepayers incur any financial obligation  
17 resulting from the Commission's approval of this Agreement.  
18 Any further impacted customer rates will be presented to the  
19 Commission under a separate filing for consideration.

20 In this proceeding, the Commission is being asked  
21 to determine if it is in the public interest to provide a no-cost  
22 opportunity to potentially participate in future hedging  
23 transactions, similar to those that are proven to be successful  
24 for ratepayers and the Company for over 30 years.

25 Unlike typical hedging programs, the proposed

1 agreement provides the opportunity for approval of hedges at  
2 the time the transaction is initiated. Before a specific property  
3 could be included or designated as a Wexpro II property,  
4 Questar Gas will present information on the cost of the hedge,  
5 the expected production, and the forward price curbs. The  
6 specific and relevant measures can be evaluated and a  
7 determination can be made if participating in a specific hedge  
8 transaction is in the public interest.

9           In this process, the Commission retains the ability  
10 to approve or deny specific properties as they may be  
11 presented. Future capital costs will be included only if the  
12 newly drilled wells are determined to be commercial at the time  
13 they enter production, which provides a potential safeguard for  
14 ratepayers. In addition, Questar Gas has the ability to direct  
15 development for the drilling of properties operated by Wexpro.  
16 If Questar Gas wields this ability, and prudently disallowances  
17 are possible under the Agreement; having said that, it should be  
18 clearly understood that the Commission is not being asked to  
19 approve specific properties at the time. The approval of this  
20 Agreement does not affect the current Wexpro production or the  
21 hedging percentage of Questar Gas.

22           In summary, the Wexpro II Agreement provides an  
23 opportunity to extend the benefits of the Wexpro I Agreement  
24 beyond its current drilling area limitations without imposing  
25 additional costs or obligations to Questar Gas customers. By

1 the Commission approving the Agreement, there is no change to  
2 the current rates charged to any Questar Gas customer, nor are  
3 there any financial obligations placed on Questar Gas  
4 customers.

5 The Wexpro II Agreement does provide a  
6 mechanism for Questar Gas customers to explore future gas  
7 price hedging possibilities by providing additional cost of service  
8 natural gas reserves. The Division believe the Wexpro II  
9 Agreement is in the public interest and recommends the  
10 Commission approves the Agreement. Thank you.

11 MR. SCHMID: Mr. Wheelwright is now available for  
12 examination.

13 COMMISSIONER CLARK: Thank you. Ms. Bell?

14 MS. BELL: No questions.

15 COMMISSIONER CLARK: Mr. Jensen?

16 MR. JENSEN: I guess I am wondering, if we're  
17 going to take a break, if now is an appropriate time to do that?

18 COMMISSIONER CLARK: It is if you like to. That  
19 would be fine.

20 MR. JENSEN: That would be fine. Off the record.

21 (A discussion was held off the record.)

22 COMMISSIONER CLARK: We will adjourn until one  
23 o'clock. Thank you.

24 (Whereupon, a break was taken.)

25 COMMISSIONER CLARK: Mr. Jensen, I believe

1 you were about to cross-examine.

2 EXAMINATION

3 BY-MR.JENSEN:

4 Q. Good afternoon, Mr. Wheelwright.

5 A. Good afternoon.

6 Q. In the scheduling order the Commission gave on  
7 November 9th, the Commission ordered the Division to, quote,  
8 "Include in its filings specific allegations upon which the Division  
9 relies to establish its statutory authority to enter the Wexpro II  
10 agreement, to contract with Wexpro, and to carry out the  
11 obligations that the Division assumes in the Wexpro II  
12 agreement," end quote. Did you do that?

13 A. I believe we did, yes.

14 Q. Can you show me, in your testimony, where you did  
15 that?

16 A. It's not specifically how we did that. I think we  
17 showed that it was in the public interest to pursue this  
18 Agreement.

19 Q. Well, can you show me the statutory--I mean, they  
20 are asking for the statutory authority; to use their words, not  
21 mine, they are asking for the statutory authority. Can you  
22 identify the statutory authority for me?

23 A. I think that is a legal question.

24 MS. SCHMID: I was going to say, objection, legal  
25 questions.

1 MR. JENSEN: Well, Counsel doesn't want legal  
2 briefs.

3 MS. SCHMID: I would love to hear your argument  
4 and see your argument but it's not --

5 MR. JENSEN: But you filed a motion to oppose it.

6 MS. SCHMID: Yes, I did.

7 MR. JENSEN: So you wouldn't let it in.

8 Q. Explain to me what a 1-91 pass-through account is?

9 A. The 191 pass-through is a transaction that--well,  
10 not a transaction but a filing that occurs twice a year, where  
11 Questar Gas files their actual costs, and we review those the  
12 actual expenses of the Questar Gas and their costs of service,  
13 along with the purchases that they have made on the market,  
14 look at their gas costs.

15 Q. So when they indicate to you that they made  
16 purchases on the market, what is it that they identify? Give me  
17 the detail as to what they show; what is in the report?

18 A. It looks at their actual expenses. The rates are  
19 billed on an estimate of what they think they will be using, their  
20 estimated cost. A 1-91 is a true-up of the actual costs as they  
21 have occurred.

22 Q. Does Questar Gas show that--I mean, they make a  
23 1-91 account, a pass-through account, I assume?

24 A. They have a 1-91 account and they file the  
25 proceeding with the Commission twice a year.

1 Q. And are these costs, is it a one-line item or a  
2 detailed cost?

3 A. It is very detailed.

4 Q. Very detailed? Many lines?

5 A. Yes.

6 Q. Many pages?

7 A. Yes.

8 Q. When they show their costs of purchasing gas from  
9 Wexpro, is that as detailed as it is from another company that  
10 they might purchase gas from?

11 A. It's more detailed.

12 Q. More detailed? What do they show?

13 A. They show the costs as they have calculated the  
14 cost of service and the revenue credit that comes back from the  
15 oil sales is very detailed.

16 Q. Okay. Do you ever audit those, those costs?

17 A. Yes.

18 Q. And give me an example of an audit, without  
19 mentioning names, but tell me what kind of audit you would do  
20 for what occasion.

21 A. I don't personally do an audit.

22 Q. Okay.

23 A. The personnel within our office audits the 1-91  
24 account on an annual basis.

25 Q. Has the Division ever audited the Wexpro figures?

1 MS. SCHMID: Objection. The witness just stated  
2 that he is not the one who does the actual audit, so he would  
3 not know whether or not the Division actually audits the figures.

4 MR. JENSEN: Well, let's find out if he knows.

5 COMMISSIONER CLARK: Yes, I think he can  
6 answer the question. I think there is a distinction there.

7 THE WITNESS: Would you repeat the question,  
8 please?

9 BY MR. JENSEN:

10 Q. Has the Division ever audited the Wexpro account?

11 A. The Division--the Wexpro is audited by independent  
12 CPA and that audit is provided every year to the Division.

13 Q. But that is a Wexpro CPA; that is not--the Division  
14 is not doing the audit. Correct?

15 A. The Division is not doing it. It's an independent  
16 public accountant.

17 Q. But if you say it's another entity, you say the  
18 Division has done an audit of other entities?

19 A. The Division audits the 1-91 account, yes.

20 Q. Correct. Has it ever audited the Wexpro account?

21 A. Not that I'm aware of.

22 Q. Thank you.

23 A. Well, the accounting monitor does monitor the  
24 Wexpro activity, so it is audited by the independent accounting  
25 monitor. That is done every year. There is an accounting

1 monitor in place.

2 Q. Okay. Explain; there is an independent accounting  
3 monitor--

4 A. That monitors the Wexpro production, yes. There  
5 is a hydrocarbon monitor and an accounting monitor; both are in  
6 place.

7 Q. And are those reports given to the Division?

8 A. Yes, they are.

9 Q. Okay. Mr. McKay states in his testimony that,  
10 quote, "Once a property has been approved for inclusion in the  
11 Wexpro II Agreement, the Division of Public Utilities in Utah,  
12 and the Office of Consumer Advocates in Wyoming, will monitor  
13 Wexpro's performance of its obligations under the Agreement to  
14 assure that they are prudent and comply with the Agreement,"  
15 end quote. Under the statute, the Utah statute, is the Division or  
16 the Commission the arbiter of the utilities' performance to  
17 determine if they are acting prudently?

18 MS. SCHMID: Objection; calls for legal conclusion.

19 MR. JENSEN: I think he can answer the question.

20 COMMISSIONER CLARK: I'd like to know, pardon  
21 me--we would like the witness to answer and provide his view as  
22 a layperson. We will give it the weight that is appropriate to his  
23 background?

24 THE WITNESS: Repeat the question for me, if you  
25 would.



1 BY MR. JENSEN:

2 Q. Well, the question is, under the Utah Statute, is the  
3 Division or the Public Service Commission the arbiter of the  
4 utilities' performance to determine if they are acting prudently?

5 A. I believe it's the Commission's responsibility to  
6 make that decision. We provide the information to the  
7 Commission.

8 Q. Understand, Okay. Would that actually happen  
9 under the Wexpro II Agreement?

10 A. Yes, I believe it would.

11 Q. You would determine, you would investigate  
12 prudence and then make--have the Commission make a  
13 determination as to whether Wexpro acted prudently?

14 A. That is why we have the monitors in place. They  
15 are the experts. They are there to monitor the activities of the  
16 Company and can see what is going on, compared with what is  
17 going on in the industry, much better than the Division could  
18 ever do.

19 Q. The arbitration clause would not apply, then, as to  
20 whether or not Wexpro was acting prudently; the Commission  
21 would be the determiner of that?

22 A. I don't understand the question.

23 Q. Well --

24 MS. SCHMID: Objection to facts not in evidence.  
25 That assumes that Wexpro is subject to the jurisdiction of the

1 Commission. The regulated utilities is Questar Gas. It is  
2 Questar Gas that is subject to the regulation of the Commission.  
3 It is Questar Gas' actions that are judged for prudence. Those  
4 do include its interplay with Wexpro but Wexpro is not a  
5 regulated utility so that is asking him a question that is  
6 assuming facts not in evidence.

7 MR. JENSEN: That is not true. Mr. McKay--

8 COMMISSIONER CLARK: Pardon me a second, Mr.  
9 Jensen. The witness said, he said he didn't under the question,  
10 so I am going to allow you to rephrase it, and then if you still  
11 have an objection, Ms. Schmid, we will hear it then.

12 MR. JENSEN: Okay.

13 Q. Let's go back; Mr. McKay's testimony, which is in  
14 evidence, states, "Once a property"--quote, "Once a property  
15 has been approved for inclusion in the Wexpro II Agreement,  
16 the Division of Public Utilities in Utah and the Office of  
17 Consumer Advocates in Wyoming, will monitor Wexpro's  
18 performance of its obligations, under the Agreement, to assure  
19 that they are prudent and comply with the Agreement?"

20 COMMISSIONER CLARK: And for the record, Mr.  
21 Jensen, will you provide a reference? What were you reading?

22 MR. JENSEN: I will. It's on his rebuttal testimony,  
23 page 6.

24 MS. SCHMID: And, again, I will object. I am sorry  
25 I have to do this. He is asking our witness what Mr. McKay

1 intended. I am not trying to stop our witness from answering.  
2 Our witness is certainly competent to answer but I prefer that  
3 the hearing focus on the facts before it.

4 COMMISSIONER CLARK: Are you able to answer  
5 the question, Mr. Wheelwright?

6 THE WITNESS: Well, we've bounced around a  
7 little bit.

8 COMMISSIONER CLARK: Do you have the  
9 question in mind?

10 THE WITNESS: No, I don't.

11 MR. JENSEN: Well, I didn't ask the question  
12 because I got interrupted.

13 Q. The question is, does the Division, as Mr. McKay  
14 says, determine whether or not Wexpro is acting prudently, or is  
15 that a function of the Public Service Commission? Who  
16 determines prudence here?

17 A. Ultimately, I believe the Public Service Commission  
18 is responsible to determine prudence; the other makes a  
19 decision.

20 Q. I agree with you totally. My question then is, does  
21 that mean we can circumvent the arbitration provision in the  
22 proposed agreement when we are determining whether or not  
23 Wexpro is acting prudently?

24 A. No, I don't believe it does.

25 Q. Okay. Mr. McKay also states, this is in evidence on

1 his rebuttal testimony, page 7 states, quote, "If a dispute arises  
2 whether Wexpro has acted prudently or complied with its  
3 obligations under the Agreement, the Division or Office of  
4 Consumer Advocates will be able to institute an arbitration  
5 proceeding to resolve the dispute." My question is, does the  
6 Utah statute authorize an arbitration panel to determine  
7 prudence?

8 MS. SCHMID: Objection; calls for legal conclusion.  
9 He is asking what the statute says.

10 MR. JENSEN: Well, he has had experiences with  
11 the Public Service Commission for a number of years. I suspect  
12 he know it is answer to that.

13 COMMISSIONER CLARK: Pardon me, the objection  
14 is sustained.

15 MR. JENSEN: Well, let me ask the panel this, the  
16 Commission then, if they had answered the question as  
17 requested by this Commission in the November 9th scheduling  
18 order, we would have this information but they didn't answer it.

19 MS. SCHMID: If I may --

20 MR. JENSEN: How do we get that information?  
21 They don't want us to file a brief so we can talk about the legal  
22 issues. We can't ask the witness.

23 COMMISSIONER CLARK: We will address the  
24 briefing question when we are concluded with the evidentiary  
25 hearing. And, Mr. Jensen, if you would like, you can bring us

1 back to this issue then.

2 MR. JENSEN: Okay.

3 MS. SCHMID: May I respond since we are on that?

4 COMMISSIONER CLARK: Sure.

5 MS. SCHMID: The Division believes it has satisfied  
6 its duties. The Division believes it has acted properly under its  
7 directions by the statute. We went through in this oral  
8 argument. The Committee's attorney went on and raised legal  
9 issues there but then decided not to put them in a brief. I  
10 responded. We talked about the Division's statutory authority  
11 then. We believe that our witness satisfactorily and sufficiently  
12 and properly answered the Commission's questions in the  
13 scheduling order as a nonlawyer. He explained why it is in the  
14 public interest.

15 MR. JENSEN: May I respond?

16 COMMISSIONER CLARK: You may, Mr. Jensen,  
17 but just know that --

18 MR. JENSEN: I will be succinct. The November  
19 9th order from the Commission is after the decisions were made  
20 as to filing the briefs, so the Commission has asked the  
21 question of the Division to include it in their testimony. There is  
22 no reference to statutory authority. We would just like to have  
23 that question answer--the Commission raised it and we without  
24 like to have it answered. That is all I am asking for. I am  
25 willing to go on.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

COMMISSIONER CLARK: Please do.

BY MR. JENSEN:

Q. How many arbitrations have there been under Wexpro I?

A. I don't believe there have been any.

Q. And why is that?

A. I would assume that issues have been able to be resolved without arbitration.

Q. And do you know what issues have been raised that were resolved without arbitration?

A. Well, there is a number of guideline letters that are part of this Agreement that parties have come to an agreement on.

Q. And who issues the guideline letters?

A. I'm not sure.

Q. And are they approved by the Division?

A. I don't believe it is something we have to approve, whether they are included as part of the Agreement.

Q. But they are issued by the Company, aren't they?

A. I am not sure.

Q. How long will the proposed Agreement be in existence?

A. I would imagine until their properties are depleted.

Q. And is there an end time that they can purchase properties; is there a window for them to purchase properties?

1 A. Not that I'm aware of.

2 Q. So it could go on in perpetuity?

3 A. I think we need to make a distinction here. They  
4 could purchase properties at their discretion. Whether or not  
5 they are approved to be included in Wexpro II is the decision of  
6 the Commission.

7 Q. Well, so they could continue to purchase--there is  
8 no end date to this Agreement, as far as purchasing properties  
9 and including it in the Agreement?

10 A. No, I think that is an incorrect statement. The  
11 Commission is the one who decides whether they are included  
12 as a Wexpro II property or not. They have the ultimate decision  
13 making.

14 Q. Well, and under the Agreement, what would the  
15 Commission do to say, "We are not going to include that  
16 property; just that we have had enough"?

17 A. Yes.

18 Q. Can they do that?

19 A. Yes, very easily. As properties are presented, they  
20 can look at the facts before them on a specific property, they  
21 can look at that and say, for whatever reason, "We do not want  
22 to include that in the Wexpro II Agreement under the cost of  
23 service production."

24 Q. Okay. I would ask you where to point that out in  
25 the Agreement but Counsel will object.

1 MS. SCHMID: I haven't.

2 MR. JENSEN: But you will, I know you well  
3 enough.

4 Q. Mr. Wheelwright, did you hear Mr. McKay's  
5 reference to guideline letters earlier this morning?

6 A. Yes, I did.

7 Q. That they were willing--state what your  
8 understanding of that was regarding the Company's supply and  
9 guideline letters.

10 A. I believe that what he said was they would agree  
11 that they would provide information as to which of the guideline  
12 letters applied to a specific property that was being presented.

13 Q. And do you oppose that proposal?

14 A. No.

15 Q. Okay. I have no further questions.

16 COMMISSIONER CLARK: Thank you.

17 EXAMINATION

18 BY-COMMISSIONER CLARK:

19 Q. Mr. Wheelwright, I think it was in your summary that  
20 you described the potential for Questar disallowances under the  
21 Agreement?

22 A. Yes.

23 Q. Would you give me a sense for the kind of issues or  
24 the kind of matters that might lead to that? What are the  
25 bounds of the kinds of issues that could result under the



1 Agreement of Questar disallowance?

2 A. Well, I think one of the things that it talks about in  
3 the actual Wexpro I Agreement is it can be shown that they did  
4 not use their--if they did not act prudently as far as future  
5 drilling, that that would be a cause for action and costs could be  
6 disallowed. It is written into the Agreement stated as that.

7 Q. How are drilling plans developed, if you know?

8 A. I don't know that. That would be a better question  
9 for Wexpro.

10 Q. Regarding the hydrocarbon monitors, is it your  
11 understanding that that firm, or person, would evaluate the  
12 reasonableness of expenses that Wexpro incurs, the operations  
13 and operating and maintenance type expenses in conducting  
14 drilling activities, and other activities associated with property, if  
15 the Agreement is approved and a property is accepted under the  
16 Agreement?

17 A. Over the break, we were able to obtain a copy of  
18 the contract that the hydrocarbon monitor has with the State of  
19 Utah, and there are specific terms as part of that contract that  
20 he has with the State. If you would like, I can share some of  
21 those provisions with you, if that would be helpful?

22 Q. To the extent they address the monitor's duties to  
23 evaluate the reasonableness of expenses, yes, please.

24 A. Well, one--provision five says, "The contractor shall  
25 conduct investigations in accordance with the accepted

1 engineering practices and industry standards as one of the  
2 requirements."

3 One other point that I think is very important to  
4 point out is that item seven, it says, "The contractor shall  
5 provide an annual report, summarizing the year's activities.  
6 This report contains a technical evaluation of special projects,  
7 issues, and activities undertaken by Wexpro during the reporting  
8 year as they relate to the Wexpro Agreement. A list of all  
9 completed well classifications, a confidential report to the  
10 Division containing a discussion on background and analysis  
11 relating to special projects and/or sensitivity issues, the pros  
12 and cons of the analysis and decisions in terms of the benefits  
13 to Utah and Wyoming ratepayers."

14 So I believe, yes, they do look at all of the issues  
15 and look at how they would impact ratepayers.

16 Q. And that contract addresses the activities of the  
17 monitor under Wexpro I, I suspect?

18 A. Yes, yes.

19 Q. And do you expect similar terms would be present  
20 and similar duties would apply to the hydrocarbon monitor under  
21 Wexpro II?

22 A. Yes, I would expect a similar duty and responsibility  
23 of a hydrocarbon monitor going forward.

24 COMMISSIONER CLARK: That's all my questions.  
25 Chairman Allen?

1 CHAIRMAN ALLEN: Thank you, Commissioner  
2 Clark.

3 EXAMINATION

4 BY-CHAIRMAN ALLEN:

5 Q. Mr. Wheelwright, you heard me ask the question  
6 earlier about the expected level of interaction between the  
7 monitors and the Division, and now you are the Division; so  
8 would you agree with the assessment that it's anticipated that  
9 there will be some fairly high level and high level of activity  
10 between the monitors and the Division and that you will have  
11 access to the information you need?

12 A. Yes, I do.

13 Q. And do you feel like the Division is in a good place  
14 at this point in going forward to work with and understand the  
15 complexities of the information that they will be handing you?

16 A. I believe, yes, I do.

17 Q. Okay. Let's say that in the process of working with  
18 the monitors, they bring an anomaly to you, something that  
19 looks like it might be out of standard of practice and they  
20 mention that; what would be your next step? Have you talked  
21 to--I realize this might have to do also with management of the  
22 Division, but would you--do you have the authority to suggest  
23 ways in which to ameliorate the problem or mitigate it, or is  
24 arbitration the first step, in your mind?

25 A. I believe that we would have some internal

1 discussions and bring those issues forward within the Division  
2 and determine what the next course would be if they can be  
3 resolved prior to arbitration.

4 Q. So you see a problem-solving role, also?

5 A. Sure. Yes, I do.

6 Q. Okay. You know, I think that given that the  
7 property will be coming to us in the future, if there are any, I  
8 have questions for that phrase, so I think that I am finished with  
9 my questions. No, I did have one more, excuse me. In your job  
10 as a utility analyst, do you track global issue and strategic  
11 issues in the energy field, as well as your day-to-day issues?

12 A. Yes.

13 Q. There is an assertion that there is an expectation  
14 that prices will be rising in the future; would you agree with that  
15 assessment, that there is a better chance of rising chances than  
16 falling?

17 A. Yes, I do.

18 Q. What would you consider some of those factors that  
19 are out there, looming on the horizon, that can push prices up?

20 A. We are seeing greater demand with natural gas  
21 with more electricity production. We are seeing more demand  
22 for natural gas vehicles. As there is greater demand, we will  
23 tend to increase the prices.

24 Q. Okay, great, thank you.

25 COMMISSIONER CLARK: Any other questions?

1 Okay. Redirect?

2 MS. SCHMID: Thank you. I have just a couple.

3 FURTHER EXAMINATION

4 BY-MS.SCHMID:

5 Q. You were asked questions about Wexpro; is  
6 Wexpro a regulated utility?

7 A. No, it is not.

8 Q. You were asked questions about the interplay  
9 between the Division and the hydrocarbon monitor. You also  
10 mentioned the interplay with the accounting monitor. Is it true  
11 that under Section 5-12 of the Agreement in the plain language,  
12 it states that, "Books and accounts of Wexpro pertaining to  
13 Wexpro II properties will be made available for examination by  
14 the OCA, the Wyoming, and Division when requested as  
15 reasonable times and places"?

16 A. Yes, it does.

17 Q. Does it state in plain language that Wexpro and the  
18 Company will provide the OCA and the Division with a report  
19 within "X" number of days from the calendar end of every  
20 calendar quarter?

21 A. Yes.

22 Q. Will that report--and, again, does the provision say  
23 that the report will set out the production of the Wexpro  
24 properties, the financial benefits from the Wexpro properties,  
25 and the reporting on the operation of each element of the

1 Agreement?

2 A. Yes.

3 Q. So when the Division looks at Wexpro's  
4 performance under the Agreement, the Division looks at these  
5 things and it looks at these things not only by itself but with the  
6 assistance of the hydrocarbon monitor; is that correct?

7 A. That's correct.

8 Q. Turning now to Questar Gas, as a regulated utility,  
9 does--in your experience, has the Commission made findings  
10 with regard to the prudence of actions by Questar Gas? I can  
11 restate if I need to.

12 A. Yes, restate that if you would, please.

13 Q. In your knowledge, do you know if the Commission  
14 has determined whether or not Questar Gas has acted prudently  
15 or not?

16 A. Yes, I believe they have.

17 Q. Does the Commission examine the prudence of  
18 Questar Gas' actions during the 1-91 pass-through account  
19 review?

20 A. Yes, they do.

21 Q. Does the Division look for and at the prudence of  
22 Questar Gas' actions during that review?

23 A. Yes, they do.

24 Q. So, ultimately, the Division looks at the actions,  
25 makes a recommendation to the Commission, and then the

1 Commission determines prudence; is that right?

2 A. That's correct.

3 Q. Thank you. Those are all my redirect questions.

4 COMMISSIONER CLARK: Thank you.

5 MR. JENSEN: No questions.

6 COMMISSIONER CLARK: You're excused, Mr.

7 Wheelwright, thank you. Off the record.

8 (A discussion was held off the record.)

9 COMMISSIONER CLARK: On the record.

10 MICHELE BECK, called as a witness and having

11 been duly sworn, was examined and testified as follows:

12 EXAMINATION

13 BY-MR.JENSEN:

14 Q. Please state your name.

15 A. Michele Beck.

16 Q. What is your position?

17 A. I am the director of the Office of Consumer

18 Services.

19 Q. Did you file, pre-file direct testimony, marked as  
20 OCS 1D, consisting of 18 pages as direct testimony; and  
21 rebuttal testimony, marked as OCS 1R, consisting of ten pages  
22 and with one exhibit, consisting of 28 pages; and surrebuttal  
23 testimony marked as OCS 1SR, consisting of ten pages?

24 A. I did but I think there were two exhibits on the  
25 rebuttal testimony.

1 MR. JENSEN: Okay. The Office would request that  
2 this testimony exhibits and testimony be entered into the record.

3 COMMISSIONER CLARK: Any objection? They will  
4 be received.

5 BY MR. JENSEN:

6 Q. Do you have any corrections to your testimony Ms.  
7 Beck?

8 A. No, I don't.

9 Q. Have you prepared a summary of your testimony?

10 A. Yes, I have.

11 Q. Would you please provide that?

12 A. Yes. The Office's position in this case is quite  
13 straightforward. The Office acknowledges that Wexpro I, over  
14 the past 30 years, has provided net benefits to customers,  
15 despite the fact that it currently results in slightly higher rates.  
16 The Office also asserts that if properly designed, expending  
17 access to costs of service gas supplies could provide additional  
18 benefits to customers.

19 In this docket, the Office's testimony has focused  
20 on two primary issues: One, certain changes to the oversight of  
21 the proposed agreement need to be made before it can be found  
22 to be in the public interest; and, two, the signatory parties must  
23 be required to demonstrate that the Agreement is in the public  
24 interest. To loosen this fundamental regulatory principal would  
25 set a bad precedent that could have far reaching negative



1 implications.

2           The Office's recommended changes in three  
3 aspects of oversight of the Agreement. First, the current  
4 language in the Agreement incorporates guideline letters as  
5 appropriate is too vague, but I believe that we have reached  
6 resolve-ment of that issue through testimony today; second, the  
7 Agreement has binding arbitration as the only method of dispute  
8 resolution. The Office asserts that this wrongly removes the  
9 Commission from the oversight process. Finally, the Office  
10 expressed concerns about the lack of access to the Wexpro  
11 reporting for parties other than the signatories to the  
12 Agreement.

13           In addition to these specific issues, the Office's  
14 testimony also identified several issues in question, some of  
15 which were first identified by the Commission itself that have not  
16 been adequately answered. These issues were not raised in  
17 opposition but, rather, an identification of the type of issues that  
18 should be addressed as part of the demonstration of the public  
19 interest. The Office was surprised not to see a more thorough  
20 explanation of these issues in any round of testimony. In fact,  
21 the Division did not even provide the support information  
22 ordered by the Commission to be included.

23           Both the Commission and the--excuse me, both the  
24 Division and the Company did mention the Northwest Natural  
25 Encana joint venture as another example as a Wexpro like

1 agreement that had been executed and, apparently, suggesting  
2 it is supporting evidence for why this agreement should be  
3 approved.

4 In my rebuttal testimony, I noted that there are  
5 many key differences between the proposed Wexpro II  
6 Agreement and the Northwest Natural Encana Agreement.  
7 Although some of these noted differences were disputed in  
8 surrebuttal, the fact remains that this is an agreement between  
9 two unaffiliated companies approved in a different jurisdiction  
10 and has limited relevance to this proceeding.

11 Both the Company--I am going to skip the section  
12 about guideline letters. I think we've covered that. Thus, the  
13 fundamental issues in dispute, in this proceeding, are limited.  
14 The primary question should be whether the supporting parties  
15 demonstrated that the Agreement is in the public interest. The  
16 Office asserts that the parties have relied too much on the  
17 argument that since a similar Agreement was approved 30 years  
18 ago, so it should be approved now.

19 However, enough facts and circumstances have  
20 changed in 30 years that public interest should have be been  
21 more specifically addressed. In fact, the Office asserts that the  
22 Agreement cannot be demonstrated to be in the public interest  
23 unless a few minor but fundamental changes are made to the  
24 oversight of the Agreement.

25 It appears we have a workable solution of the issue

1 of guideline letters. What remains to be resolved is how to  
2 maintain proper regulatory oversight. The Office asserts that  
3 having binding arbitration as the only option for dispute  
4 resolution is contrary to such oversight. Neither the Division,  
5 the monitors, nor any arbitration panel, has the same mandate  
6 as the Commission to uphold the public interest. While there  
7 could be a defined role for all of these entities contributing to  
8 the oversight of the Agreement, some oversight by the  
9 Commission must be maintained. That concludes my summary.

10 MR. JENSEN: The witness is available for  
11 cross-examination.

12 COMMISSIONER CLARK: Thank you. Any  
13 cross-examination?

14 MS. BELL: Can I have just a minute?

15 COMMISSIONER CLARK: Certainly. We'll be off  
16 the record.

17 (A discussion was held off the record.)

18 EXAMINATION

19 BY-MR.MONSON:

20 Q. Ms. Beck, when Questar Gas buys gas from a third  
21 party, the Commission doesn't exercise any jurisdiction over the  
22 third party, does it?

23 A. Not typically.

24 Q. And if Wexpro goes out and develops, buys new  
25 properties and develops them, the Commission wouldn't

1 exercise any jurisdiction or oversight on Wexpro in that function,  
2 would it?

3 A. No.

4 Q. So the way the Commission exercises its  
5 jurisdiction and its oversight in these kinds of circumstances is  
6 over Questar Gas and whether Questar Gas' action are prudent;  
7 is that right?

8 A. Yes.

9 Q. So the Company has now entered into an  
10 Agreement with Wexpro to receive some gas from Wexpro under  
11 certain terms and conditions. The Commission isn't giving up  
12 any right by that Agreement to exercise oversight over Questar  
13 Gas' actions and its prudence under that Agreement, is it?

14 A. I would not agree with that characterization.

15 Q. So you think the Commission--you believe the  
16 Commission cannot, in a 1-91 account proceeding, say,  
17 "Questar Gas, you didn't exercise your functions under that  
18 Agreement prudently"?

19 A. Well, I think under--what we can speak to is what  
20 happened with Wexpro I, and it is my understanding and I am  
21 going to confess that I didn't bring Wexpro I to the stand, so if  
22 you need to correct my memory quoting, I will accept that. But  
23 my understanding is, there is a clause in Wexpro I that  
24 specifically states that the parties to that agreement agree not  
25 to challenge these actions except through the arbitration. So

1 while I do think that it is likely technically still true that the  
2 Commission could order a disallowance, they would have no  
3 basis to do so because no party could bring evidence to them  
4 that would lead to that conclusion.

5 Q. And wasn't that provision changed in Wexpro II to  
6 apply only to actions of Wexpro?

7 A. Well, I don't feel confident that the change is  
8 adequate to provide protection.

9 Q. Do you have the Wexpro II Agreement?

10 A. I have Wexpro II. I don't have Wexpro I up here.

11 Q. Could you turn to paragraph 5-13?

12 COMMISSIONER CLARK: Ms. Beck, would you like  
13 to have Wexpro I in front of you, as well, as you respond  
14 because we can go off the record for you to do that, if you  
15 would like?

16 THE WITNESS: It would be helpful, I think.

17 BY MR. MONSON:

18 Q. I want you to refer to 5-13 of the Wexpro II  
19 Agreement. Have you got that?

20 A. Yes.

21 Q. And if you want to compare this with the arbitration  
22 provision in Wexpro I, it's on page 16 in the stipulation of what I  
23 just gave you. Okay?

24 A. Yes.

25 Q. Okay. Now let me just read to you the first

1 paragraph under 5-13, "Parties acknowledge that from time to  
2 time, disputes may arise regarding the performance of this  
3 Agreement." Right? "In the event that any party claims there is  
4 a default by Questar Gas of any of its contractual obligations  
5 under the terms or intent of this Agreement, such dispute will be  
6 adjudicated before the Commissions." Do you understand that  
7 to mean the Wyoming and Utah Commissions?

8 A. Yes, I do.

9 Q. So if there is a question about whether Questar  
10 Gas is performing its obligations under this Agreement, that  
11 dispute will be brought before this Commission; is that right?

12 A. If any party claims there is a default.

13 Q. Okay.

14 A. And in my view, default may not cover the full  
15 range of issues that typically are brought before the Commission  
16 and disputed in front of the Commission.

17 Q. Then it says, "In the event any party claims there is  
18 any default by Wexpro of any of its contractual obligations,  
19 under the terms or the intent of this agreement, the following  
20 procedure will be followed," then it gives the arbitration  
21 provisions. Right?

22 A. Correct.

23 Q. And my question to you is simply this: if Questar  
24 Gas buys gas from any third party who is not a regulated public  
25 utility and there is a question about whether that party has been

1 prudent, that doesn't come before this Commission, does it?

2 A. No.

3 Q. It's only if Questar Gas does something that's  
4 imprudent that comes before the Commission?

5 A. Well, that's--if Questar Gas does something  
6 imprudent, but, also, the Commission quite frequently deals with  
7 longer term contracts. I believe the statute specifies how long  
8 those are, so I think that to the extent that other suppliers,  
9 those are typically short-term contracts that would never be in  
10 front of Commission.

11 But, certainly, on the electric side of the industry,  
12 for example, anything that is ten years and a certain size, I think  
13 a 10 megawatts in front of the Commission, so I would  
14 anticipate a similar analogous of oversight relationship here,  
15 that the Commission would maintain oversight of agreements for  
16 long-term large portions of supplies.

17 Q. So if Rocky Mountain Power enters into a contract  
18 with some supplier to buy power over a 30-year period, it's  
19 required to bring that agreement to this Commission for  
20 approval, if it's over a certain--

21 A. Yes.

22 Q. --megawatt level. Right?

23 A. Yes.

24 Q. Under this Agreement, if Questar Gas decides that  
25 it wants to put a property into the Wexpro II Agreement, no

1 matter how big it is and no matter how long it might last, it's  
2 required to bring that property to this Commission for approval;  
3 isn't that correct?

4 A. Right, but only with forecasted terms.

5 Q. Does Rocky Mountain Power have anything other  
6 than forecasted terms?

7 A. Yes, but the actual terms of the contract are  
8 monitored and overseen by the Commission.

9 Q. Couldn't the terms of the contract in the Rocky  
10 Mountain Power case be also subject to changes, depending on  
11 market conditions and various things that occur; couldn't they  
12 involved questions regarding how much it cost to produce that  
13 power or something like that?

14 A. Typically by formula with monitorable--if that is a  
15 word--inputs.

16 Q. And, in fact, sometimes those contracts aren't to  
17 buy power but they are to buy a plant, aren't they?

18 A. Correct.

19 Q. And if they are buying a plant, isn't  
20 that--isn't whether or not that plant is going to be in the money  
21 totally subject to forecast conditions?

22 A. Yes, and then it is reviewed carefully through the--  
23 through subsequent filings.

24 Q. So you are saying that if Rocky Mountain Power  
25 brings in a proposal to buy a plant, let's say the Chehalis Plant,



1 okay, and the Commission approves, after hearing the evidence  
2 and the forecast, approves the acquisition of that plant, that the  
3 Commission can come in later and say, "You know, we think we  
4 goofed. You really we are not going to recover the cost of that  
5 plant"?

6 A. Once the costs are allowed to be recovered, then  
7 they are in, the fixed costs remain in, but the variable cost  
8 would still be reviewed through--

9 Q. Okay, I am sorry, were you finished? Go ahead.

10 A. The variable cost would still be reviewed through  
11 previously general rate cases and now energy balances account  
12 cases.

13 Q. Okay. So under this contract, the Wexpro II  
14 Agreement, Wexpro purchases a property at its own risk and it  
15 says that we are required to give this option of the customers of  
16 Questar Gas, so Questar Gas brings that property before the  
17 Commission, the Commission approves it, it is put in the  
18 Agreement, and in the course of the operation of that contract, a  
19 question arises to whether the costs that are being passed  
20 through are prudent, whether Questar Gas has insisted on those  
21 costs being prudent, okay--

22 A. Uh-huh.

23 Q. --that action can still come before the Commission,  
24 just like it can in the case of Rocky Mountain Power, can't it?

25 A. That is not clear to me. Does that--whether or not

1 that would constitute a default by this contract, that would then  
2 come before the Commission; so to me, it is just not clear.

3 Q. Okay. And you are not a lawyer?

4 A. No, I am not.

5 Q. Okay. One other question; you say that the parties  
6 who are supporting this contract are offering, in support of the  
7 public interest, the fact that Wexpro I was found in the public  
8 interest 30 years ago; is that correct?

9 A. Yes.

10 Q. Aren't the parties actually saying that it's in the  
11 public interest because Wexpro II, as it has turned out over 30  
12 years, has produced benefits for the customers of Questar Gas  
13 of a \$1.3 billion, over \$1.3 billion? Aren't they saying, not  
14 because it was prudent 30 years ago, but because it has proved  
15 to be prudent over the last 30 years?

16 A. Let me ask for clarification, because in your  
17 question, you said Wexpro II.

18 Q. Yes, the Wexpro II is prudent because the same  
19 contract, as its been applied over the last 30 years, has proven  
20 to be very beneficial to customers of Questar Gas?

21 A. Will you represent one of the parties and you may  
22 represent that that is what your client was saying? I did not  
23 read the testimony in that way.

24 Q. Okay. And you have said in your testimony that--  
25 and, in fact, you said in your summary, that this, the concept of

1 this, to have cost of service gas on a long-term basis, could be  
2 very beneficial to customers?

3 A. Yes. I want to be clear that we are not here trying  
4 to oppose the concept in entirety, in any way. We think some  
5 minor but fundamental changes would allow this to be in the  
6 public interest.

7 Q. Okay. And your job is to represent the interest of  
8 residential and small commercial customers. Right?

9 A. That is correct.

10 Q. So given the potential and the likelihood, given the  
11 history of Wexpro I that this contract can provide benefits to  
12 customers over a long term, you are telling this Commission that  
13 they should disapprove this contract, take away this opportunity,  
14 just because it has an arbitration provision that applies only to  
15 Wexpro?

16 A. I am telling this Commission, I am recommending to  
17 this Commission--I am not telling the Commission anything. I  
18 am recommending to the Commission that they consider  
19 carefully whether the oversight is set correctly. Wexpro I was  
20 entered into under very different circumstances. It was  
21 anticipated to last only eight to ten years, based on the  
22 knowledge at that time of reserves and drilling technology.

23 Now my understanding is we have more reserve,  
24 more none reserves in Wexpro I right now than the time it was  
25 executed and that's to the great credit of Questar, the industry

1 and advances that have been made; but, nonetheless, we have  
2 an agreement that was made for a select number of properties  
3 for what was thought to be a time-limited duration, and that was  
4 resolving an incredibly contentious set of litigated proceedings.  
5 And so some concessions were made there that I don't think  
6 need to be made here.

7 I don't see why this would be a deal-breaker. I  
8 don't think anything we are suggesting is that the Commission  
9 would suddenly turn Wexpro into a fully regulated utility. We  
10 are asking for just a little backstop oversight so that we have  
11 the benefit of a transparent public commission process which  
12 really benefits customers well in many circumstances, as  
13 opposed to the Division, which is not equipped to set things up  
14 that way.

15 So when the Division determines prudence, it is  
16 done on their own terms and not in a way that involves other  
17 interveners. So we are asking for a very minor change to take  
18 this--allow this contract to take us into the future.

19 Q. So assuming the parties to the Agreement won't  
20 agree to make that change, you want to deny customers the  
21 opportunity to participate in a continued cost of service  
22 program?

23 A. I don't think it would be me denying them that.

24 Q. That's all I have.

25 COMMISSIONER CLARK: Ms. Schmid?

1 MS. SCHMID: May we have a moment?

2 COMMISSIONER CLARK: Yes. Off the record.

3 (A discussion was held off the record.)

4 COMMISSIONER CLARK: We are back on the  
5 record.

6 MS. SCHMID: The Division has no  
7 cross-examination questions.

8 COMMISSIONER CLARK: Thank you.

9 EXAMINATION

10 BY-COMMISSIONER CLARK:

11 Q. I have a question for you about the third change  
12 that you have requested as identified in your summary and it  
13 relates to, I think, the Office's access to information. So I would  
14 like you to amplify the source of that concern and the reasons for  
15 that concern, if you would.

16 A. So I will admit to having backed off of that a little  
17 bit in surrebuttal. For the vast majority of the duration of  
18 Wexpro I, the Office did not have access to any of the Wexpro  
19 reports; however, circumstances have changed, and in recent  
20 years, I think we have had a really good working relationship  
21 with the Division, and they've invited us in and provided things  
22 to us.

23 In Mr. Wheelwright's, I believe it was in his rebuttal  
24 testimony, he indicated that the Office would always be able to  
25 have access to this. If nothing else, then through GRAMA

1 requests. I still believe it's true that it's a less transparent  
2 process than those held by the Commission because other  
3 parties would not have access.

4 And I understand, absolutely understand, the  
5 concerns about highly sensitive information, but the Commission  
6 has processes in place for other highly sensitive information.  
7 The last year, we dealt with the short list of a power plant, we  
8 dealt with a very, very detailed hedging transaction for Rocky  
9 Mountain Power, both of which were considered highly, highly  
10 sensitive, I think appropriately considered highly sensitive. So I  
11 think there are--there are certainly Commission protections that  
12 could be used.

13 However, I did feel some level of comfort from the  
14 Division's testimony and no other party took the opportunity to  
15 intervene and raise the issues for them, so I think it's a  
16 somewhat minimized concern at this point.

17 COMMISSIONER CLARK: Thank you. That's all  
18 my questions. Chairman?

19 EXAMINATION

20 BY-CHAIRMAN ALLEN:

21 Q. In the interest of fairness, even though I asked the  
22 question of others, I know you are focusing now, or at least it  
23 sounds like you are focusing, on the arbitration part of the  
24 Agreement. At this point, are you comfortable with, or do you  
25 see any problems, with the monitors, the way they are setup,

1 the interaction with the Division, and the oversight itself, or--go  
2 ahead.

3 A. Well, trying to choose my wording carefully here,  
4 we do think, from our limited observations, that the hydrocarbon  
5 monitor does seem to be very proactive and involved in the  
6 process. We--I am not in a position to speak to the accounting  
7 monitor. I don't know that we have observed that to the point to  
8 make observations to you.

9 I would say if I had a concern, I think it's that the  
10 Division seems to rely quite heavily--and, again, I am not  
11 making formal accusations here, in any way, because we have  
12 had a limited involvement, but it does seem to me that when the  
13 Division conducts its own audit, they find more things than what  
14 seems to come forward out of the Wexpro Agreement. Now that  
15 might not be, in any way, a condemnation of any process. It's  
16 just except for the fact that it is not as transparent. So we are  
17 not seeing the disputes because that is happening sort of  
18 behind closed doors.

19 And so that would, I think, be the one thing that I  
20 would have to say on that.

21 Q. Okay, thank you.

22 COMMISSIONER CLARK: Any redirect?

23 MR. JENSEN: No, no questions.

24 COMMISSIONER CLARK: You are excused, Ms.  
25 Beck. Thank you.

1 I believe we have heard all the evidence, which  
2 brings us to the question of briefs, and we promised we would  
3 come back to that. Mr. Jensen?

4 MR. JENSEN: Well, just briefly, there have been  
5 some legal issues raised and objected to. We would like the  
6 opportunity of filing a post-hearing brief addressing those legal  
7 issues. It won't be long but we would like to do it.

8 COMMISSIONER CLARK: And could you define  
9 precisely what the issues are, from your prospective?

10 MR. JENSEN: Yes. One is there has been  
11 characterization about the Wexpro cases of 1979 and 1983. We  
12 would like to comment on that, to show the difference between  
13 the situation then and the situation today; one was the authority  
14 of the Division to enter into this Agreement; and, three, what we  
15 regard as the Agreement to remove jurisdiction from this body,  
16 the Commission, that there are issues that should remain with  
17 the jurisdiction of this body.

18 COMMISSIONER CLARK: So the arbitration  
19 disposition that the Agreement provides for?

20 MR. JENSEN: Correct.

21 COMMISSIONER CLARK: And, specifically, as that  
22 was treated in the Supreme Court decisions that you refer to?

23 MR. JENSEN: Not just that but other cases.

24 COMMISSIONER CLARK: Okay. Ms. Schmid, do  
25 you have a prospective you would like to share, beyond what



1 you have already shared?

2 MS. SCHMID: Yes. I would just like to emphasize  
3 that the Commission's direction for the Division to provide  
4 specific information, and that sentence used the word statutory  
5 authority, was directed at its Division witness and the question  
6 was to be answered in testimony. The Division witness was not  
7 a lawyer and legal arguments were not requested by the  
8 Commission at that point.

9 I would like it noted on the record that the Division  
10 is not afraid of briefing the legal issues. The Division believes  
11 that its action are well supported by statute and by law. The  
12 Division believes that there is adequate evidence on the record  
13 to support a finding that the thing--that the Agreement is in the  
14 public interest and should be approved.

15 COMMISSIONER CLARK: Mr. Monson or Ms. Bell,  
16 either?

17 MR. MONSON: We have got a couple of points  
18 here. First of all, these are exactly the same issues we talked  
19 about in the scheduling conference, if you will recall, that you  
20 conducted as the Hearing Officer, and these are exactly the  
21 same issues that the Office was given an opportunity to brief  
22 before we got into the evidentiary phase of the hearing. They  
23 are now--they chose not to brief them. They chose to present  
24 evidence, and now they are saying, "You know, now we've got to  
25 brief them." Well, they had their chance. They shouldn't be

1 given another chance.

2 But let me just comment briefly on these issues  
3 because I think these issues arise out of a fundamental  
4 misunderstanding of what this is all about, okay, unless I just  
5 don't understand the Office's argument. But is the Office taking  
6 the position that it's okay for a state agency to agree to be  
7 bound by arbitration if they do so as a result of litigation, but it's  
8 not okay if they do so as a result of a voluntary agreement? I  
9 mean, that makes no sense to me. If it's legal in one sense, it's  
10 legal in the other sense, so I don't know that we need briefs on  
11 that issue.

12 And the Supreme Court found in Wexpro I, I mean--  
13 well, I've got to change my terminology because I call the case  
14 Wexpro I and Wexpro II, and we now have this agreement that  
15 has those names. In the Utah Department of Administrative  
16 Services, the second appeal, that was exactly the argument that  
17 was made. It was--the argument was made, Division--the  
18 Division has agreed to be bound by arbitration and that has  
19 removed its statutory authority and that is not legal. And the  
20 Supreme Court said boloney, okay. And so what is different?  
21 What is different? Does it make it legal because we now  
22 voluntarily agree to do it, instead of doing it under a settlement?  
23 That doesn't make any sense to me. So that is the first issue.

24 The second issue is the authority of the Division to  
25 enter into this agreement. We discussed this in the scheduling

1 conference. The Division does have authority to enter into  
2 agreements. It does it all the time. And its statutory authority  
3 specifically provides that it has authority to enter into  
4 agreements. The Office enters into agreements, for heaven'  
5 sake.

6           We have cases--we have rate cases all the time  
7 where parties file positions and then they enter into a  
8 settlement, and they bind themselves to certain positions  
9 relative to the facts presented in that case. This is no mystical  
10 thing. They do it all the time. They certainly have authority to  
11 do it, and, again, the Supreme Court found in Utah Department  
12 of Administrative Services that there was no problem with the  
13 Division entering into that agreement, or the Office in that case.  
14 The Committee also entered into that agreement.

15           Finally, an agreement to remove jurisdiction, and  
16 this is, I think, where there's the biggest confusion; we cannot,  
17 by agreement, take away from the Commission's jurisdiction.  
18 Does the Commission have jurisdiction to regulate third-party  
19 providers of natural gas? No. It has no jurisdiction to regulate  
20 them. They are not public utilities. Wexpro is not a public  
21 utility. The Commission has no jurisdiction to regulate Wexpro.

22           So how are we removing the Commission's  
23 jurisdiction? We are not removing any jurisdiction it has. If  
24 anything, we are giving it more jurisdiction because we are  
25 saying, "We are going to have these monitors go on and look at

1 this stuff. We're going to have the Division monitor Wexpro's  
2 performance." They don't have the right to do that with other  
3 third parties, so we are giving them more authority, not less.

4 So I think this whole thing is just based on a  
5 misunderstanding, and I don't see any reason why we should  
6 brief it. I think the Commission--I think the Commission has the  
7 evidence before it and the information before it to make a  
8 decision, and I think the Commission--we would request the  
9 Commission make a decision from the bench following the close  
10 of the public witness hearing tomorrow, but we certainly don't  
11 think you need briefs on these issues.

12 COMMISSIONER CLARK: We are going to take a  
13 recess and consider the arguments that have been made. And  
14 recognizing that one of the considerations is reaching an  
15 expeditious resolution of the issues before us, the application  
16 before us.

17 I just want to ask what's the most compressed,  
18 reasonable timeframe that this briefing could be accomplished,  
19 in your mind, Mr. Jensen?

20 MR. JENSEN: We would submit a brief a week  
21 from Friday, ten days.

22 COMMISSIONER CLARK: Do you envision a reply  
23 cycle, as well?

24 MR. JENSEN: I can imagine they would want to  
25 reply.

1 COMMISSIONER CLARK: Ms. Schmid, do you have  
2 a response to that?

3 MS. SCHMID: If the Commission does order  
4 briefing, as Mr. Jensen seems to have volunteered, I think it  
5 would be appropriate for the Office to set forth its legal  
6 argument in its brief first, and then the Division and Questar  
7 Gas, if it chooses, to reply. I believe that in terms of fairness,  
8 the Division should have the same number of days to respond in  
9 which the Office had to prepare its brief.

10 COMMISSIONER CLARK: Ms. Bell or Mr. Monson,  
11 counsel for --

12 MS. BELL: We would like an expedited briefing  
13 schedule as possible. We think, as Mr. Monson and Ms. Schmid  
14 have argued very well, that we have already discussed and  
15 argued these issues. Nothing new has come to light but we  
16 would like a chance to reply to whatever the Office is going to  
17 put forward, but we want as limited and short term a briefing  
18 schedule as we can possibly reasonably have. We have already  
19 had this issue before the Commission and the parties for over a  
20 year, and I don't know how much longer Wexpro will be willing to  
21 be patient with its affiliate.

22 COMMISSIONER CLARK: Thank you. We will be  
23 in recess.

24 (Whereupon, a recess was taken.)

25 COMMISSIONER CLARK: We have considered the

1 request for briefing, and although we have provided an  
2 opportunity in this proceeding to have these issues addressed  
3 and altered the schedule to do so, we feel that the issues that  
4 the Office has defined are important enough to the Office's  
5 position and to the Commission's understanding of the Office's  
6 position that we are going to allow the limited briefing that the  
7 Office has requested. And so it will be limited to three issues  
8 that is Mr. Jensen defined.

9           The Office's brief will be due February 8th, which is  
10 a week from this Friday, and replies by the Division and the  
11 Company will be due either the 15th or the 19th, or, for that  
12 matter, the 9th. You know, we recognize your interest in an  
13 expeditious process.

14           Do you want to have any kind of discussion off the  
15 record about this, Ms. Schmid? Are you prepared to address  
16 your timing? And, Ms. Bell, are you--why don't we hear from the  
17 Company first?

18           MS. BELL: Can we go off the record for just a  
19 moment?

20           (A discussion was held off the record.)

21           MS. BELL: We can file something by the 15th, and  
22 if we can possibly file it sooner, we will.

23           COMMISSIONER CLARK: Ms. Schmid, does the  
24 15th work for the Division.

25           MS. SCHMID: Yes, it would.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

COMMISSIONER CLARK: Thank you. Are there any other matters to come before the Commission in this proceeding today? Then we will be adjourned. Thank you very much. Oh, yes, thank you. We are not concluded. We will be in recess until tomorrow at noon when we will have the public witness hearing, and I expect we will see some of you here then?

(The hearing was concluded at 2:30 p.m.)

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

REPORTER'S CERTIFICATE

State of Utah )  
 )  
County of Salt Lake )

I, Kellie Peterson, Certified Shorthand Reporter,  
Registered Professional Reporter, and Notary Public for the  
State of Utah, do hereby certify:

THAT the foregoing proceedings were taken before  
me at the time and place set forth herein; that the witness was  
duly sworn to tell the truth, the whole truth, and nothing but the  
truth; and that the proceedings were taken down by me in  
shorthand and thereafter transcribed into typewriting under my  
direction and supervision; THAT the foregoing pages  
contain a true and correct transcription of my said shorthand  
notes so taken.

IN WITNESS WHEREOF, I have subscribed my  
name and affixed my seal this 11th day of February, 2013.

\_\_\_\_\_  
Kellie Peterson, RPR