Docket No. 12-057-13 – December 5, 2012 Technical Conference

Discussion Items and Questions

Background Information

1. Please summarize the purpose of the Wexpro I Agreement**.**
2. Please summarize the purpose of the Wexpro II Agreement (proposed agreement).
3. Please explain whether Wexpro is currently able to independently drill properties other than those included in the Wexpro I Agreement.
4. Please identify the last time Wexpro bid into Questar Gas Company's (Questar) annual request for proposal (RFP) for gas supplies and the last time Wexpro bids were accepted in Questar's RFP process.
5. During the development of the Wexpro I Agreement please discuss whether it was contemplated that cost-of-service gas would eventually be more expensive than market purchases.
6. Historic Drilling Information -- Since the approval of Wexpro I:
   - **a.** How many dry holes have actually been drilled by Wexpro? Please provide a year by year analysis including the costs of the dry holes.
   - **b.** How many wells which were determined to be dry holes were later produced at Questar Gas Company's discretion (Section I-20(ii)(d) of the Wexpro I Agreement)?
   - **c.** Have any wells which were determined to be dry holes subsequently have been produced by Wexpro?
   - **d.** How many Wexpro I wells were initially determined to be commercial but through time have not covered their actual costs?
   - **e.** Please explain whether current Wexpro I production provides more gas during the summer months than is currently required by Questar's customers.
   - **f.** Please provide information on the number of written notifications Wexpro has provided to Questar under Section IV-6 of the Wexpro I Agreement and the number of times Questar elected to purchase the natural gas covered under the notifications.
7. What are the current reserves and expected lifetime of the reserves for the wells currently covered under the Wexpro I Agreement? How much more drilling can be performed on these properties?
8. The Commission has jurisdiction to approve contracts involving Questar's utility activities, however, Questar hasn't requested approval of any other gas acquisition activities. What makes the proposed agreement different?
9. How many times have depreciation methods under the Wexpro I Agreement been reviewed and approved by the Division (See I-32 of the Wexpro I Agreement)?

Questions Specific to the Wexpro II Agreement

10. Section I-33 of the proposed agreement defines the term "Market Price." Please explain how market price is determined and used for determining whether or not a well is commercial, e.g., the life of a well may be 20 years and gas prices may vary significantly during that time period but the term Market Price only appears to represent a price at a specific time.
11. In Section I-11 of the proposed agreement a commercial well is defined as a development well that, upon completion (i) clearly produces sufficient quantities to pay, at market prices for the products, all costs of drilling, development and operation of the well. Does this amount include acquisitions costs? What happens in the event that cost-of-service gas is more expensive than market priced gas? Do the costs for

operation include the costs of recompletion and/or restimulation of a well through time and all estimated field gas use? Please explain how "market prices" are determined and applied in this instance.

12. Section I-11(ii)(b) of the proposed agreement states, for a well requiring further determination of whether or not it is a dry hole, if economic evaluation shows that production from the well, when valued at market prices, will pay the expenses of operating the well, including royalties and taxes, plus 50% of the drilling costs to completion to the wellhead, the well will be deemed a commercial well. Please explain the rationale of why a commercial well shouldn't be expected to recover 100% of the drilling costs as well as all of the other costs associated with the well.
13. Please explain the rationale of setting market price in Section I-33 based on the highest three prices rather than dropping the highest and the low and averaging the remaining prices. Please explain the rationale for using the highest price in Section I-33(c).
14. It appears the proposed agreement contains no specific "Termination Clause." Are parties able to terminate the proposed agreement? If so, please explain how. Since the proposed agreement specifies Wexpro will own all of the well equipment, leases, etc., please explain how Wexpro would be harmed in the event a party desired to terminate the proposed agreement.
15. When the Wexpro I Agreement was signed it was at a time of extremely high inflation and uncertainty with respect to energy supply and usage. As a result, a rate of return was guaranteed above and beyond what was normal for exploration and production companies as an incentive for Wexpro to "prudently and energetically exploit the properties to their full potential for the benefit of the Company's customers and its shareholders." And the quid pro quo was that all productive wells in the designated area were then subject to the terms of the Wexpro I Agreement. Under the proposed agreement, for those areas outside of the Wexpro I Agreement area it is up to the Wexpro's discretion whether or not those areas would be offered for inclusion under the proposed agreement (See Section IV-1(b)). Since rate payers would no longer be guaranteed possible low cost properties outside of the Wexpro I area, please discuss why it is in the public interest to maintain the rate of return specified in the Wexpro I Agreement in the proposed agreement.
16. If the proposed agreement is approved, please explain how and when parties would be able to determine the prudence of Wexpro's actual costs/expenses.
17. Please clarify how property acquisition costs will be handled under the proposed agreement including the procedures to be followed if one state Commission does not approve a property.
18. Please explain the rationale of including a rate of return adder on oil wells in light of today's current market. Also, please explain the historic basis for the development of the 54-46 formula and why it is appropriate in the proposed agreement.
19. Please explain why Section I-18 defining Development Oil Drilling in the proposed agreement is different from the definition in the Wexpro I Agreement.
20. Please explain why the wording in Section I-22 of the proposed agreement pertaining to depreciation is different than that contained in the Wexpro I Agreement. Does the proposed agreement provide for a review and revision of depreciation rates? If so, how will this occur?
21. Please explain the term "overriding royalty" and why it is no longer applicable in the proposed agreement.
22. Who will be responsible to review and audit the AFUDC rate and AFUDC account procedures identified within the proposed agreement?
23. Pertaining to income taxes as identified in the proposed agreement, please explain why it is appropriate to use a tax rate that represents "the highest level of taxable income if Wexpro were to file a separate tax

return, without regard to the actual tax rate?" The maximum rate may change based upon changes to federal tax law, e.g. the highest rate identified in the proposed agreement is 35% yet in the Wexpro I Agreement the highest rate was specified as 46%.

24. Does Section I-31 pertaining to Commission-allowed rate of return propose the allowed rate-of-return will be determined based upon the weighted average of the rates-of-return approved by each commission?
25. The base rate of return identified in Section I-32 of the proposed agreement includes an index based upon the average authorized rate of return of various companies – including telecommunications companies. Please explain why this index continues to be appropriate. Please explain why the index is not based upon actual returns for exploration and production companies.
26. Please explain Section III-6 pertaining to delivery of gas. Does the cost comparison in Exhibit 1.2 include gas transportation charges.
27. Section III-7(a) and V-10 pertain to prudent judgment in determining the desirability and necessity of development gas drilling as well as the timing and methods. Please explain who will, and by what method, evaluate the prudence of decisions and actual costs incurred under the proposed agreement. By what process can parties other than those signing the proposed agreement challenge prudence?
28. Section IV-1 deals with property acquisition. Is it Wexpro's intent to acquire properties in basins in which they do not already operate?
29. Please explain why risk premiums were included in the Wexpro I Agreement and why they continue to be relevant within the proposed agreement in light of advancements in exploration and production technologies.
30. Referring to Section IV-9(c), when was the last time the Distrigas formula was formally reviewed by the Division and approved by the Commission?
31. Only certain documents relating to the proposed agreement are filed with the Commission. Since the proposed agreement calls for the Commission to approve acquisitions, please explain the rationale of not submitting copies of all reports with the Commission.
32. Please explain whether the proposed agreement contains record-keeping requirements.

<u>Public Policy Considerations</u>

33. Are there anti-competitive concerns the proposed agreement could raise?
34. Preferential Treatment: Did Questar approach the market or issue a Request for Information/Request for Proposal to determine if other companies would be interested in proposing an agreement for long term gas supply? Please explain how the proposed agreement complies with Utah Code 54-3-8 pertaining to Preferences Forbidden. Could the proposed agreement be construed as an affiliate preference?
35. Please discuss what factors are necessary for determining whether or not a gas contract is in the public interest.
36. The Commission has authority to supervise utilities. Please discuss whether the Commission's approving individual properties to be included under the proposed agreement tends in the direction of actual management of the gas utility. For example, the Commission has approved contracts associated with the acquisition of significant energy resources, but the Commission does not supervise the execution of the contract. That is the responsibility of the utility and prudence is determined in a regulatory proceeding . Please discuss why this situation is different.
37. Please discuss how the "Used and Useful" concept would apply to the acquisition and compensation for properties which have been acquired under the proposed agreement but are not producing natural gas.

38. Participants in various Commission proceedings have expressed opinions that a utility should not be hedged by more than a certain percentage. As presented in Questar's IRP information provided to the Commission, Wexpro gas constitutes approximately 50% of the Company's portfolio. What portion of the Questar Gas Company's entire portfolio is hedged more than 1 year out.
39. If the purpose of the proposed agreement is to provide a long term hedge, please discuss whether this application sets a precedent for the Commission to approve specific elements of other hedging programs.
40. From the proposed agreement, it appears Questar Corporation desires to operate as a vertically integrated utility with guaranteed rates of return but with no commensurate oversight and regulation for its drilling and production activities. Also, it appears Questar Gas Company has very little regulatory responsibility or monitoring accountability under the proposed agreement. Please discuss whether or not this should be reflected in Questar's rate of return.
41. Please discuss the applicability of Utah Code 54-17-401 Voluntary Request for Resource Decision with respect to filings associated with property acquisition.

<u>Operational Considerations/Misc. Items</u>

42. By whom will the gas be gathered for wells under the proposed agreement?
43. Questar has provided information in the past pertaining to shutting in existing wells. Please discuss whether gas production under the proposed agreement could result in shutting in existing wells and whether this could result in increased costs for Wexpro I wells.
44. Under the proposed agreement, the Hydrocarbon Monitor files an independent review of the assumptions, data, and analysis for properties proposed to be included under Wexpro II but will not provide a recommendation. If the Hydrocarbon Monitor will not be required to make any recommendations, what value does the Hydrocarbon Monitor bring to parties in assessing properties to be brought before the Commission? In addition, the proposed agreement states "Any monitor selected will be professionally trained and qualified, and will be nationally recognized as a reputable and independent expert in the subject matter of the function monitored." Do the current Hydrocarbon Monitor's qualifications include being nationally recognized as an independent expert in the evaluation of oil and gas exploration and production plans and proposals in all of the different basins within which Wexpro might acquire properties?
45. Who has the expertise in the Division to evaluate properties? If this expertise does not exist, how will the Division complete this work?
46. Would properties offered by QEP be considered under the proposed agreement? Could this pose a conflict of interest because some board members for QEP are on Questar Corporation's board?
47. Exhibit 1.2 of the application shows cost-of-service gas prices beginning to increase in about 2002, leveling off in 2007, and then increasing again in 2009. Please explain the details of what is driving the increases in cost-of-service gas. In addition, in Exhibit 1.2 it appears that a significant downturn in market prices is also reflected in a downturn in cost-of-service prices. This is not the case in years 2007, 2009, and 2011. Please explain why.
48. Please provide a range of current ROEs for exploration and production companies and identify the companies having the highest and lowest ROEs.