



PUBLIC MEETING

Utah Committee of Consumer Services

September 20, 2012



Welcome & Business



Updates



Case Updates

- Questar passthrough & other dockets
 - Net small rate decrease (estimated \$4.43 for average res. customer)
 - Low income heating season credit set at \$41 (last year \$52)
- ETC Lifeline dockets
 - Cricket settlement filed
 - Budget settlement under discussion
 - Other requests continue
 - Ongoing policy docket
 - Discussions moving forward regarding certification and verification
 - Many other elements still need addressing
- Dex One
 - Printed white pages no longer distributed, available on request



Case Updates, Pt. 2

- RMP Rate Case
 - Order issued approving settlement stipulation
- EBA Case
 - Order issued denying interim rates
 - Schedule set for annual review of filing
- IRP
 - Public meetings ongoing
- Solar Incentive Program
 - RMP filed program consistent with agreement
 - Several parties filed supportive testimony, no opposition



Policy Updates

- Energy Code
- Telecom Taxes and Fees



Recent Filings

- Voluntary Approval Request of a Significant Energy Resource
 - Environmental Upgrades for Bridger 3 & 4
 - First time process used
 - Another filing using same process expected soon
- Wexpro II
 - Will be addressed later on agenda
- Request for Certificate of Public Convenience and Necessity
 - Transmission line from Sigurd to Red Butte



Manti Telephone Company



Background

- Manti Telephone Company serves:
 - Manti
 - Sterling
 - Ephraim
 - Surrounding Area
- General Rate Case has been ongoing since 2008



General Rate Case – Part 1

- April 2008, Manti requested an additional \$3.4 M annually from the Utah USF
 - By statute, 240 days for a general rate case
 - September 2008, Manti filed voluntary waiver of the 240 days “due to certain unresolved accounting and other issues”
- December 2008, hearing to adopt a stipulation between Manti and the Division
 - Included partial determination of assets and depreciation
 - Manti agreed to clean up its books
 - Manti granted \$900,000 USF per year – enough to resolve Manti’s assertion that a loan used to purchase the Ephraim exchange was at risk of default



General Rate Case – Part 2

- August 2010, Manti filed an amended application indicating its books are in order and requesting additional USF (both retroactive and prospective)
- January 2011, stipulation between Division and Company:
 - This stipulation represented a compromise position
 - Reduced USF from \$900,000 to \$500,000 per year
 - True-up provision
 - Office filed supporting this stipulation stating that it was a reasonable outcome to a difficult situation



General Rate Case – Part 3

- April 2012, Manti filed another amended application requesting an additional \$2.9 M state USF per year
- The Office is participating fully in this case
 - Large, continued request of state USF funds
 - Office is increasingly concerned about proper use of state USF
 - Revenue Requirement experts from recent RFP
 - Initial analysis indicates many concerns
- Case milestones:
 - Manti files testimony tomorrow
 - Intervenor Direct testimony: October 18
 - Hearing: November 14, 15



Overview of Issues

- Allocation of costs between regulated phone business and unregulated subsidiaries and/or related companies
- Accounting issues
- Pay raises
- Unrealistic increase in assets
- Cost of debt
- Many others



Discussion: State USF Policy Objective



State USF Overview

- Current uses
 - Full revenue requirement for rural telecom carriers (statute indicate use is “to defray the costs”)
 - Landline lifeline support
- Pressures on the fund
 - FCC high cost support is being reduced over time. Carriers may seek state USF funds to make up the difference.
 - Potential also for wireless ETC Lifeline providers to request state USF as federal allowances decrease. (Currently only landline providers.)
 - Loss of landline customers equates to fewer contributors to the fund.



Objective

- Develop a clear policy statement for the Office regarding the ongoing and proper use of state USF.
- Current practice: Evaluate each application and potential use of USF individually for prudence (i.e. proper accounting, rate treatment, policies that are in the interest of residential and small commercial customers)



Questions/Issues for consideration

- Is USF contribution to reach full revenue requirement for rural telecom carriers still appropriate?
- What components of the telecom carriers' business should be included in determining the appropriate USF contribution?
 - Amount of return the company is earning?
 - Consideration of only carrier income or also subsidiaries?
 - Use of actual or hypothetical capital structure?
 - How should number of lost landlines be considered? What about lines lost to subsidiaries?
 - Should subsidies be capped or should USF collection amount be increased?
 - Should USF fees be collected on VOIP service?
 - Should USF be used for broadband?
 - How can we ensure that USF funds are being appropriately used by carriers?



Discussion



Wexpro II Agreement



Wexpro: Introduction

- Questar Gas Company is a gas distribution company with one unique attribute – it also owns physical gas supplies
- Questar Corporation has three subsidiaries:
 - Questar Gas Company
 - Questar Pipeline
 - Wexpro
- Wexpro is the subsidiary that develops the physical gas. These supplies are often referred to as:
 - Company-owned or Ratepayer-owned (in contrast to market)
 - Cost of Service
- Today we will give a brief history of the Wexpro Agreement that led to the current, unique circumstances and an overview of a recently filed Wexpro II Agreement



Wexpro Agreement: History

- Since before 1930, the Company had been exploring for and producing natural gas and oil – financed by ratepayers
- In 1977, the Company transferred these properties to a new subsidiary without compensation to ratepayers
 - Office (then Committee) and Division objected, Commission approved
 - Appealed to Utah Supreme Court, remanded back to Commission to consider ratepayer interests
- Company stopped all exploration and development
- Several other contentious regulatory and legal cases



Wexpro Agreement: History Pt 2

- After four contentious years, the parties agreed to the Wexpro Agreement and a Settlement Stipulation resolving all pending cases
 - Recognized the obligation to compensate ratepayers for their investment in the properties that had been conveyed to Wexpro
 - Included \$21 M to ratepayers
 - Included significant reduction to rate base
 - Identified specific properties that would be governed by agreement
 - Specified cost of service calculation including Wexpro's return
 - Clearly identified that the agreement would not be repeated and would not apply to any circumstance or property beyond those specifically identified
- Agreement upheld by Utah Supreme Court



Overview of Wexpro Agreement

- Wexpro is often used as term to refer to the Cost of Service gas, actually governs more:
 - Accounting formula for natural gas reserves, liquids from natural gas wells, productive oil reserves
 - Royalty, marginal tax rate, operator service fee calculations
 - Rate of return index including a listing of comparable companies
 - Specific list of all properties: producing leaseholds, yet-to-be-developed leaseholds, wells in which the Company has royalty interest, properties that are not subject to the agreement
- Wexpro Oversight
 - Questar oversees the management of the gas
 - Accounting and Hydrocarbon monitor oversee Wexpro operations
 - Wexpro is not regulated: Parties can influence the management through Questar's IRP process, costs are included in the passthrough dockets



How Cost of Service Gas Impacts Rates

- For the past thirty years, 30 – 60% of natural gas supplies for Questar Gas Company customers have come from Wexpro output
 - These supplies are priced at a cost of service formula, not market prices
 - Often the cost of service gas has been lower cost than market
 - Over time, having cost of service gas has been a significant contributor to keeping Utah natural gas rates as some of the lowest in the country
- Currently, very low natural gas market costs create challenges for using the cost of service gas
 - Cost of service gas is currently more expensive than market
 - Questar manages production – some wells are shut in, others can't be



Wexpro II History

- Questar Corporation has discussed with the investment community the idea of expanding Wexpro (since split with Questar E&P)
 - Office interested in exploring idea
 - Office has raised issues in the past regarding potential expansion of cost of service gas
- Fall 2011 Technical Conference convened by the Commission and noticed publically
 - Discussion continued in IRP docket
- The Office also met with Questar, Wexpro, the Division, the Hydrocarbon Monitor, and the WY OCA (separately and together) to discuss:
 - Basic principles of a potential new proposal to expand cost of service gas
 - Specific Office concerns and potential resolution of those concerns
- Questar, Wexpro, the Division, and the WY OCA came to agreement, signed and filed for approval at the Utah and Wyoming Commission



Initial Reaction of Office

- A proposal to expand access to cost-of-service gas, if structured well, could provide long-term benefits for Questar's customers
- The Office cannot support the Wexpro II agreement in its current form
- The Office also believes it would not have been appropriate to sign any agreement prior to filing with Commission
 - Prefer issues to be addressed in a public process
- Next Steps: currently unclear how the process will go forward



Preview: New OCS Website



Upcoming Workload



Anticipated Workload 2013

- General Rate Cases
 - RMP not until Jan 2014
 - Questar: Spring 2013
 - Telecom: ???
- Other Large Filings
 - Pt 4 SERD: Bridger
 - Pt 4 SERD: LT contracts
 - CPCN Sigurd-Red Butte
 - Wexpro II
- Contract Review
 - Kenecott
 - US Mag
 - Blue Mt. Wind
 - Misc QF
- ETC Lifeline
 - On-going policy docket
 - 3 current requests
 - Other requests anticipated
- Misc. Regulatory
 - PacifiCorp Depreciation Case (RFP for expert)
 - PacifiCorp RFP for 2016 resource
 - IRP filed March 2013
- On-going Work
 - IRP Public Meetings
 - DSM
 - Transmission planning
 - USF Reform
 - MSP



Other Business



Adjourn
