- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

APPLICATION OF QUESTAR GAS COMPANY TO ADJUST RATES FOR NATURAL GAS SERVICE IN UTAH	)))	Docket No. 01-057- APPLICATION

Questar Gas Company (Questar Gas or the Company) respectfully submits for Utah Public Service Commission (Commission) approval this application for an adjustment to the commodity and supplier non-gas cost portions of its Utah natural gas rates pursuant to Utah Code Ann. §§ 54-4-1 and 54-7-12(2).

This passthrough application reflects Utah gas costs of $321,711,555. The proposed adjustments are a $55,385,000 decrease in the commodity portion, a $11,848,000 decrease in the supplier non-gas portion and the transfer of GRI costs as stipulated to and as authorized in the 99-057-20 case, from the SNG and commodity portion of rates to the distribution non-gas portion of rates. The net effect of these adjustments will be a $66,947,000 decrease in revenues.

This decrease is primarily the result of a reduction in the 191 Account amortization of $0.51901/Dth and a decrease in the cost of purchased gas.

If the Commission grants this application, the typical residential customer using 115 decatherms per year will see a decrease in the annual bill of $86.00 (or 11.21%). The Company proposes to implement this request by charging the new rates effective January 1, 2002.

In support of this application, Questar Gas states:

1. Questar Gas' Operations. Questar Gas, a Utah corporation, is a public utility engaged in the distribution of natural gas primarily to customers in the states of Utah and Wyoming. Its Utah public utility activities are regulated by the Commission, and its present rates, charges, and general conditions for natural gas service in Utah are set forth in Questar Gas' PSC Utah Tariff No. 300. Copies of the Company's Articles of Incorporation are on file with the Commission. In addition, the Company serves customers in the Preston, Idaho area. Under the terms of agreement between the Commission and the Idaho Public Utilities Commission, the rates for these customers are determined by the Utah Commission. Volumes for these Idaho customers have been included in the Utah volumes.

2. Applicable Statutes. The Commission may grant relief requested in this case pursuant to §§ 54-4-1 and 54-7-12(2).

3. Tariff Provision. The Commission has authorized Questar Gas to implement Account No. 191 of the Uniform System of Accounts to balance its gas costs with revenues. This filing is made under §2.10 of Questar Gas' PSC Utah Tariff No. 300, Sheet Nos. 16 and 17, which sets forth procedures for recovering gas costs shown in Account No. 191 by means of periodic and special adjustments to rates and an annual amortization of the year-end balance in that account.

4. Test-Year. The test-year for this application is based on expected sales, purchases, transportation, gathering, storage and royalties for the 12 months ending December 31, 2002.

5. Cost of Questar Gas Production. Exhibit 1.1 shows the expected test-year costs for gas produced for Questar Gas by Wexpro Company (Wexpro) under Articles II and III of the Wexpro Agreement. System-wide, total costs for Questar Gas' production are expected to be $111,742,736, as shown in Exhibit 1.1, page 19. These costs are composed of the following elements:

(a) Royalty Payments. During the test-year, Questar Gas will make system-wide royalty payments of $18,352,352 on the Company gas produced by Wexpro. These royalty payments are based on IRP volumes for the 12-month period ending December 2002 and the DRI-WEFA November 2001 price forecast for the test period.

(b) Operator Service Fee. Questar Gas is obligated to pay Wexpro an operator service fee for operating Questar Gas wells. The operator service fee for gas produced from productive gas wells for Questar Gas by Wexpro and the costs of gas purchased from Wexpro oil wells is expected to be $93,390,384 system-wide during the test-year.

6. Purchased Gas Costs. Questar Gas' total purchased gas costs are calculated to total $156,149,736 as shown in Exhibit 1.2, line 6. For this test year, gas purchase costs are projected to average $2.94301/Dth. These costs are based on projected gas purchase volumes, existing contract terms including price stability costs, and the DRI-WEFA November 2001 price forecast for the test year. These costs are comprised of the following elements:

(a) Questar Gas currently expects to purchase 20,259,670 Dths under existing contracts at a total cost of $65,504,775 shown in Exhibit 1.2, line 3. About ½ of the purchased gas for the October 2001 to March 2002 period will remain priced at first-of-month index price along with all of the gas purchased for the April 2002 to September 2002 period. The Company has entered into fixed price contracts for about 1/4 of the gas purchased for the October 2001 to March 2002 period. In addition, the Company has entered into purchase contracts with a price cap for about 1/4 of the gas purchased in the October 2001 to March 2002 period. Included in these costs, in accordance with the Stipulation the Commission approved in Docket Nos. 00-057-08 and 00-057-10, are actual costs of $916,630 associated with stabilization practices in the upcoming test year. These stabilization costs represent the cost of securing gas supply contracts with price caps.

(b) In addition to current contracts, Questar Gas anticipates buying 16,159,197 Dths on the spot market at a total estimated cost of $40,539,407. (Exhibit 1.2, line 4)

(c) Also, to fulfill total purchased gas requirements of 53,057,772 Dths, Questar Gas expects to contract for an additional 16,638,905 Dths at a total estimated cost of $50,105,554 as shown on Exhibit 1.2, line 5.

7. Transportation and Gathering Charges. Questar Gas incurs system-wide charges for transportation and gathering services for delivery of gas to its system. These costs are calculated to be $57,846,703, as shown in Exhibit 1.3, page 1, line 23. The transportation (as well as storage) costs are based on upstream pipeline's rates. These costs are comprised of the following elements:

(a) Kern River and QPC T-1 Demand Rate. Annual transportation demand charges to transport produced and purchased gas are calculated to be $54,132,990 system-wide which includes projected capacity release credits of $3,735,585. (Exhibit 1.3, page 1, lines 6 and 10)

(b) Kern River and QPC Commodity Rate. The transportation volumes in this case reflect the level of Company-owned production and purchased contract gas transported during the test period. Transportation commodity charges are calculated to be $1,483,418. (Exhibit 1.3, page 1, line 20)

(c) GRI Costs. As explained in Docket No. 99-057-20, GRI R&D costs collected through upstream pipeline rates are declining because the FERC-approved pipeline GRI charge is scheduled "to be phased down to a voluntary program by year end 2004". Questar Gas values the benefit of basic R&D to our customers in that such research continues to improve the efficiencies of natural gas equipment and finds and develops more efficient and safe operating methods for gas distribution utilities. In the Order in Docket No. 99-057-20, pages 64 and 65, the Commission approved the Joint Stipulation on Revenue Requirement between the DPU, CCS, and the Company that agreed to move the annual decrease in FERC-approved GRI rates from the commodity component to the DNG component of rates. By 2005 this will result in all of the current level of R&D cost being collected in the non-gas portion of Questar Gas' rates.

Effective January 1, 2002, the demand component of GRI charges in pipeline rates will drop $0.0143/Dth and the commodity component will decline by $0.0015/Dth. On an annual basis, this represents a decline of $297,607 system-wide. Questar Gas will maintain the current level of R&D funding by increasing the DNG component of rates by the amount that the gas component of rates decreased. This results in shifting approximately $0.00305/Dth to the DNG component of rates for each rate class.

(d) <u>Gathering</u>. Questar Gas uses expected production and gathering volumes for the test period to compute gathering charges. The recovery of the majority of gathering costs under the system-wide agreement with Questar Gas Management (QGM) was moved from the gas cost portion of rates to the distribution non-gas cost portion of rates as provided for in the stipulation and Commission orders in Docket Nos. 95-057-30, 96-057-12, and 97-057-11. This change was made in the Questar Gas notice of tariff change dated June 7, 1999 and effective June 1, 1999. The remaining portion of gathering and other transportation costs are still included in the gas cost portion of rates. For the test-year these costs are calculated to be $2,230,294 system-wide. (Exhibit 1.3, page 1, lines 21-22)

8. <u>Storage Gas Charges</u>. Questar Gas also incurs system-wide storage and working gas charges for gas to be delivered during the winter heating season. These costs are $18,143,910 as shown in Exhibit 1.3, page 2, line 30. The components of these costs are the following:

(a) <u>Storage Demand</u>. The demand component of storage is calculated to be $14,025,058. (Exhibit 1.3, page 2, line 7)

(b) Storage Commodity. The charges during the test-year for injections to and withdrawals from peaking and Clay Basin storage fields are calculated to be $483,703. (Exhibit 1.3, page 2, line 13)

(c) Working Storage Gas. Working storage gas cost for the most recent 13 months is $3,635,149. (Exhibit 1.3, page 2, line 29)

9. Summary of Questar Gas-Related Gas Costs. Exhibit 1.4, page 1, shows Questar Gas' gas costs by component and page 2 reflects the annualized unit cost of storage gas as well as the withdrawal and injection adjustment. Exhibit 1.4, page 3, shows other revenues which are treated as direct credits to gas costs, as required by the Commission in PSCU Docket No. 80-057-10. Other revenues of $11,524,897 are the actual amounts for the most recent 12 months. Exhibit 1.5 allocates system costs to Utah and Wyoming jurisdictions on the basis of either peak day demand or commodity sales. The result of these allocations is $321,711,555 in gas costs for Utah. (Exhibit 1.5, line 13)

10. Unit Gas Commodity Cost in Rates. Exhibit 1.6, page 1, shows the derivation of gas commodity unit costs to be reflected in Questar Gas' Utah rate schedules, excluding supplier non-gas costs. Total Utah estimated test-year costs to be collected through the Account No. 191 procedures are $321,711,555 which is then adjusted by F-3, I-2, I-4, IS-2, and IS-4 commodity credits for a total of $302,009,517. (Exhibit 1.6, page 1, line 5) The portion of expected test-year gas costs to be recovered on a commodity basis is $232,804,672. (Exhibit 1.6, page 1, line 10.) The corresponding unit cost of gas applicable to Utah rates is $2.61948/Dth. (Exhibit 1.6, page 1, line 11.)

11. Amortization of Account No. 191 Balance. Currently included in Questar Gas' gas cost rate is a commodity amortization debit of $0.57973/Dth approved by the Commission in Docket No. 01-057-10. Questar Gas proposes to adjust the amortization to reflect the forecasted December 2001 191 Account balance, which includes the CO_2 processing described below, which results in a $0.06072/Dth debit to rates. (Exhibit 1.6, page 1, line 12.) The treatment of the supplier non-gas cost portion of Account No. 191 is also described in paragraph 13.

(a) CO_2 Processing Costs. On November 25, 1998, in its application in Docket No. 98-057-12, QGC sought passthrough recovery of CO_2 processing costs. In its December 3, 1999, Report and Order, the Commission denied passthrough recovery of these processing costs, and deferred ratemaking consideration of such costs until QGC's next general rate case. In response to QGC's appeal of this order, and in its October 23, 2001 Opinion, the Utah Supreme Court determined that QGC was not precluded from passthrough recovery of these CO_2 processing costs, and that the 191 Account procedure was a legal and proper mechanism for recovery of such costs. On August 11, 2000, the Commission issued its Report and Order in the General Rate Case, Docket No. 99-057-20, accepting the DPU's and company's joint stipulation on CO_2 processing which allowed in rates $5 million in annual processing costs. Therefore, this Commission is left to determine what should be recovered in rates for processing costs incurred between June 1999 and August 10, 2000.

Rather than seek recovery of $7.7 million, which were the actual processing costs incurred from June 1999 through August 10, 2001, QGC seeks recovery of only $5.8 million ($5,349,509 CO_2 processing cost plus interest of $414,546) in this passthrough application. This lower amount is consistent with and is based on the above mentioned CO_2 Stipulation. Questar Gas has included these processing costs in its estimated year-end 191 Account balance. This will result in the recovery of these costs as the 191 Account balance is amortized in 2002. QGC requests recovery of CO_2 costs on an interim basis, along with other passthrough costs included in this Application. To facilitate consideration of this issue, QGC is filing, contemporaneously with the passthrough application, a Motion to Consolidate Docket No. 98-057-12 with this passthrough docket.

12. Net Unit Commodity Cost. The net result of the changes in gas costs summarized in paragraph 10 and the Account No. 191 amortization discussed in paragraph 11 yields a unit commodity cost of $2.68020/Dth for firm customers, a decrease of $0.61969/Dth. (Exhibit 1.6, page 1, line 13).

13. Supplier Non-Gas Costs. Since mid-1984, Questar Gas' rate structure has incorporated a supplier non-gas component that reflects Questar Pipeline's and other suppliers' non-gas cost billings to Questar Gas. Questar Gas has been tracking this supplier non-gas component of its Account No. 191 pursuant to the terms of its tariff. The test-year supplier non-gas costs of $69,204,845 (Exhibit 1.6, page 2, line 1) are adjusted by adding $3,641,597 which is the debit (under-collected) balance in the forecasted year-end 2001 supplier non-gas portion of Account No. 191. The result is a total of $72,846,442 of supplier non-gas costs. Current rates are estimated to recover $84,694,868 in supplier non-gas

costs. (Exhibit 1.6, page 2, line 4). Questar Gas therefore proposes applying a uniform percentage decrease of about 14.14% to the supplier non-gas cost component of firm sales rates. (Exhibit 1.6, page 2, line 7.)

14. Change in Typical Customer's Bill. The annualized consolidated change in rates proposed in this application is a 11.21% decrease, or a decrease of $86.00 per year for the typical Utah GS-1 residential customer using 115 decatherms per year. The month-by-month changes in rates are shown in Exhibit 1.7.

15. Proposed Rate Schedules. Questar Gas' proposed Utah rate schedules reflect the combination of the following two changes.

(a) Change In Commodity and Supplier Non-Gas Costs. Exhibit 1.8 presents the changes to the Utah rate schedules resulting from the changes in commodity costs and supplier non-gas costs allocable to Utah customers including the transfer of GRI costs from the SNG and Commodity portion of rates to the DNG portion.

(b) Bad Debt Related To Gas Costs. As a result of rapidly increasing gas costs in the latter part of 2000, Questar Gas was granted two consecutive pass-through increases. The typical customer's annual bill increased from $624.42 before October 1, 2000 to $905.02 on January 1, 2001, an increase of 45%. These rates remained in effect through October 1, 2001. As a result, the Company has experienced a dramatic increase in uncollectible accounts in 2001. The charge-off expenses experienced by the Company during 2001 are expected to exceed $6 million. By comparison, past charge-offs were $1.5 million in 1997, $2.5 million in 1998 and 1999, and $2.8 in 2000.

All bad debt costs have historically been included in the non-gas portion of rates. During periods of relatively stable rates, this process has worked adequately. However, the large increase in the gas cost portion of rates last year illustrated the weakness in this accounting practice. The significant rise in bad debts can be directly attributed to the increase in gas costs. Including all bad debt costs in DNG rates has created a mismatch. A more correct accounting methodology would be to record an allowance for the gas cost portion of bad debts as a reduction in the commodity revenues included in the 191 account balance.

In Questar Gas' last general rate case, Docket No. 99-057-20, $2,161,105 of bad debt expenses were included in the cost of service approved by the Commission. Of this amount, about 60%, or $1,304,000, was related to the SNG and Commodity portion of rates. This equates to $0.01415 per Dth. Questar Gas proposes, for all Utah sales rate schedules, to 1) decrease DNG rates by $0.01415; 2) increase the SNG rates by $0.00360; and 3) increase the Commodity rates by $0.01055. In addition, the Company proposes to include an allowance for bad debt, on a prospective basis, with the revenues recorded in the 191 account. On a prospective basis a more correct accounting methodology will be used. The immediate impact to customers will be a net change of zero in rates as shown in Exhibit 1.10. Although the components of the rates change from those presented in Exhibit 1.8, the total rate in each schedule, for each block, remains the same.

16. Effect on Earnings. Because the rate sought in this application is a pass-through of the direct costs of gas that Questar Gas obtains for its customers, there will be no change in the Company's net profits or rate of return except for the one time recovery of CO_2 processing costs and the return on working storage gas which was approved by the Commission when it adopted Stipulation No. 3 in Docket No. 93-057-01.

17. Exhibits. Questar Gas submits the following exhibits in support of its request for an adjustment to its rates for natural gas service in Utah:

Exhibit 1.1	Test-Year Cost of Questar Gas' Production
Exhibit 1.2	Test-Year Purchased Gas Cost
Exhibit 1.3	Test-Year Transportation, Gathering, and Storage Charges
Exhibit 1.4	Summary of Test-Year Questar Gas Costs and Other Revenues Credits
Exhibit 1.5	Test-Year Gas Cost Allocation
Exhibit 1.6	Test-Year Gas-Cost Change
Exhibit 1.7	Effect on Typical GS-1 Customer
Exhibit 1.8	Proposed Statement of Rates
Exhibit 1.9	Questar Pipeline FERC Tariff Schedules
Exhibit 1.10	Proposed Statement of Rates After Bad Debt Transfer

WHEREFORE, Questar Gas respectfully requests that the Commission, in accordance with Utah statutes and the rules and established procedures of the Commission:

1. Enter a final order authorizing Questar Gas to implement rates and charges applicable to its Utah natural gas service that reflect annualized gas costs of $321,711,555, as more fully set out in this application;

2. Authorize Questar Gas to recover past CO_2 processing costs consistent with the Utah Supreme Court remand of Docket No. 98-057-12 and as described in this application;

3. Authorize Questar Gas to record, on a going forward basis, an allowance for the commodity and SNG portions of uncollectible accounts in the 191 Account, and

4. Authorize Questar Gas to implement its adjusted rates effective January 1, 2002;

DATED this 14th day of December 2001.

Respectfully submitted,

QUESTAR GAS COMPANY

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STATE OF UTAH)
:
COUNTY OF SALT LAKE)

Alan K. Allred, being first duly sworn upon oath, deposes and states: He is the Vice President, Business Development, Questar Regulated Services; he has read the foregoing application; and the statements made in the application are true to the best of his knowledge and belief.

Alan K. Allred

Subscribed and sworn to before me this 14th day of December 2001.

Notary Public
Residing in Salt Lake City, Utah

APPLICATION OF QUESTAR	)	Docket No.
GAS COMPANY TO ADJUST	)	01-057-
RATES FOR NATURAL GAS	)	
SERVICE IN UTAH	)	APPLICATION

All communications with respect to
these documents should be served upon:

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Draft #1 12/6/01 JEK
Draft #2 12/11/01 BLM, JMD & AKA
Draft #3 12/11/01 JEK, JMD & AKA
Draft #4 12/12/01 BLM & JMD
Draft #5 12/13/01 GLR, BLM & AKA
Draft #6 12/14/01 BLM, JMD & AKA

APPLICATION
AND
EXHIBITS
December 14, 2001

QUESTAR GAS COMPANY
180 East First South
P. O. Box 45360
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PROPOSED RATE SCHEDULES

P.S.C. Utah No. 300
Affecting All Sales Rate Schedules
and Classes of Service in
Questar Gas Company's
Utah Service Area

Date Issued: December 14, 2001
To Become Effective: January 1, 2002

QUESTAR GAS COMPANY

By
Alan K. Allred
Vice President, Business Development
Questar Regulated Services Company