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Date Submitted: May 3, 2002

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF	)	
THE APPLICATION OF	)	DOCKET NO. 02-057-02
QUESTAR GAS COMPANY	)	
FOR AN INCREASE IN	)	**APPLICATION**
RATES AND CHARGES	)	

Pursuant to Utah Code Ann. § 54-7-12 (2000) and Utah Admin. Code § R746-100-1 *et seq.* (2002), Questar Gas Company (QGC or the Company) respectfully applies for an order authorizing a general increase in its rates and charges for natural gas service rendered in Utah in the annualized amount of $23,017,000. This revenue deficiency reflects the effects of the increased costs of supplying utility service in Utah that are not covered under currently authorized rates. The combination of a steadily increasing number of customers, the associated new plant required to serve them, the continued decline in usage per customer and other rising costs have resulted in rates that are no longer just and reasonable under Utah law.

I. Preliminary Matters

A. *Questar Gas Company's Operations*.

QGC is a corporation organized and existing under the laws of the State of Utah, with its principal business office located at 180 East First South Street, Salt Lake City, Utah. The Company is engaged in the business of providing natural gas as a local distribution company. QGC distributes natural gas to a large area of Utah and to Franklin County in southeast Idaho subject to the ratemaking jurisdiction of the Utah Public Service Commission (the Commission). The Company's Utah service territory includes the cities of Salt Lake City, Ogden, Provo, Logan, Price, Tooele, Park City, Heber, Roosevelt, Duchesne, Mt. Pleasant, Ephraim, Manti, Gunnison, Richfield, Cedar City, St. George, Vernal, Moab and contiguous communities and rural areas. The Commission regulates the utility operations of QGC in these areas. In addition, the Company distributes gas to communities and rural areas in southwest Wyoming under the jurisdiction of the Wyoming Public Service Commission.

B. *Articles of Incorporation; Tariff.*

A copy of QGC's Articles of Incorporation is on file with the Commission. The Company's present rates, charges, and general conditions for natural gas service in Utah are regulated by the Commission and are set forth in QGC's Tariff PSC Utah No. 300. Rates and tariff provisions proposed by this application will be published as revisions to Tariff PSC Utah No. 300 and will supersede the current rates and tariff provisions.

II. Application for General Increase in Rates and Charges for Natural Gas Service in Utah

A. *Current Rate Structure*.

QGC's current rates are divided into three components: (1) distribution non-gas (DNG) rates, which are general rates related to the costs incurred by the Company in providing service to its retail customers, exclusive of the costs of gas supplies and moving that gas to QGC's system, (2) supplier non-gas (SNG) rates, which reflect the costs of moving the gas from gas fields to the Company's system at various city gates, and (3) commodity costs associated with gas supply, including gas purchases, operator service fees for the production of Company-owned gas supplies, and other gas-supply expenses.

The rate relief requested in this application deals only with the DNG-cost portion of the Company's rates. The SNG rates and commodity rates are considered in separate pass-through proceedings in accordance with the rules and procedures of the Commission. The DNG costs are about 38% of QGC's total rates while SNG and commodity costs make up the remaining 72%.

B *Previous General Rate Proceedings Establishing SNG Rates.*

The Company's current DNG rates reflect the August 11, 2000, order of the Commission in Case No. 99-057-20, as adjusted to remove certain bad-debt expense related to gas costs, as established on an interim basis in Docket No. 01-057-14.[1]

C. *Necessity for Relief*

The Company's present rates and charges authorized by the Commission no longer provide the opportunity to recover the costs of providing natural gas service while earning a reasonable rate of return. They are, therefore, not "just and reasonable" as required by Utah Code Ann. § 54-3-1 (2000), and do not meet the standards enunciated by the United States and Utah Supreme Courts. Relative to annual revenues produced by current rates and without rate relief in this case, QGC will experience an annual deficiency of $23,017,000 beginning in 2003.

Even measured against the equity return authorized in Docket No. 99-057-20,, QGC was experiencing an annualized deficiency of $5.6 million by the end of 2001 and a corresponding return on equity of about 9.8%. This deficiency is continuing to grow and, on the basis of the currently authorized return level, will be about $15.1 million by the end of 2002. Further, on the basis of a 12.6% equity return that is more consistent with current capital markets, the annual deficiency is $23.0 million. Failure to obtain rate relief to eliminate this deficiency will result in inadequate rates of return that will seriously damage the financial integrity of the Company's public utility operations and its ability to provide

[1]Should the Commission fail to approve the interim treatment of gas-cost-related bad-debt expense in Docket No. 01-057-14 on a permanent bases, QGC reserves the right to amend this filing to include in general rates an appropriate level of those expenses.

necessary utility service to Utah natural gas customers. Unless the Company is granted substantial and timely rate relief, current levels of utility service will be jeopardized.

D. *Basis for Determination of Rate Relief.*

QGC has chosen to base its rate request on a future test year that ends on January 1, 2003. This is well within the guidelines set forth in Utah Code Ann. § 54-4-4(c) (2000):

> The commission, in its determination of just and reasonable rates, may consider recent changes in the utility's financial condition or changes reasonably expected, but not speculative, in the utility's revenues, expenses or investments and may adopt an appropriate future test period, not exceeding twelve months from the date of filing, including projections or projections together with a period of actual operations in determining the utility's test year for rate-making purposes.

The Company has used actual information for calendar 2001 as the basis for the future 2002 test year ending on January 1, 2003. The information for 2001 is now available and serves as a benchmark from which to make appropriate adjustments that will provide QGC an opportunity to recover its costs beginning in 2003, including a lawful return on shareholders' equity.

As more fully set forth in the prepared direct testimony that is included with this Application, the procedure used by QGC was to examine all its operations and the associated costs, revenues and plant and to consider and project all the material changes that the Company knows or reasonably expects to occur by January 1, 2003. This has been carried out in as even-handed a manner as possible to include adjustments that reduce the determination of Company's revenue deficiency as well as those that increase it. The Company's Results of Operations Report for 2001 is used as the foundation for the projections of rate base, revenues and expenses that reflect the reasonably expected results of the 2002 test year.

E. *Major Factors Contributing to the Revenue Deficiency*.

1. *Operation and Maintenance Expenses*. Increased productivity and a major early-retirement program instituted in late 2000 have substantially mitigated increases in operation and maintenance costs. However, these results have not been sufficient to offset the negative effects of a continued decline in usage per customer and the major additions to plant necessary to add 18-20,000 customers per year to QGC's system.

2. *Increased Rate Base*. QGC's total rate base will have increased by approximately $120 million since the Company's last general rate case. This has been caused primarily by an increase in the number of Utah customers, necessary system improvements and fixed-asset replacements. Revenues are not increasing fast enough to generate a reasonable, lawful return to shareholders on this steadily increasing investment.

3. *Increased Revenues*. The need for rate relief has been only partially offset by increased revenue from additional customers. Test-year revenues are projected to be only about $8 million higher than rates set in Docket No. 99-057-20 were designed to generate. This is far short of the revenue increase that is currently necessary to counter the major effects of adding new customers and the continued decline in per-customer usage from the level that was used as a rate determinant in the last case.

4. *Deficient Rate of Return*. QGC's currently authorized rate of return is inadequate in today's financial marketplaces. Failure to set an authorized rate of return on equity that

will attract the capital necessary for increased plant investment may have a negative effect on the Company's ability to continue to provide the current level of service to its customers.

To allow QGC to meet its public service obligation to Utah customers, it must be given a reasonable opportunity to earn a rate of return that will be competitive in the capital markets and will adequately compensate equity investors for the risk associated with the investment. As established in the Prepared Direct Testimony of Professor J. Peter Williamson attached to this Application, the Company should be authorized to earn a rate of return on equity capital of approximately 12.6%. This rate is appropriate to maintain the long-term financial integrity of the Company's utility operations and to provide a fair return on shareholders' investment.

F. *Summary of Test-year Deficiency and Rate Impact*.

1. *Test-year Deficiency*. The factors discussed above contribute to a revenue deficiency in the Company's Utah operations, and QGC requires $23,017,000 in additional annual revenues for its Utah operations.

2. *Rate Allocation and Deficiency Assignment*. QGC requests that the various changes in the Company's tariff and the proposed changes in DNG rates be allocated and assessed, as described in the Prepared Direct Testimony and exhibits of Mr. Barrie L. McKay attached to this Application.

3. *Impact.* The effect on the typical GS-1 customer who uses 115 Dth per year will be an increase of about $38.45 per year. This is an increase of about 5.65%.

III. SUPPORTING EVIDENCE

Attached and made a part of this Application in support of QGC’s request for a general increase in its rates and charges is the sworn written testimony of the following five witnesses:

1. Alan K. Allred, QGC Senior Vice President, addresses: the recent rate history of the Company since the last general rate increase in Docket No. 99-057-20; the rationale behind the Company’s proposal that the Commission adopt and approve the use of the 2002 future test year and why it better reflects conditions that will occur during the rate-effective period than a historical test year; the critical need for rate relief in the face of an increasing customer base, the concurrent need for additional plant investment, and the continued decline in per-customer usage; and QGC’s business relationships with its affiliates.

2. QGC’s General Manager, Ronald W. Jibson, reviews the Company’s performance; its efforts to provide quality natural gas service while operating within the revenues produced by the last general rate increase; the reductions in services that have been necessary to do so; various indicators of customer satisfaction; and the need to obtain additional revenues to permit the Company to hire additional personnel and avoid further service cuts.

3. Professor J. Peter Williamson, Emeritus Professor of Finance at the Amos Tuck School of Business Administration, Dartmouth College, discusses his conclusion that the cost of equity for QGC in today’s capital markets is 12.6%, based primarily on a standard discounted cash flow analysis.

4. Gary L. Robinson, QGC Regulatory Affairs Specialist: presents the 2001 Results of Operations Report; discusses the test-year rate base, expenses and the corresponding

adjustments and projections; derives the annual revenue requirement; and determines the annual revenue deficiency.

5. Barrie L. McKay, Director of Regulatory Affairs for QGC, discusses the proposed rate design and tariff changes that are attached as Exhibit QGC 5.9 to this Application.

WHEREFORE, Questar Gas Company respectfully requests that the Commission:

A. Issue an order setting a time and place for a prehearing conference at the earliest practicable date for the purpose of establishing a procedural schedule and giving appropriate notice of such prehearing conference pursuant to its Rules;

B. Schedule a time and place for hearing on this application and giving appropriate notice in accordance with Utah law and the Rules of the Commission;

C. Authorize a general increase in rates and charges applicable to natural gas service in Utah in the annualized amount of $23,017,000, as described in this Application;

D. Authorize the implementation of new rates and tariff as soon as reasonably possible, consistent with Utah Code Ann. § 54-7-12 (2000), but no later than January 1, 2003;

E. Provide for such other and additional relief as the Commission might deem just, reasonable and proper.

RESPECTFULLY SUBMITTED this 3rd day of May 2002.

QUESTAR GAS COMPANY

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QUESTAR CORPORATION

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Attorneys for Questar Gas Company

VERIFICATION

State of Utah)
: ss
County of Salt Lake)

Alan K. Allred, being first duly sworn upon oath, deposes and states: he is Senior Vice President of Questar Gas Company, the Applicant; 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 _____ day of May 2001.

____
Notary Public