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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of QUESTAR GAS COMPANY for an Accounting Order Regarding Treatment of Transmission Line Safety Compliance Costs	: : :	Docket No. 04-057-03 APPLICATION

Questar Gas Company (QGC or the Company) applies to the Utah Public Service Commission (Commission) for a deferred accounting order authorizing the Company to establish an account for costs that the Company will incur in 2004 and in future years in order to remain in compliance with the new federal requirements of the Pipeline Safety Improvement Act of 2002, 49 USC §§ 60101 et. seq. enacted December 17, 2002, (the Act) and the Final Rule regarding "Pipeline Integrity Management in High Consequence Areas (Gas Transmission Pipelines)," 49 CFR Part 192 effective January 14, 2004 (Final Rule). The Act and Final Rule apply to gas transmission pipelines for both interstate pipelines and local distribution companies. In support of this Application, QGC states as follows:

1. The Commission has subject matter jurisdiction over the Application pursuant to Utah Code Ann. § 54-4-23 (2003), which authorizes the Commission to prescribe accounting treatment for costs incurred by any public utility subject to its jurisdiction. The Commission also has general jurisdiction over the accounts and records of QGC pursuant to this provision.

2. QGC is a public utility that provides retail natural gas service in the states of Utah, Wyoming, and Idaho and is subject to the Commission's jurisdiction in all aspects related to this Application.

3. Communication regarding this Application should be directed to:

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4. The new federal requirements under the Act and the Final Rule require gas transmission pipeline operators to perform ongoing assessments of pipeline integrity, to improve data collection, integration, and analysis, to repair and remediate transmission pipelines as necessary and to implement preventative and mitigative actions. The initial pipeline integrity management program framework and subsequent program must, at a minimum, include the following requirements: (a) an identification of all High Consequence Areas (HCA) (areas in part determined by population density, by proximity to schools or hospitals and by numbers of nearby occupied buildings); (b) a baseline assessment plan; (c) an identification of threats to applicable pipeline segments, which must include data integration and a risk assessment; (c) a direct assessment plan; (d) a remediation plan; (e) a process for continual evaluation and

assessment; (f) a preventive and mitigation plan; (g) a performance plan that includes record keeping; (h) a quality assurance process; and (i) a communications plan. Fifty percent of the riskiest lines in HCAs must be assessed by December, 2007. Transmission pipelines in HCAs must be reassessed every 7 years.

5. To comply with the new federal requirements, QGC will incur significant costs for initial program development, staffing, technology, data management, pipeline integrity assessments, remedial repair work, and additional preventive maintenance and mitigative measures.

6. The Company anticipates that there will be shared operating expenses between it and Questar Pipeline. The Company proposes that any shared costs be allocated between it and Questar Pipeline based on number of miles of pipelines in HCAs. QGC's HCA mileage is estimated to range between 400 to 800 miles and Questar Pipeline's HCA mileage is estimated to be approximately 50 miles. Using a midpoint estimate for QGC, the HCA Allocation Factor to QGC is approximately 92%.

7. As a mandated first-time program, the Company does not have sufficient experience nor cost data to accurately forecast the costs required to comply with this program. For example, QGC does not know the extent of remedial work that will be required as a result of the direct assessments and risk rankings. However, the Company estimates that, at least initially, operation and maintenance costs, which include labor and integrity assessments, will range from $2 million to nearly $5 million annually.

8. The Company has depicted the cost estimates and allocations that it anticipates it will incur over the next 10 years on a cost schedule attached as Exhibit A. These costs are summarized as follows:

a) Initial program development: The DOT requires each local distribution company to file a detailed written program outlining its formalized risk analysis with supporting documentation and providing for prioritization of integrity assessment and remedial repair work. These costs, which mainly comprise consulting services, are anticipated to be incurred during the next two years. (See lines 3-6 of Exhibit A). These costs will benefit both QGC and Questar Pipeline and will be allocated between the two companies using the HCA Factor.

b) Staffing: The Company anticipates that a core staff of six full-time equivalent employees (supervisor, two engineers, two field coordinators, one data/records analyst) will be required to implement and manage the new requirements. (See line 8 of Exhibit A). Temporary staffing (line 9) will also be required to manually research integrity data and input population data in the risk model. These costs will be allocated using the HCA Factor.

c) Technology and data management: QGC will need to acquire new hardware and software to comply with the new requirements. This new technology system will allow QGC to determine and analyze HCAs and class locations, gather critical corridor data, and migrate the data to the common repository. The initial cost of this system will be capitalized and the Company is not seeking to defer these costs. However, there will be annual licensing fees associated with the software that the Company is requesting to defer (see line 11 of Exhibit A). These costs will also be allocated using the HCA Factor.

d) Integrity assessments and remedial work: DOT has proposed four acceptable methods for transmission pipeline integrity assessments: (1) internal inspection, commonly referred to as "smart pigging", (2) hydro testing, (3) direct assessment and (4) other equivalent methods. Much of QGC's distribution system is not generally amenable to internal inspections therefore, the most economically feasible method is direct assessment. This method involves

excavation of sections of distribution lines for visual inspection. Under the DOT rules, defects are classified by severity as "intermediate", "scheduled" or "monitored". The Act and Final Rule require that investigations and repairs be performed on a scheduled basis according to their risk rankings. Although the Company cannot precisely predict the extent of remedial work until direct assessments are made, these costs will be expensed in the year they occur and are estimated to range from $1,000,000 to $3,600,000 annually. The costs of remedial work on QGC's system will be directly assigned to QGC. (See lines 13 and 14). This does not include the cost of system replacement that might be required. These System replacement costs will be capitalized as plant in service.

e) Additional preventive maintenance and mitigative measures: The DOT also requires that local distribution companies undertake additional requirements to minimize the potential for, or impact from, a pipeline accident. DOT requires an open-ended examination of automated valves, computerized leak monitoring, replacing pipe with heavier walled pipe as necessary, additional emergency response training, additional inspection and maintenance programs, increased damage prevention, public education, and increased line marking. The costs incurred on QGC's system, as can be seen on lines 16 and 17 of Exhibit A, are estimated to range from $40,000 to $240,000 a year and will be directly assigned to QGC.

9. The Company requests that a regulatory asset be established so that costs incurred as described in this application may be deferred until January 1, 2007 or until the next rate case, whichever is sooner. If the Company does not file a rate case before January 1, 2007, the Company proposes that it begin amortizing these costs from January 1, 2007, over a five year period.

NOW, WHEREFORE, Questar Gas Company respectfully requests an Order from the Commission, effective as of January 1, 2004, and to remain in effect on an ongoing basis, granting Questar Gas Company authority to record, as a regulatory asset, costs incurred as described in this Application. Specifically, QGC requests that the costs directly associated with the Company's compliance with mandates of the Act and Final Rule, be recorded in the Company's books of accounts as follows:

(i) Incremental costs incurred to comply with the Act and Final Rule that would otherwise be recorded as "operating and maintenance expense" will be debited to Account 182.313 – Other Regulatory Assets – Pipeline Integrity. The costs would include expenditures for (a) data management, (b) pipeline assessment, and (c) pipeline repair, maintenance and modification.

(ii) Costs incurred to comply with the Act and Final Rule that qualify as "plant in service" shall continue to be recorded as "plant in service".

(iii) Costs charged to Account 182.313 shall include direct internal labor, labor overhead, tools and work equipment, materials, contractors, consultants, software and other direct costs. No indirect costs will be charged to Account 182.313.

(iv) Costs to comply with the Act and Final Rule that are not directly assignable to Questar Gas and Questar Pipeline will be allocated based on pipeline mileage in each company that are located in HCAs.

Respectfully submitted this ___ day of April, 2004 by:

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