APPLICATION OF QUESTAR	)	
GAS COMPANY TO ADJUST	)	Docket No. 04-057-__
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	8/31/04	JEK
Draft #2	9/1/04	JEK, BLM
Draft #3	9/10/04	JEK, CEG
Draft #4	9/13/04	JEK
Draft #5	9/17/04	BLM
Draft #6	9/17/04	BLM, CLB, AKA

APPLICATION
AND
EXHIBITS
September 17, 2004

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

APPLICATION OF QUESTAR GAS COMPANY TO ADJUST RATES FOR NATURAL GAS SERVICE IN UTAH	)))	Docket No. 04-057-__ 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.

The Company's Tariff No. 400, Section 2.10, provides for pass through applications to be filed "no less frequently than semi-annually." Since the May 5, 2004, pass through filing, purchased gas prices have increased, making it necessary to file this out-of-period pass through increase.

This passthrough application reflects Utah gas costs of $529,212,707. The proposed adjustments are a $71,071,000 increase in the commodity portion, and a $6,141,000 increase in the supplier non-gas portion of rates. The net effect of these adjustments will be a $77,212,000 increase in revenues. This increase is primarily the result of purchased gas prices for the Rocky Mountain region increasing and the need to begin amortizing the under-collected balance in the 191 Account.

If the Commission grants this application, the typical residential customer using 115 decatherms per year will see an increase in the average monthly bill of $7.37 (or 10.40%). The Company proposes to implement this request by charging the new rates effective October 1, 2004.

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 the Company's present rates, charges, and general conditions for natural gas service in Utah are set forth in Questar Gas' PSC Utah Tariff No. 400. 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 Idaho customers are determined by the Utah Commission. Volumes for these customers have been included in the Utah volumes.

2. Applicable Statutes. The Commission may grant relief requested in this case pursuant to Utah Code Ann. § 54-4-1 (2000) and to the extent applicable § 54-7-12 (2004).

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. 400, Pages 2-11 thru 2-17, 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 September 30, 2005.

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 $165,712,174, as shown in Exhibit 1.1, page 20. These costs are composed of the following elements:

(a) Royalty Payments. During the test-year, Questar Gas will make system-wide royalty payments of $43,424,406 on Company-owned gas produced by

Wexpro as shown on Exhibit 1.1, page 20. These royalty payments are based on Integrated Resource Plan (IRP) volumes for the 12-month period ending September 2005 and the Global Insight (formerly DRI-WEFA) August 2004 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 $122,287,768 system-wide as shown on Exhibit 1.1, page 20.

6. Purchased Gas Costs. Questar Gas' total purchased gas costs are calculated to total $312,691,052 as shown in Exhibit 1.2, line 6. For this test-year, purchased gas costs are projected to average $5.45019/Dth. These costs are based on projected gas purchase volumes, existing contract terms, projected contracts and amendments to cap prices for price stability, and Global Insight's August 2004 price forecast for the test year. These costs are comprised of the following elements:

(a) Questar Gas currently expects to purchase 33,102,500 Dths under existing contracts at a total cost of $190,452,637 shown in Exhibit 1.2, line 3. Included in these costs, in accordance with the Stipulation the Commission approved in Docket Nos. 00-057-08 and 00-057-10, is $2,000,000 associated with projected amendments to establish capped prices in the upcoming test year. The Company is considering entering into purchase contracts or contract amendments with a fixed price cap for about ⅓ of the gas purchased in the October 2004 to March 2005 period. The Company is also planning to enter into contracts or amendments to fix prices for about ⅓ to ½ of the gas purchased for the October 2004 to March 2005 period. The remaining ⅓ to ½ of the purchased gas for this period will be priced at first-of-month index prices along with all of the gas purchased for the remaining test period. It should be noted that the Company does not engage in any speculative hedging transactions and limits its price stabilization efforts to contracts or contract amendments that fix or cap prices for gas that is physically committed to the QGC system for delivery to end use retail customers.

(b) In addition to current contracts, Questar Gas anticipates buying 15,212,075 Dths on the spot market at a total estimated cost of $74,602,592. (Exhibit 1.2, line 4)

(c) Also, to fulfill total purchased gas requirements of 57,372,463 Dths, Questar Gas expects to contract for an additional 9,057,888 Dths at a total estimated cost of $47,635,823 as shown on Exhibit 1.2, line 5.

7. Transportation, Gathering and Processing 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 $67,229,974, as shown in Exhibit 1.3, page 1, line 20. The transportation (as well as storage) costs are based on upstream pipelines' rates. These costs are comprised of the following elements:

(a) Questar Pipeline and Kern River Demand Rates. Annual transportation demand charges to transport produced and purchased gas are calculated to be $62,038,955 system-wide. (Exhibit 1.3, page 1, line 9).

Also included is a projected capacity release credit of $1,906,305. (Exhibit 1.3, page 1, line 4)

(b) Questar Pipeline and Kern River Commodity Rates. 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 $1,002,137. (Exhibit 1.3, page 1, line 16)

(c) Other Gathering, Processing and Transportation Charges. 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 Company (QGM) was moved from the gas cost portion of rates to the distribution non-gas cost portion of rates as provided for in

Docket Nos. 95-057-30, 96-057-12, and 97-057-11. Other gathering and processing charges and transportation charges are $2,532,132 and $1,656,750 respectively. (Exhibit 1.3, page 1, lines 17-18)

(d) Costs to manage the heat content of gas. Costs to manage the heat content of gas supplies reaching the Price, Payson, and Indianola city gates are estimated to be $7,500,000 during the test period. With this application and its applications in Docket Nos. 03-057-10, 03-057-14 and 04-057-04, the Company continues to seek recovery of these costs from and after June 1, 2004. The Commission's Order issued August 30, 2004, in Docket Nos. 03-057-05, 01-057-14, 99-057-20 and 98-057-12, denied recovery of CO_2 removal costs during the period from June, 1999, to May, 2004. The Commission has initiated Docket No. 04-057-09 for the purpose of considering a long-term solution to the gas quality issue that prompted the Company to incur the CO_2 removal costs. Pending completion of that docket, the Company seeks by this Application and its applications in Docket Nos. 03-057-10, 03-057-14 and 04-057-04 recovery of its costs to manage the heat content of its gas supplies commencing June 1, 2004. Pursuant to the August 30, 2004 Order, the Company filed revised tariffs on August 31, 2004, removing the interim charge associated with CO_2 removal costs from the commodity cost component of rates for GS-1, GSS, F-1, F-3, F-4, Natural Gas Vehicle, I-2, IS-2, T-1 Firm Transportation Service (FT-2), IT and IT-S rate schedules. However, that Order did not make a ruling on recovery of the costs to manage the heat content of its gas supplies after May 31, 2004. Accordingly, the Company continues its request for recovery of these costs but has not included these costs in the proposed rates.

(e) Summary of Other Costs. For the test-year, other gathering, processing and transportation costs are calculated to be $4,188,882 system wide. (Exhibit 1.3, page 1, line 19.)

8. Storage Gas Charges. Questar Gas also incurs system-wide storage and working gas charges for gas to be delivered during the winter heating season. These

costs are $17,421,890 as shown in Exhibit 1.3, page 2, line 30. The components of these costs are the following:

(a) Storage Demand. 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 storage and Clay Basin storage fields are calculated to be $507,954. (Exhibit 1.3, page 2, line 13)

(c) Working Storage Gas. Working storage gas cost for the most recent 13 months is $2,888,878. (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 that are treated as direct credits to gas costs, as required by the Commission in Docket No. 80-057-10 and as revised in Docket No. 01-057-14. Other revenues of $14,498,056 are the actual amounts for the most recent 12 months as shown in Exhibit 1.4, page 3, line 8. Exhibit 1.5 allocates system-wide costs to Utah and Wyoming jurisdictions on the basis of either peak-day demand or commodity sales as appropriate. The result of these allocations is $529,212,707 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 $529,212,707 which is then adjusted by F-3, I-2, I-4, IS-2, and IS-4 commodity credits for a total of $516,242,419. (Exhibit 1.6, page 1, line 5.) The portion of expected test-year gas costs to be recovered on a commodity basis is $437,965,420. (Exhibit 1.6, page 1, line 10.) The corresponding unit cost of gas applicable to Utah rates is $4.46054/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 credit of $0.01403/Dth approved by the Commission in Docket No. 04-057-04. The August 2004 debit 191 Account balance is $34,362,773. This under-collection needs to be reduced to a manageable level by year-end. Therefore, the Company proposes, just as it did in Docket No. 01-057-07, to amortize the commodity portion of the balance with a $0.28541/Dth debit amortization. In the year-end pass through application, the Company will review the account balance and propose any needed amortization for the coming year. (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.

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 $4.74595/Dth for firm customers, an increase of $0.70766/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. The Company 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 $78,276,999 (Exhibit 1.6, page 2, line 1) are adjusted by adding $6,339,097, which is the debit (under-collected) balance in the actual year-to-date 2004 supplier non-gas portion of Account No. 191. The result is a total of $84,616,096 of supplier non-gas costs. (Exhibit 1.6, page 2, line 3.) Current rates are estimated to recover $78,474,753 in supplier non-gas costs. (Exhibit 1.6, page 2, line 4.) Questar Gas therefore proposes applying a uniform percentage increase of about 7.88% 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 10.40% increase, or, an average monthly

increase of $7.37 per month for a typical Utah GS-1 residential customer using 115 decatherms per year. The projected 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 changes in commodity costs and supplier non-gas costs allocable to Utah customers. (Exhibit 1.8.)

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 return on working storage gas which was approved by the Commission 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

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

1. Enter an order authorizing Questar Gas to implement rates and charges applicable to its Utah natural gas service that reflect annualized gas costs of $529,212,707, as more fully set out in this application in Exhibit 1.8; and

2. Fully adjudicate the matter of Questar Gas' actual costs to manage the heat content of gas from June 1, 2004 forward as requested in this Application and in Dockets 03-057-10, 03-057-14, 04-057-04 and 04-057-09; and

3. Authorize Questar Gas to implement its adjusted rates effective October 1, 2004.

DATED this 17th day of September 2004.

Respectfully submitted,

QUESTAR GAS COMPANY

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Colleen Larkin Bell (5253)
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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 President and Chief Executive Officer of Questar Gas Company; 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 17th day of September 2004.

Notary Public
Residing in Salt Lake City, Utah

QUESTAR GAS COMPANY
180 East First South
P. O. Box 45360
Salt Lake City, Utah 84145-0360

PROPOSED RATE SCHEDULES

P.S.C. Utah No. 400
Affecting All Sales Rate Schedules
and Classes of Service in
Questar Gas Company's
Utah Service Area

Date Issued: September 17, 2004
To Become Effective: October 1, 2004

QUESTAR GAS COMPANY

By ____
Alan K. Allred
President and Chief Executive Officer
Questar Gas Company