BEFORE THE
PUBLIC SERVICE COMMISSION OF UTAH

Application of QUESTAR GAS COMPANY for Recovery of Gas Management Costs in its 191 Gas Cost Balancing Account	Docket Nos. 04-057-04, 04-057-09, 04-057-11, 04-057-13 and 05-057-01

DIRECT TESTIMONY OF

ALAN J. WALKER

FOR

QUESTAR GAS COMPANY

APRIL 15, 2005

QGC Exhibit 4

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Alan J. Walker. My business address is 180 East 100 South, Salt Lake City, Utah.

Q. By whom are you employed and what is your position?

A. I am employed by Questar Gas Company (Questar Gas or the Company) as Manager, Gas Supply. My responsibilities are to oversee the long-term and mid-range planning of natural gas resources to meet requirements of sales customers and to manage the day-to-day operations related to company production, gas acquisition, storage, gathering, transportation, and nominations. I have held this position since February 1999.

Q. Please describe your educational background.

A. I hold a bachelor's degree in applied science and engineering from the United States Military Academy at West Point and an MBA from Rensselear Polytechnic Institute.

Q. What additional experience do you have in the gas industry?

A. During the past 24 years, I have held numerous gas industry positions in engineering, gas supply, regulatory affairs, and marketing. From 1981 through 1985, I was employed as a Petroleum Engineer for Amoco Production Company (Amoco) with responsibilities for production of several of Amoco's natural gas fields in the

Overthrust region. I also attended numerous petroleum production and reservoir engineering courses at Amoco's Technical Training Center in Tulsa, Oklahoma. Since 1985, I have worked as a Senior Gas Supply Engineer for Mountain Fuel Supply Company (Mountain Fuel); Senior Gas Purchase Representative for Questar Pipeline Company (Questar Pipeline); Director of Gas Acquisition and Marketing for Mountain Fuel; and Director of Market Development for Questar Energy Trading Company.

II. PURPOSE

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe and quantify the benefits to Questar Gas' Utah customers that resulted from the discovery, development, and production of the coal bed methane (CBM) gas in the Ferron area. I estimate that Questar Gas has realized direct benefits and savings from avoiding the purchase of replacement gas at higher index prices of approximately $30 million from October 1998 through 2004 and $12 million in 2003 and 2004 alone. I describe and quantify other benefits of having CBM available; including the fact that Mainline 104 would not have been constructed or would have been substantially delayed if the CBM had not been developed. Questar Gas has been able to avoid expensive system reinforcements as a result of Mainline 104 and backhaul arrangements on Kern River Gas Transmission Company (Kern River). In addition, Questar Gas has been able to arrange its purchases of CBM in a manner that allows it to release capacity on Mainline 104,

resulting in a savings of about $2 million during 2003 and 2004. Finally, Questar Gas has been able to take advantage of segmentation options on Kern River to increase savings to customers as a result of having the CBM and Mainline 104 available. I estimate these savings at $3.8 million during 2003 and 2004. I also describe additional benefits fostered by this production, including benefits to the State of Utah directly attributable to this resource.

I will explain that had Questar Gas attempted to keep CBM off of its system through some type of action at the Federal Energy Regulatory Commission (FERC), it is likely that Questar Gas would now be incurring additional costs of $8 to $18 million per year to process Company-owned gas.

In addition, I explain that the lack of no-notice service on Kern River makes the option of precision blending with gas supplies from Kern River as the backup an untenable option. When I requested no-notice service from Kern River, I was told that such service was not available.

In summary, my testimony demonstrates that the actions of Questar Pipeline and Questar Gas with respect to CBM have been prudent and have allowed Questar Gas to realize significant savings, avoid significant costs and receive the benefit of a plentiful and valuable supply of natural gas located close to its market area at competitive prices.

III. GENERAL BACKGROUND ON THE IMPORTANCE AND VALUE OF CBM PRODUCTION

Q. Please provide some comparisons of production in the Questar Pipeline market area to illustrate the significance of the CBM resource.

A. The CBM produced in the Ferron area is an exceptionally valuable resource to Questar Gas and the state of Utah. This production has exceeded 90 billion cubic feet (Bcf) per year for the last four years, or about 250,000 Decatherms per day (Dth/d). In the last ten years, this area has increased gas production by more than 700 percent. CBM produced near Price has a daily production approximately double all the Company-owned production available under the Wexpro Agreement. The annual production is nearly equivalent to the working gas inventory of two Clay Basin storage reservoirs. To make a further comparison, the Ferron area produces enough gas each year to meet Utah's annual requirements. The Energy Information Agency of the United States Department of Energy estimates the Uinta-Piceance area (a broader area than Ferron, but including Ferron) CBM reserves at 1.815 trillion cubic feet (Tcf) (*See* QGC Exhibit 4.1, page 1). At a Questar Gas consumption rate of 105 Bcf per year, this represents a 17-year supply for Utah from these areas alone. CBM is an extremely valuable resource by all measures.

Q. Is CBM production valuable in other parts of North America?

A. Yes. The impact of CBM production throughout North America is very significant. According to the Energy Information Administration, CBM production in the United

States has grown from less than one-half of a billion cubic feet per day (Bcf/d) in 1990 to over 5 Bcf/d in 2003 (*See* QGC Exhibit 4.1, page 2). Without the contribution of CBM to the domestic supply base, the United States would be in a position of having to import significantly greater quantities of energy. According to Wood Mackenzie, a consulting firm widely recognized as a reliable source of information in the natural gas industry, CBM will increase from 8% of the United States lower-48 states production in 2003 to 13% in 2010 (*See* QGC Exhibit 4.1, page 3). They also forecast that in the Rocky Mountain region CBM will increase by 116% from 2004 to 2010, while conventional production declines by 8% during that same time frame (*See* QGC Exhibit 4.1, page 4). The National Petroleum Council shows a similar trend as CBM is forecast to be the most important single source sustaining Canadian production through 2025 (*See* QGC Exhibit 4.1, page 5).

IV. BACKGROUND ON PRICING PRINCIPLES AND GAS PURCHASES BY QUESTAR GAS

Q. Please describe the fundamental pricing principles that apply to Questar Gas' purchases of base-load supply.

A. The price of the majority of the base-load natural gas that the Company purchases is related or tied to the Questar Pipeline first-of-month index published by *Inside FERC*. This index is commonly referred to as the Questar Monthly Index. Base-load gas is a gas supply normally purchased using 90-day to multiple-year agreements. This gas is for firm delivery and is guaranteed to flow. When Questar Gas submits its request for

proposal for base-load gas to its suppliers each spring, the suppliers generally respond with proposals that have prices related to the Questar Monthly Index. For instance, a supply located near Granger, Wyoming, might be offered at the Questar Monthly Index plus five cents per Dth, while a supply located near Rifle, Colorado, might be offered at Questar Monthly Index minus five cents per Dth. These prices are both "index-related," but the premium or discount associated with these particular supplies is different because of the transportation and marketing opportunities available to the producers at different locations.

Q. What producing areas does Questar Gas buy its supplies from?

A. Questar Gas purchases gas in the Overthrust Area, Greater Green River Basin, East fields, the Uinta Basin, the Piceance Basin and the Ferron area. Each of these areas have different marketing characteristics and, therefore, will have different premiums or discounts related to their location.

Q. How much gas does Questar Gas purchase from the Ferron area?

A. The amount of gas Questar Gas purchased from CBM producers in the Ferron area since January 1998 is provided on QGC Exhibit 4.2. It shows that the Company has purchased 64 Bcf during this period. In 2004, the Company purchased 13 Bcf, representing about 21 percent of the Company's total purchased gas and 10 percent of its peak-day demand. This critical source of supply has more than doubled since 2000 and has compensated for production declines in the other areas from which we purchase or produce gas.

Q. Is CBM from the Ferron area an important source of supply for Questar Gas?

A. Yes. This production is strategically less than 70 miles from the Payson gate. It is the nearest significant production to a city gate and has more than made up for production losses in the Uinta and Piceance areas.

Q. Are the CBM supplies that the Company buys in the Ferron area index-related?

A. Yes, currently the Company has three five-year contracts with producers in the Ferron area that are tied to the Questar Monthly Index. These are heating season contracts that require Questar Gas to purchase supplies for three to five months during the November through March period. Because the Company benefits by being required to purchase gas only during heating season months, Questar Gas pays a small premium over the index for this service. This is a competitively priced supply source considering its strategic location and the flexibility Questar Gas has in purchasing the gas only during the heating season.

Q. Does the Company ever buy other than base load gas from the Ferron area?

A. Yes, the Company frequently buys incremental or spot gas from suppliers in the Ferron area. Usually, that incremental or spot gas supply consists of planned, month-long spot purchases priced at the Questar Monthly Index, but occasionally the Company buys fixed-priced gas in the Ferron area.

Q. Does the Company buy daily spot gas?

A. Yes, depending upon demand. During the winter of 2003-04, the Company purchased daily spot gas most of the winter. During the winter of 2004-05, the Company did not buy much daily spot gas because demand was lower due to mild weather. When the Company is buying daily spot gas, the Ferron area producers are among the first parties we contact, as they are frequently the only parties that will sell gas at the Questar Pipeline Daily Index price (Questar Daily Index).

Q. What is the Daily Index price?

A. Gas can be purchased on a daily basis in the same manner that gas is bought on a base-load or month-long purchase, except the commitment by the parties is one or more days at a time. In this region the most commonly accepted publication to reference for Daily Index prices is *Gas Daily* as opposed to *Inside FERC*, which is commonly accepted for month-long purchases.

V. ESTIMATE OF BENEFITS TO UTAH CUSTOMERS RESULTING FROM AVAILABILITY OF CBM

Q. Are there quantifiable benefits to Questar Gas' Utah customers attributable to having access to the CBM in the Price area?

A. Yes. The benefits that I have been able to estimate on a quantitative basis fall into three categories:

1. Gas cost savings attributable to the impact of CBM production on differences in the Questar Monthly Index and the Northwest Pipeline Monthly Index.
2. Recovery of Mainline 104 demand charges through capacity releases during non-heating season months.
3. Savings in transportation costs resulting from segmentation of capacity on Kern River.

a. GAS COST SAVINGS

Q. Please describe your estimate of the benefit in gas cost savings.

A. I estimated the gas cost savings attributable to the availability of CBM production to be approximately $30 million from October 1998 to December 2004 and $12 million from January 2003 to December 2004. This is based upon my conclusion that if CBM production from the Ferron area were not available, resulting in a reduction in available gas supplies on Questar Pipeline's system of 20% to 25% there would be an increase in the Questar Monthly Index to a level $0.02 less than the Northwest Pipeline Monthly Index. This is a fundamental conclusion based upon the supply and demand balance on Questar Pipeline. If any source or combination of sources that represent approximately a quarter of the gas connected to a pipeline were never developed, the price would return to the price relationship that existed prior to the development of that source or those sources. In other words, if CBM were not produced in the Ferron area, Questar Monthly Index and the Questar Daily Index

would be just barely below Northwest Pipeline index prices. QGC Exhibit 4.3 provides the Monthly Index prices for Northwest Pipeline and Questar Pipeline from 1996 through 2004. It shows the $0.02 differential in 1996 through 1998, and increasing differentials thereafter coincident with the major increase in production of CBM in the Ferron area.

Q. Please continue to explain how you made your estimate of gas cost savings.

A. I computed the annual average Monthly Indexes for both Northwest Pipeline and Questar Pipeline, and subtracted the Questar Pipeline Index from the Northwest Pipeline Index to determine the actual annual average basis. Pipeline basis, which is explained more completely in Dr. Reid's direct testimony, is the difference between the market price of gas in two different markets. Then I subtracted $0.02 from the basis, consistent with the historical difference and with Dr. Reid's suggestion.

Next, I determined the annual purchases for Questar Gas that would be effected by the adjusted basis, by subtracting from total purchases those purchases that were made using other than a Questar Monthly Index-related price. I then multiplied the adjusted basis by the appropriate purchase volumes to determine annual savings in gas supply costs.

For instance, in 2004 the average basis between the Questar Monthly Index and Northwest Pipeline Index was 18.6 cents, so the adjusted basis was 16.6 cents. Questar Gas purchased 63,357,713 Dth of which 12,422,768 Dth were purchased

using the Northwest, Kern River, or another index that was not Questar Pipeline related. This left 50,934,945 Dth of Questar indexed gas to be multiplied by the 16.6 cent adjusted basis, for a savings of $8,455,367 in 2004. All of my calculations are shown in the first table on QGC Exhibit 4.4.

Q. How does your estimate differ from the estimate you originally provided in response to DPU Data Request 6.1?

A. My earlier estimate included the entire basis rather than the basis less $0.02. I also updated for actual CBM purchase volumes in November and December 2004, deleted all savings prior to October of 1998 and corrected some typographical errors. I deleted savings prior to October of 1998 for two reasons. First, the CBM production did not become significant until that time. Second, Dr. Reid's analysis started at about the same time period.

Q. Why did you adjust the basis by $0.02

A. As I have already mentioned, QGC Exhibit 4.3 demonstrates that the historical basis between the Northwest Pipeline Monthly Index and the Questar Monthly Index prior to the significant development of CBM was $0.02. In addition, Questar Gas retained the services of Dr. Reid to analyze the impact of CBM on the price of Questar Gas' supplies after I made my original estimate. Dr. Reid is a Ph.D. economist who has worked in the gas industry for nearly 30 years. He has developed a sophisticated statistical model to predict the impact of gas supply and transportation capacity on

regional gas prices. The results of his model for the period from 1994 through 1998 supported this adjustment.

Q. Did the results of Dr. Reid's model support your savings estimate?

A. Yes. Dr. Reid's model predicted that almost all of the basis between the Questar Monthly Index and the Northwest Pipeline Monthly Index after September 1998 is attributable to the presence of CBM in the Questar Pipeline market area. For the period from September 1998 through October 2001, Dr. Reid's model indicated that Questar Gas benefited on average in the range of $0.098 and $0.107 attributable to the presence of CBM on Questar Pipeline's system. For the period from November 2001 through February 2005, Dr. Reid's model indicated that Questar Gas benefited on average in the range of $0.124 and $0.126 attributable to the presence of CBM. As shown in the second table in QGC Exhibit 4.4, using the average of Dr. Reid's basis rather than the annual average basis less $0.02 used in my estimate, the benefit is almost identical. My result was $29.6 million and the result using Dr. Reid's results was $29.4 million.

Q. You have stated that your estimate is conservative. Please explain.

A. I believe my estimate is conservative because a 20% to 25% decrease in supply on Questar Pipeline would also produce significant upward pressure on all the regional pipeline index prices and both Kern River and Northwest Pipeline indexes would increase substantially.

Q. Will these savings continue in the future?

A. Yes.

Q. Would a prudent utility encourage the development and production of a gas source that would increase the available supply by 20 to 25 percent or more?

A. Yes, I do not know of any utility that has discouraged or impeded such a significant and beneficial gas supply source. The economic impact could not have been anticipated in the mid-1990's, but a source this big, this close to the market is certainly an asset and has put downward pressure on the region's gas prices. Now we know the added impact was a savings of approximately $30 million in commodity cost from October 1998 through December 2004.

b. CAPACITY RELEASE CREDITS ON MAINLINE 104

Q. Have you estimated the benefit of having CBM available related to capacity release credits on Mainline 104?

A. Yes. Another tangible benefit of the CBM production is that it prompted the construction of Questar Pipeline's Mainline 104. Questar Gas has contracts for capacity on Mainline 104 of 50,000 Dth/d all year and an additional 50,000 Dth/d during winter months only. This infrastructure expansion allows Questar Gas to optimize its 53,000 Dth/d of transportation capacity on Kern River by using segmentation. Because of the strategic location of the CBM in relation to our market and the receipt/delivery points on Kern River, Questar Gas was able to avoid major

system reinforcements that were being considered along the western side of Questar Gas' service territory.

Q. Please explain the benefits of the construction of Mainline 104 to Questar Gas and its customers.

A. The construction of Mainline 104 permitted Questar Gas to negotiate with the CBM producers to purchase 100,000 Dth/d of winter-time gas for 90 to 150 day terms, with other valuable options, for a five-year period at favorable prices. As stated above, the CBM has grown to about 21% of Questar Gas' annual purchased gas volume and 10% of its peak-day supply. The CBM suppliers have been extremely reliable and the working relationships are as good as or better than other suppliers.

A portion of this gas is transported with Questar Pipeline to the Payson City Gate, but more than half of this gas has been and will likely continue to be transported to the Kern River pipeline and then delivered by a backhaul on Kern River to Questar Gas at the Riverton and Hunter Park taps. Receiving these gas supplies by using a backhaul on Kern is a lower cost option than building pipeline infrastructure from the Provo area to West Valley City to deal with rapid market growth along the Wasatch Front. Although this is clearly a significant benefit to Questar Gas, the Company has not yet attempted to quantify it.

Q. Have there been other economic benefits to Questar Gas' customers due to owning capacity on Mainline 104?

A. Questar Gas has limited need for its Mainline 104 capacity during the non-heating season (April through October). The purchase agreements Questar Gas negotiated with the three Ferron area CBM producers allow Questar Gas to release this capacity to the producers during the April-to-October period. This arrangement has allowed Questar Gas to recover one-third of its April-to-October Mainline 104 demand charges that would otherwise have been borne by Questar Gas and its customers.

Q. Can you quantify the benefits you have just described?

A. Yes. My estimate of this benefit is shown in QGC Exhibit 4.5. In total, this benefit has amounted to $3,041,067 from January 2002 through December 2004. The benefit from January 2003 through December 2004 was about $2 million.

Q. Will this benefit continue in the future?

A. Yes.

Q. Would a prudent utility want to purchase this gas, knowing of this possible benefit and arrange for a capacity release agreement that guaranteed these revenue credits?

A. Yes, the released capacity agreements were negotiated simultaneously with the gas purchase agreements with the Ferron area producers. Both the purchases and released

capacity agreements were conditioned upon the construction of Mainline 104. Now we know that these credits amount to approximately $1 million per year.

c. SEGMENTATION

Q. You previously mentioned segmentation as a benefit. Please explain the benefits of segmentation on Kern River.

A. Questar Gas subscribed for 53,000 Dth/d of transportation on Kern River effective May 2003. The receipt point for this transportation is Opal, Wyoming. The delivery point for 38,000 Dth/d is Blue Diamond, south of Las Vegas, Nevada, and the delivery point for the remaining 15,000 Dth/d is Wheeler Ridge, near Bakersfield, California. Questar Gas has segmented this transportation into three usable segments by applying the segmentation provisions of Kern River's tariff. These segments are:

1. Flowing south from Opal to Salt Lake City.
2. Flowing north from the Goshen interconnect between Questar Pipeline's Mainline 104 and Kern River to Salt Lake City.
3. Flowing south from Goshen to the Central interconnect between Kern River and Questar Gas near St. George.

Q. What are the economic benefits of segmentation?

A. Through segmentation on Kern River and using Mainline 104 capacity, Questar Gas has effectively converted 58-cent enhanced-fixed-variable transportation on Kern River to 23-cent transportation, when all segments are being used. Segmentation has

allowed Questar Gas to use its Kern River transportation at an effective load factor rate of 150% or higher. This benefit would not be available without Mainline 104 capacity. As I previously stated, Mainline 104 would not have been constructed or would have been substantially delayed without the CBM production in the Ferron area.

Q. Please describe how you computed this reduction in transportation rates.

A. Kern River has enhanced-fixed-variable transportation rates rather than straight-fixed-variable like Questar Pipeline and most other pipelines. Currently Kern River's rates are subject to a Federal Energy Regulatory Commission (FERC) rate case, but are approximately 52-cents per Dth for the demand component and 6-cents per Dth for a commodity charge. The demand charge is a fixed cost, regardless of how you use the capacity, but the commodity charge is only charged when it is used. Due to the unique geographic relationships between the CBM gas and the Questar Gas markets, Questar Gas is able to transport gas on three segments of Kern River simultaneously. Therefore, the 52-cent demand could be allocated three ways, or 17-cents to each segment plus the 6-cent commodity charge. This results in a potential 23-cent transportation rate, if all three segments are used at a 100% load factor. The maximum effective cost savings would be the difference between the charges for transporting 53,000 Dth three times for 150 days at 58-cents, or $13.8 million and 53,000 Dth on each segment for 150 days at 23-cents, or $5.6 million per year. This savings of $5.6 million is unlikely to be achieved, but an additional annual savings of $1.9 million per year, given current usage patterns, is realistic. My calculation of this

benefit is shown in QGC Exhibit 4.6. This savings could not have happened without CBM and Mainline 104.

Q. Will this benefit continue in the future?

A. Yes, and it is likely to increase.

Q. Would a prudent utility want to purchase this gas, knowing the possible benefit that would be derived from segmentation?

A. Yes. The savings from segmentation are about $1.9 million per year and as the load increases in southern Utah, these savings will increase proportionately.

d. TOTAL QUANTIFIABLE BENEFITS

Q. What do you estimate is the total of quantifiable benefits resulting from availability of CBM to Questar Gas and its customers?

A. The total quantifiable benefits I have estimated from October 1998 through December 2004 are over $36 million. My estimate of quantifiable benefits during 2003 and 2004 is approximately $18 million. The summation of benefits is shown in QGC Exhibit 4.7.

Q. What is the significance of the fact that Questar Gas has realized substantial quantifiable benefits associated with the availability of CBM in the area it purchases supplies?

A. During prior proceedings related to recovery of the costs of removing CO_2 from CBM produced in the Ferron area, significant evidence was not presented regarding the benefits that come from having this plentiful supply of gas available to Questar Gas. Certainly, no evidence was presented quantifying the benefit. Instead, the focus was on whether the introduction of CBM into Questar Gas' system and the resulting cost incurred to ensure that it burned safely in customers' appliances was a problem caused by Questar Pipeline acting in its own interests and contrary to the interests of Questar Gas customers.

Questar Gas believed and continues to believe that the introduction of CBM into its system was a natural consequence of the discovery and production of this gas in the area from which it obtains gas supplies and that even if it were not affiliated with Questar Pipeline the same result would have occurred. Questar Gas has also presented nonquantitative evidence that the presence of CBM was beneficial. My analysis now demonstrates that customers have received a substantial benefit in a lower cost of service because of the impact of the presence of CBM on the cost of Questar Gas' overall gas supply and benefits related to Mainline 104. In the aggregate, since 1999 customers' rates would have been lower even with the inclusion of all gas management costs in rates than they would have been had CBM not been developed. This demonstrates that Questar Gas acted prudently in the

interests of its customers in allowing this gas to be delivered to its system. Therefore, the Commission should allow Questar Gas to recover its gas management costs associated with CBM from the earliest date possible.

If, as some of the other parties argued in past proceedings, the CBM should have been kept off Questar Gas' system and if doing so had been possible and had been implemented, Questar Gas and its customers would have been denied substantial economic benefits. A prudent utility would not pursue such an outcome.

VI. NON-QUANTIFIABLE BENEFITS OF HAVING CBM AVAILABLE

Q. Would there be possible adverse impacts of not having the CBM gas available to the Company?

A. Yes. I previously mentioned certain benefits that I have not quantified, including the benefits of having Mainline 104 capacity that would not have been available had CBM production not occurred as it has in the Ferron area. As a result of having Mainline 104 available, Questar Gas has avoided significant system reinforcements along the western side of Questar Gas' service territory.

Another possibility is that the Questar Monthly Index would not be published due to lack of liquidity. In other words, it is possible that there would not be enough transactions done on Questar Pipeline to justify an index. Even with the gas sources

that are available, there are times when the Questar Monthly Index is based on very few transactions and there are days when there are no transactions.

Q. Why does it matter whether the index is published?

A. Trading or buying natural gas using an index for the immediate pipelines interconnecting the supply area and market offers significant advantages in liquidity and trading partners. Some parties are unwilling to purchase or sell gas using fixed prices because they fear they may not get a fair deal during the transaction, their management is unwilling to risk missing the market or other reasons. Questar Gas buys most of its gas using index-related prices because its purchases extend far into the future. Trying to predict future fair market values is nearly impossible, so Questar Gas contracts for most gas on an index-related basis. When the Company feels it is advantageous to swap the price on index-related gas, the Company will convert the contract with the supplier or use financial instruments. If the market is not liquid or is illiquid, counterparties will imbed a greater risk premium in the swap price conversion. Absent a unique Questar Pipeline index, prices in Questar Pipeline's market area would likely be based on the indexes published for Kern River or Northwest Pipeline, which are almost always higher.

VII. POTENTIAL DETRIMENT OF KEEPING CBM OFF OF QUESTAR GAS' SYSTEM

Q. In earlier proceedings, some parties argued that if Questar Gas had been acting in the interests of its customers rather than the interests of Questar Pipeline, it should have taken some action at the FERC to keep CBM off of Questar Gas' system. Would this have been a prudent course of action for Questar Gas?

A. No. In the first place, Questar Gas has never believed and does not now believe that an action at FERC as proposed by other parties in earlier proceedings would have been successful. However, rather than rearguing those points now, it has become apparent through the technical conferences in this case that any effort to keep CBM off of Questar Pipeline would have been ill-advised because it would have resulted in proceedings at FERC where other shippers would have attempted to keep Company-owned gas off of Questar Pipeline unless it was processed to remove hydrocarbon liquids.

Q. Why would such a proceeding at FERC risk imposition of the requirement that Company-owned gas be processed?

A. Company-owned gas has an unusually high hydrocarbon liquid content. As a result it requires special handling or blending operations on the pipeline and affects other shippers on Questar Pipeline. Questar Gas would be arguing that the CBM that meets the Questar Pipeline Tariff Specification should be kept off of the Questar Pipeline system. Other Questar Pipeline shippers would have a very strong argument that

much of the company owned production that exceeds the hydrocarbon dew point of the Questar Pipeline Tariff should be kept off the Questar Pipeline system unless it is processed.

Q. What would a requirement to process Company-owned gas to remove hydrocarbon liquids cost Questar Gas?

A. If Questar Gas were required to process its Company-owned gas to remove hydrocarbon liquids, I estimate the annual cost would be between $8 and $18 million. My estimate is shown in QGC Exhibit 4.8. The reason for this wide range is that under certain market conditions, the liquids removed from the gas might be sold at high enough prices to offset a portion of the processing costs. However, even if the price of liquids were favorable, there would still be a net cost of approximately $8 million per year. It would be imprudent for Questar Gas to subject itself to the risk of incurring hydrocarbon liquids processing costs that exceed the costs of CO_2 removal, particularly when the likelihood of success in challenging Questar Pipeline Tariff specifications is small.

Q. Is it appropriate to consider this increased cost as well as the benefits you have quantified above?

A. Yes. This illustrates that Questar Gas acted prudently in purchasing this gas and not attempting to force Questar Pipeline to keep this gas off of its system.

VIII. BENEFITS OF CBM TO THE STATE OF UTAH AND OTHERS

Q. Are there benefits of CBM to parties in addition to Questar Gas and its customers?

A. Yes. The benefits on index prices that I have described above apply to all purchasers of gas in the Rocky Mountain region. In addition, there are benefits to the State of Utah.

The existence of this resource at a time when Utah's gas production from other areas was falling at about 12 percent per year has been critical in stabilizing Utah's gas production from 1996 to today. Page 1 of QGC Exhibit 4.9 shows Utah's total gas production from 1976 through 2004. Page 2 of the same exhibit shows Utah's CBM production from 1985 through 2004. It is easily seen by comparing these charts that the growth in CBM is sustaining Utah's gas production.

Q. Can you quantify other benefits to the State of Utah of the CBM?

A. CBM accounted for over $40 million of severance taxes and $121 of royalties since 1999 (*See* QGC Exhibit 4.10). Included in these payments, the State of Utah School & Institutional Trust Lands Administration (SITLA) has increasingly enjoyed the financial benefits of the CBM production. These benefits flow directly to Utah's school system. SITLA predicted that the Ferron gas field could bring more than $200 million to our schools during its projected economic life (See QGC Exhibit 4.11, page 2). This estimate was published in June 2000, when gas prices were $3.50 per Dth.

Today, gas prices are over $6.00 per Dth. SITLA has repeatedly emphasized that oil and gas revenues contribute to its total revenue, and CBM accounts for the greater portion of the gas share. Utah schools benefit substantially from the development and sale of the CBM production in Carbon and Emery counties.

IX. LACK OF AVAILABILITY OF NO-NOTICE SERVICE FROM KERN RIVER

Q. The testimony of Mr. Larry Conti describes an alternative for gas management that that would require Questar Gas to receive no-notice service from Kern River. What is no-notice service?

A. No-notice service is the ability to reserve capacity in the pipeline and to call upon that capacity and associated supply at any given time. This is an extremely valuable service that allows Questar Gas to change gas supplies from sources such as storage on Questar Pipeline to satisfy changes in demand on an immediate basis.

Q. Did you request no-notice service from Kern River in connection with the Company's consideration of this option?

A. Yes. I made a verbal request in July 2004 and a request in writing in March 2005. A copy of my written request is attached as QGC Exhibit 4.12.

Q. What was the response to your requests?

A. In response to my verbal request, Kern River told me that no-notice service was not available. When Kern River did not respond to my written request, I called and was told that they do not offer no-notice service.

X. CONCLUSION

Q. Please summarize your testimony.

A. CBM is a resource that is extremely important to our state and nation. It is anticipated that CBM will continue to increase in importance, growing at a rate that exceeds all other categories of natural gas. It will play a vital role in contributing to our nation's energy independence and in helping our state provide energy needed to achieve business development and prosperity into the future.

The existence of the CBM supply has put significant downward pressure on the Questar Monthly Index in relation to Northwest and Kern River Indexes resulting in savings of approximately $30 million from October 1998 through December 2004 and $12 million from January 2003 through December 2004. There are also cost savings because the Company was able to negotiate long-term released-capacity agreements to offset transportation sunk costs during periods when transportation would not be utilized of approximately $1 million per year since 2002 or $2 million from January 2003 through December 2004. The CBM also prompted the construction of Mainline 104, which allowed significant economic transportation

options on Questar Pipeline and Kern River by utilizing segmentation. In total, I estimate that Questar Gas and its customers have realized a benefit of $36 million from October 1998 through December 2004. From January 2003 through December 2004 alone, I estimate the benefit was approximately $18 million. These benefits will continue in the future.

In addition to these quantifiable benefits, Questar Gas has realized significant non-quantifiable benefits from the production of CBM in the Ferron area. The ability of Questar Gas to use capacity on Kern River to backhaul supplies made available through Mainline 104 has reduced its need for expensive system expansions. The availability of CBM has assured sufficient transactions to allow publication of a Questar Monthly Index.

Questar Gas has also avoided costs of $8 to $18 million per year that would result if an attempt to keep CBM off of its system had resulted in a requirement to process Company-owned gas. It is appropriate to consider avoidance of these costs when considering whether it is prudent for Questar Gas to accept CBM.

The state of Utah and its citizens have also realized substantial benefits from the production of CBM.

Overall, the view that some parties attempted to portray in prior dockets that CBM was undesirable and was improperly forced on Questar Gas because of the profit

motive of its affiliate Questar Pipeline is incorrect for a number of reasons. The availability of this gas has saved Questar Gas and its customers a substantial amount in reduced prices for other supplies and has provided other benefits that have more than offset the cost of managing the heat content of the gas. Furthermore, the presence of this gas simply reflects a change in the sources of gas available in this area and in the nation. We are all fortunate that this plentiful source of natural gas has become available to replace dwindling supplies of conventional gas. This not only has resulted in lower gas supply and transportation costs than would have otherwise been incurred, it has provided additional supply to continue to meet our energy needs.

A prudent local distribution company would want CBM gas supplies for its customers. It is appropriate that Questar Gas be allowed to recover the reasonable processing expenses it has incurred associated with this supply.

Q. Does this conclude your testimony?

A. Yes.

State of Utah)
) ss.
County of Salt Lake)

I, Alan J. Walker, being first duly sworn on oath, state that the answers in the foregoing written testimony are true and correct to the best of my knowledge, information and belief. Except as stated in the testimony, the exhibits attached to the testimony were prepared by me or under my direction and supervision, and they are true and correct to the best of my knowledge, information and belief. Any exhibits not prepared by me or under my direction and supervision are true and correct copies of the documents they purport to be.

_____
Alan J. Walker

SUBSCRIBED AND SWORN TO this 15th day of April 2005.

_____
Notary Public