

C. Scott Brown (4802)  
Colleen Larkin Bell (5253)  
Questar Gas Company  
180 East First South  
P.O. Box 45360  
Salt Lake City, Utah 84145  
(801) 324-5172  
(801) 324-3131 (fax)  
[scott.brown@questar.com](mailto:scott.brown@questar.com)  
[colleen.bell@questar.com](mailto:colleen.bell@questar.com)

Gregory B. Monson (2294)  
David L. Elmont (9640)  
Stoel Rives LLP  
201 South Main Street, Suite 1100  
Salt Lake City, Utah 84111  
(801) 328-3131  
(801) 578-6999 (fax)  
[gbmonson@stoel.com](mailto:gbmonson@stoel.com)  
[dlelmont@stoel.com](mailto:dlelmont@stoel.com)

*Attorneys for Questar Gas Company*

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

In the Matter of the Joint Application of Questar Gas Company, the Division of Public Utilities, and Utah Clean Energy for the Approval of the Conservation Enabling Tariff Adjustment Option and Accounting Orders	Docket No. 05-057-T01  <b>RATE REDUCTION STIPULATION</b>
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Pursuant to Utah Code Ann. § 54-7-1 (Supp. 2005) and Utah Administrative Code R746-100-10.F.5 (2005), Questar Gas Company (Questar Gas or the Company) and the Utah Division of Public Utilities (Division) (collectively Joint Applicants), and the Utah Committee of Consumer Services (Committee), Utah Association of Energy Users (UAE), Utah Industrial Gas Users (IGU), US Magnesium, LLC (US Magnesium) Salt Lake Community Action Program, and

Crossroads Urban Center (collectively Utah Ratepayers Alliance), (all of the foregoing collectively Parties), submit this Stipulation to agree to a \$9.7 million rate reduction effective June 1, 2006 and to agree that the Commission should hear the Conservation Enabling Tariff and Demand-Side Management, as proposed in the Joint Application (Pilot Program) or as proposed by other parties, on its merits at the hearings scheduled to commence June 26, 2006.

### **PROCEDURAL BACKGROUND**

1. The Joint Application was filed in this docket on December 16, 2005. The Joint Application requested approval of the Pilot Program and an associated \$10.2 million rate reduction and issuance of related accounting orders. The Joint Application relied upon work by two task forces established in Docket No. 02-057-02. The Joint Applicants and Utah Clean Energy, which is a joint applicant on the Joint Application, stated that the primary purposes of the Joint Application were to align the interests of the Company, its customers, regulators and other interested persons in promoting effective energy efficiency programs to save energy and reduce customer costs and to allow customers to realize a modest rate decrease.

2. On January 3, 2006, pursuant to notice, a scheduling conference was held at which a technical conference and testimony filing were scheduled for January 13 and a hearing was scheduled for January 18.

3. On January 12, 2006, in response to questions from the Committee and other interested persons, a workshop on the matters addressed in the Joint Application was held. Based on that workshop, the Joint Applicants determined that an additional technical conference would be of assistance in increasing the understanding of the Joint Application by parties and interested persons. Accordingly, on January 13, 2006, the Joint Applicants requested and the Commission ordered a change in the schedule to permit an additional technical conference on

January 20 and to set testimony filing dates for January 23 and January 31 and a hearing for February 3.

4. Technical conferences were held on January 13, 2006 on Demand-Side Management and on January 20 on the Conservation Enabling Tariff, the proposed rate reduction and other aspects of the Joint Application. Joint Applicants filed testimony on January 23.

5. On January 31, the Committee filed a memorandum requesting that further proceedings in the matter be stayed and that the hearing on February 3 be changed from an evidentiary hearing on the Joint Application to a scheduling conference to provide additional time for the Committee to study the issues presented by the Joint Application. The Committee memorandum also suggested that the \$10.2 million rate reduction proposed as part of the Joint Application be implemented on an interim basis without approval of the other aspects of the Application. On the same day, UAE petitioned to intervene in the docket.

6. On February 2, 2006, Joint Applicants filed a response to the January 31 memorandum of the Committee and the petition of UAE to intervene. Joint Applicants did not oppose the request of the Committee that the hearing on February 3 be changed from an evidentiary hearing to a scheduling conference, but opposed the suggestion of the Committee that an interim rate reduction be imposed. Joint Applicants did not oppose the intervention of UAE.

7. Also on February 2, 2006, the Committee filed a response to the Application (Committee Response), IGU filed comments and Roger Ball filed a "Request to Intervene" and "Request for a Stay of Proceedings, an Interim Rate Decrease, Conversion to a General Rate Case, and a Disclosure Order" (Ball Request). The Committee Response (1) reasserted the Committee's request for an interim rate reduction, but noted that it was limited to the portion of

the rate change that would result from adoption of the new depreciation methodology proposed in the Joint Application, (2) requested that the Commission order that the parties design and implement a three-year pilot program adopting utility-sponsored demand-side management and conservation programs and (3) requested that the Commission order further examination of mechanisms for removing the link between the Company's retail sales and its non-gas distribution expenses and revenues.

8. The Ball Request commented on various aspects of the Joint Application and technical conferences and supported what it characterized as the Committee's request that the Commission stay further proceedings, implement a \$10.2 million rate reduction on an interim basis and convert the February 3 hearing to a scheduling conference for a general rate case. The Ball Request also requested "that the Commission order Questar [Gas] to provide all parties to [the docket] with all the actual and projected data they will require to conduct a comprehensive review of the Company's expenses, investments and revenues, and access to all of its books and records" (Disclosure Order).

9. At the scheduling conference on February 3, 2006, the parties agreed on a schedule and procedures to govern proceedings in this matter. The schedule and procedures were memorialized in the Second Amended Scheduling Order (Scheduling Order). With respect to the requests for interim rate relief, the Scheduling Order provided that testimony and argument in support of interim rate relief would be filed by March 31, 2006, rebuttal testimony and argument would be filed by April 21, surrebuttal testimony and argument would be filed by May 5, and a hearing would be held on May 17. With respect to the Joint Application, the Scheduling Order provided that rebuttal testimony would be filed by May 15, surrebuttal testimony would be filed by June 16 and hearings would be held on June 26-28.

10. On March 31, 2006, the Committee filed a motion to amend the Committee Response in which it urged that a permanent rate reduction of \$7.9 to \$9.8 million be implemented based on a change in depreciation rates proposed in the Testimony of Jacob Pous filed concurrently. On March 31, Mr. Ball filed a further memorandum arguing that a \$10.2 million rate reduction should be implemented on an interim basis. On March 31, Salt Lake Community Action Program (SLCAP) filed the Testimony of Elizabeth Wolf, which stated that because of high gas prices customers needed rate relief either on a permanent or interim basis.

11. On April 6, 2006, Questar Gas filed its Results of Operations Report for 2005. The Report indicates that the Company's rate of return on equity for 2005, adjusted based on regulatory adjustments ordered by the Commission in the Company's last general rate case, was 10.68 percent.

12. Petitions for intervention were also filed by US Magnesium, the Utah Ratepayers Alliance and IGU, and were subsequently granted by the Commission.

13. As a result of settlement discussions between the parties, including Mr. Ball, an agreement was reached to delay the deadline for filing responses to the March 31, 2006 filings of the Committee, Mr. Ball and SLCAP. On April 20, the Committee sent a letter to the Commission, on behalf of the parties, requesting that the April 21 filing deadline be delayed through April 28, the technical conference scheduled on April 26 be converted to a settlement conference and stating that the settlement negotiations had reached a point where there was an agreement in principle that would resolve issues scheduled for hearing May 17. All parties were notified that an additional settlement conference would be held on April 24.

14. On April 26, 2006, Mr. Ball made a filing notifying the Commission that he had not consented to any change set forth in the Committee's April 20 letter to the Commission.

15. On April 27, 2006, the Division filed the Testimony of Charles King, offering his position on depreciation rates and resulting depreciation expenses. Based on Mr. King's testimony, the Division believes an adjustment in depreciation rates and expenses alone justify a rate reduction in the range of \$4.8 million to \$10.1 million.

16. On May 3, 2006, Mr. Ball filed a "Request for an Extension of Time to File Surrebuttal Testimony and Legal Argument." He requested an extension of time to May 12, 2006. On May 3, 2006, the Commission issued a scheduling order granting Mr. Ball's request.

17. The Parties have had further settlement discussions, with the participation of depreciation experts retained by Questar Gas, the Division and the Committee, and the Parties have reached agreement that a \$9.7 million permanent (not interim) rate reduction should be implemented effective June 1, 2006, and the Pilot Program should be heard and decided on its merits in accordance with the schedule established for testimony filing and hearing on the Joint Application in accordance with the terms and conditions of this Stipulation.

#### **TERMS AND CONDITIONS**

18. Rate Reduction. The Parties agree that a permanent (not interim) rate reduction of \$9.7 million should be implemented effective June 1, 2006. This rate reduction includes the following components:

a. Depreciation. The Parties have agreed that the depreciation lives, net salvage value and resulting depreciation rates as set forth in Appendix 1, a copy of which is attached, be adopted effective June 1, 2006, and that the excess accumulated depreciation resulting from implementation of these depreciation rates be amortized over a ten-year period. The Parties request that an accounting order approving the lives, net salvage values, depreciation rates and amortization of the excess accumulated depreciation, reflected in Appendix 1, be

entered and that the resulting decrease in depreciation expense in the Utah jurisdiction of \$8.5 million be passed on to customers through lower rates. The Company agrees it will complete and file with the Commission its next depreciation study no later than December 31, 2008, using 2007 year-end data.

b. Financing. On December 15, 2005, Questar Gas completed a financing transaction that increased its long-term debt by \$50 million. This resulted in a higher percentage of debt and lower percentage of equity in the Company's capital structure. This reduces the Company's overall cost of capital. The parties have agreed to pass on the \$3.2 million reduction to customers.

c. Pipeline Integrity Costs. In Docket No. 04-047-03, Questar Gas applied for an accounting order authorizing the Company to establish a deferred account or regulatory asset for incremental expenses that the Company would incur in the future to meet the requirements of the Pipeline Safety Improvement Act. The application also requested that the Company be allowed to amortize the deferred costs beginning the earlier of 2007 or the next general rate case. This request was granted. Rather than waiting until 2007 to begin amortizing the balance as directed in the Order in Docket No. 04-047-03, the Parties have agreed that the Commission should allow the Company to begin amortizing the balance on June 1, 2006. The Parties agree that \$2 million per year of pipeline integrity costs consisting of \$600,000 amortization of the previous balance in the deferred account and \$1.4 million of on-going expenses should be included in rates. To the extent that actual on-going expenses are greater than \$1.4 million, the difference should be debited to the deferred account. To the extent that actual on-going expenses are less than \$1.4 million per year, the difference should be credited to the deferred account. The Parties agree that interest will be accrued on any new debit or credit

balance in the deferred account at the rate currently approved by the Commission for Account 191 and described in the Company's Utah Tariff, Section 2.10. The Parties request that the Commission enter an accounting order to implement the treatment of pipeline integrity costs as set forth in this subsection.

d. Rate Change. The \$9.7 million rate reduction resulting from these agreed upon elements will be implemented by a uniform percentage change to each rate class. This change will be reflected in the Distribution Non-Gas (DNG) block rates of each rate schedule.

19. GSS and Expansion Area Charges. The status and continuation of the expansion area rate premiums (GSS) and Expansion Area Charges (EAC) have been the subject of discussions and meetings among the Company, the Division, the Committee, the Commission Staff, representatives of the expansion area communities and other interested parties over the past several months. On December 6, 2005, the Commission held a technical conference for all interested parties to address this issue. The Parties recommend that the Commission appoint a task force to further discuss the best course of action in regard to the existing GSS and EAC and to develop new tariff language to address future requests by communities for expansion of the system. The Parties propose that this task force begin meeting immediately following the Commission's final order in this docket and issue a final report with a recommended course of action to the Commission within 90 days.

20. Pilot Program and Other Aspects of Joint Application. All other matters addressed in the Joint Application not otherwise resolved by this Stipulation, including the Pilot Program, are reserved to be heard on their merits during the hearing scheduled for June 26 through June 28, 2006.

21. General Terms.

a. Following the extensive analysis, review and arms-length negotiations described above, and without waiver or acceptance of the claims, testimony or objections of any party, the Parties have agreed to compromise and settle their differences with respect to the proposed rate decrease in these proceedings and enter into this Stipulation. The Parties agree that approval of this Stipulation is in the public interest, is consistent with just and reasonable rates, and will benefit customers by allowing a rate reduction to become effective June 1, 2006, and by allowing the Pilot Program to be heard on its merits separate from the rate reduction.

b. All negotiations related to this Stipulation are privileged and confidential and no party shall be bound by any position asserted in negotiations. Neither the execution of this Stipulation nor the order adopting this Stipulation shall be deemed to constitute an acknowledgment by any Party of the validity or invalidity of any principle or practice of ratemaking, or the basis of an estoppel or waiver by any Party other than with respect to issues explicitly resolved by this Stipulation; nor shall they be introduced or used as evidence for any other purpose in a future proceeding by any Party to this Stipulation except a proceeding to enforce the approval or terms and conditions of this Stipulation. The Parties believe that this Stipulation is in the public interest and that the rates, terms and conditions it provides for are just and reasonable.

c. The Company, Division and Committee each agree to present testimony of one or more witnesses to explain and support this Stipulation. Such witnesses will be available for examination.

d. This Stipulation shall remain in effect from the date of the Commission's order approving the Stipulation until the date of a superseding Commission order.

e. The Parties agree that if any other party, entity or individual challenges the approval of this Stipulation, requests rehearing of any approval of the Stipulation or appeals the approval of this Stipulation, each Party will use its best efforts to support the terms and conditions of the Stipulation at the Commission and at the applicable appellate court.

f. In the event the Commission rejects any or all of this Stipulation, or imposes any additional material condition on approval of this Stipulation, or in the event the Commission's approval of this Stipulation is rejected or conditioned in whole or in part by an appellate court, each Party reserves the right to withdraw from this Stipulation. If such a decision of the Commission or an appellate court is issued, any Party contemplating withdrawing from this Stipulation shall notify the other Parties to this Stipulation that it is contemplating withdrawing within five business days of the date such decision is issued. Upon receipt of such a notice, the Parties agree to meet promptly and discuss the Commission or court decision and to attempt in good faith to reach a modified stipulation. If the Parties reach impasse in their discussions, any Party may withdraw from the Stipulation by providing written notice of withdrawal to the Commission and the parties to this proceeding within ten days of reaching impasse. In the event any Party withdraws from this Stipulation, no Party shall be bound or prejudiced by the terms of this Stipulation, and each Party shall be entitled to undertake any steps it deems appropriate.

RESPECTFULLY SUBMITTED: May \_\_\_\_, 2006.

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C. Scott Brown  
Colleen Larkin Bell  
Questar Gas Company

Gregory B. Monson  
David L. Elmont  
Stoel Rives LLP

*Attorneys for Questar Gas Company*

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Michael Ginsberg  
Patricia E. Schmid  
Assistant Attorney Generals

*Attorneys for Utah Division of Public Utilities*

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Gary A. Dodge  
Hatch, James & Dodge

*Attorneys for Utah Association of Energy Users*

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Reed T. Warnick  
Paul H. Proctor  
Assistant Attorney Generals

*Attorneys for Utah Committee of Consumer Services*

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Lee R. Brown  
Vice President  
US Magnesium LLC

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F. Robert Reeder  
William J. Evans  
Parson Behle & Latimer

*Attorneys for Utah Industrial Gas Users*

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Catherine C. Hoskins  
Executive Director  
Salt Lake Community Action Program

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Glenn L. Bailey  
Executive Director  
Crossroads Urban Center

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**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the foregoing **RATE REDUCTION**

**STIPULATION** was served upon the following by electronic mail, on May \_\_\_\_, 2006:

<p>Michael Ginsberg                  Patricia E. Schmid                  Assistant Attorney Generals                  500 Heber M. Wells Building                  160 East 300 South                  Salt Lake City, UT 84111  <a href="mailto:mginsberg@utah.gov">mginsberg@utah.gov</a>  <a href="mailto:pschmid@utah.gov">pschmid@utah.gov</a></p>	<p>Sarah Wright                  Executive Director                  Utah Clean Energy                  917 2<sup>nd</sup> Avenue                  Salt Lake City, UT 84103  <a href="mailto:sarah@utahcleanenergy.org">sarah@utahcleanenergy.org</a></p>
<p>Reed T. Warnick                  Paul H. Proctor                  Assistant Attorney Generals                  500 Heber M. Wells Building                  160 East 300 South                  Salt Lake City, Utah 84111  <a href="mailto:rwarnick@utah.gov">rwarnick@utah.gov</a>  <a href="mailto:pproctor@utah.gov">pproctor@utah.gov</a></p>	<p>Gary A. Dodge                  Hatch, James &amp; Dodge                  10 West Broadway, Suite 400                  Salt Lake City, UT 84101  <a href="mailto:gdodge@hjdllaw.com">gdodge@hjdllaw.com</a></p>
<p>Kevin Higgins                  Neal Townsend                  Energy Strategies                  39 Market Street, Suite 200                  Salt Lake City, UT 84101  <a href="mailto:khiggins@energystrat.com">khiggins@energystrat.com</a>  <a href="mailto:ntownsend@energystrat.com">ntownsend@energystrat.com</a></p>	<p>F. Robert Reeder                  William J. Evans                  Parsons Behle &amp; Latimer                  201 South Main Street, Suite 1800                  P.O. Box 45898                  Salt Lake City, Utah 84145-0898  <a href="mailto:bobreeder@parsonsbehle.com">bobreeder@parsonsbehle.com</a>  <a href="mailto:bevans@parsonsbehle.com">bevans@parsonsbehle.com</a></p>
<p>Roger Swenson                  Energy Consultant for US Magnesium                  LLC                  238 North 2200 West                  Salt Lake City, Utah 84116  <a href="mailto:roger.swenson@prodigy.net">roger.swenson@prodigy.net</a></p>	<p>Roger J. Ball                  1375 Vintry Lane                  Salt Lake City, UT 84121  <a href="mailto:ball.roger@gmail.com">ball.roger@gmail.com</a></p>
<p>Betsy Wolf                  Utility Ratepayer Advocate                  Salt Lake Community Action Program                  764 South 200 West                  Salt Lake City, UT 84101  <a href="mailto:bwolf@slcap.org">bwolf@slcap.org</a></p>	<p>Glenn L. Bailey                  Executive Director                  Crossroads Urban Center                  347 South 400 East                  Salt Lake City, UT 84111</p>