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BEFORE THE

PUBLIC SERVICE COMMISSION OF UTAH

APPLICATION TO REMOVE GSS AND EAC RATES FROM QUESTAR GAS COMPANY'S TARIFF	))))	Docket No. 06-057-T04

INTRODUCTION

1. Questar Gas Company (Questar Gas or Company) respectfully submits to the Utah Public Service Commission (Commission) for approval of this application to implement a change to its Utah tariff to remove expansion area rates (GSS, IS-4 and ITS) and Extension Area Charges (EACs) from its tariff and roll these rates into the GS-1, I-4 and IT rate schedules. This tariff change will remove the surcharge in rates for customers living in expansion areas in rural Utah. These surcharges were implemented with Commission approval in various past Questar Gas dockets to help fund the extension of natural gas service to communities in rural Utah. After much discussion in the Commission-ordered task force in Docket No. 05-057-T01, the Division of Public

Utilities (Division) filed a task-force report recommending that a tariff change be implemented to remove the expansion area rates.

2. 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 and its tariff are on file with the Commission.

3. The Commission has authority to implement this tariff change pursuant to Utah Code Ann §§54-4-1 (2000) and §54-3-2 (2000), and its applicable rules and regulations.

GENERAL BACKGROUND

1. Southern Utah Expansion: 10 year GSS rates. In 1986, the Company (at that time known as Mountain Fuel Supply Company) undertook its Southern Utah Expansion project. Several communities in Central and Southern Utah approached the Company about extending natural gas service to them. In Docket No. 86-057-03, the Commission approved the GSS rate which was designed to fund the extension of natural gas service to these communities. The GSS rate was designed to charge a double distribution non-gas (DNG) rate for a 10-year period so the Company could recover the costs required for the expansion of natural gas service to these communities. There were communities in seven counties that received gas service under this agreement. At the end of the 10-year period, these areas were converted to the GS-1 rate schedule.

2. Other Expansions: 20-year GSS rates. In 1992 and 1993, communities in central and southwestern Utah requested natural gas service from Questar Gas (See e.g. Docket No. 93-057-03). Because those communities were even more remote than the communities under the Southern Utah expansion and had smaller populations and expected growth rates, Questar Gas estimated that the GSS rates would have to be collected for 20 years to recover the capital required for the cost of the expansions. There are currently communities in five counties that are receiving service under the GSS 20-year time period. These GSS rates are scheduled to expire between 2012 and 2013. These communities have been paying the GSS 20-year rates for approximately 13 years. These rates and communities are listed in Section 9.02 of the Company's tariff.

3. Ogden Valley. In 1995, Ogden Valley residents and the Company worked together to propose the Extension Area Charge (EAC) to help fund the cost of extending natural gas service to Ogden Valley. This charge established a monthly fee based on the estimated non-refundable contribution required to cover the cost to bring natural gas service to Ogden Valley. The EAC was premised on at least 70% of customers agreeing to receive natural gas service within a two-year period and discounted the future EAC payments at the Company's then authorized pre-tax rate of return over 15 years, which was the equivalent of extending the customers in Ogden Valley a loan to pay for the required non-refundable contribution.

4. Nine additional EAC Communities. The Company applied to extend natural gas service to nine additional communities using the EAC. These communities are listed in Section 9.02 of the Company's Utah Tariff. Since the EAC payments were also calculated as loans from Questar Gas to the communities to cover the extra capital

required for the cost of the expansions, the Commission required the Company to monitor payments received from each community and collect these payments until the loan was paid off. The loans were calculated for 15-year terms for most of these areas. The Commission orders approving the EACs included the provision that the EACs would end before 15 years if payments exceeded the estimates and later than 15 years if the payments were less than the estimates.

5. EAC Interest Rate Adjustment. In March, 2005, a memo was sent to the Commission from Beaver County that questioned the ability of rural communities to attract new industry into the area when communities with GSS/EAC rates are compared to communities served under GS-1 rates. As a result of that memo, the Commission initiated an investigation into the GSS/EAC tariff issues. That investigation reviewed the history behind the GSS rates, as well as the process used to calculate the EAC charge. It also highlighted the fact that, due to a lag in the number of initial customers signing up, with the exception of Ogden Valley, the EAC term for most of the other communities would exceed 15 years. As the process was reviewed, an inconsistency was noted in the interest rate used in the calculation of the GSS and EAC rates. In order to help bring some consistency to the analysis, the EAC interest rates were adjusted to an after-tax rate in 2005 (Docket No. 05-057-13). This adjustment accelerated Ogden Valley's payoff from March 2008 to September 2005, as well as shortened the expected payoff time for the other EAC communities.

6. Task Force Meetings. In the Commission's order adopting the rate reduction stipulation in Docket 05-057-T01, a task force was established to address the issues regarding expansion areas. Four task force meetings were held to discuss two

important issues: 1) whether it is appropriate to roll into one class of service the revenue requirement of another class of service, and 2) how future expansion requests should be addressed. Ultimately, the task force report filed with the Commission on August 24, 2006, recommended that Questar Gas remove the expansion area rates and EACs so that residential customers statewide pay the same rates. Additionally, with regard to the extension of natural gas service to areas not currently served, the report recommended that these areas acquire the necessary funding for the non-refundable portion of the contribution required to extend service from third-party resources. A copy of the task force report and its attachments is attached as Exhibit 1.1.

7. Filed Memorande: Also on August 24, 2006 the Committee of Consumer Services (Committee) filed a memorandum, attached as Exhibit 1.2, recommending an additional technical conference. The Company on September 15, 2006, filed a reply memorandum to the Committee's memorandum. The Company's memorandum is attached as Exhibit 1.3.

GSS/EAC TARIFF CHANGE

8. Consistent with the task force recommendation, Questar proposes that it change its tariff to remove the GSS, IS-4, IT-S and EAC from its tariff and roll these rates into the GS-1, I-4 and IT rate schedules. The effect of this rate change is revenue neutral for the Company. The proposed rates were designed using the test year that was also used in the pass-through case filed in Docket No. 06-057-09 on October 5, 2006 (12

months ending October 2007). The proposed rates are shown in both legislative and final format in Exhibit 1.4.

9. The impact of implementing the proposed GS-1 rates will be an increase of $0.19 per month to the typical Utah GS-1 customer's bill. This equates to an increase of 0.22% to the typical customer's annual bill or $2.24. The change to the typical customer is included as Exhibit 1.5.

10. The proposed tariff sheets also include changes to the I-4 and I-T rate schedules. Rolling in the IS-4 customers into the I-4 rate class results in the DNG rates for this schedule to increase by $0.08236 in Block 1, $0.07428 in Block 2 and $0.06844 in Block 3. This equates to a 56.8% increase to the DNG portion of the I-4 rates. The commodity portion of the I-4 rate varies monthly, but over the past year has averaged about $7.00. After also including the Supplier Non-Gas cost of $0.18287, the percentage change to the total I-4 rate from this change is about a 1% increase. Currently the Company has six IS-4 customers and sixty-four I-4 customers.

11. Rolling in the IT-S customers into the IT rate class results in the DNG rates for this schedule to increase by $0.00150 in Block 1, $0.00139 in Block 2 and $0.00031 in Block 3. This equates to a 1.2% increase to the DNG portion of the IT rates. Currently the Company has one IT-S customer and seventy-five IT customers.

12. The Company is aware that approval of tariff sheets filed to implement a rate decrease in Docket No. 06-057-09 is pending. It is the Company's recommendation that the rate changes associated with that docket and this docket be implemented at the same time. The tariff sheets shown in Exhibit 1.4 reflect the implementation of both these changes.

CONCLUSION

13. Questar Gas believes that it is in the public interest to implement the recommendations of the task force report. After careful consideration and numerous meetings and discussions, the task force recommended that Questar Gas file a tariff change to roll the GSS, IS-4 and IT-S customers into the GS-1, I-4 and IT rate schedules and that the Expansion Area Charges be eliminated. This filing is the Company's action to comply with the report's recommendation. The proposed rates for the GS-1, I-4 and IT rate schedules have been calculated to be revenue neutral for the Company. Rates for some customers (those in the expansion areas) will be reduced and rates for other customers (those not in expansion areas) will be increased. However, the expected revenues for the Company will remain the same.

PRAYER FOR RELIEF

14. The Company respectfully requests that the proposed tariff sheets shown in Exhibit 1.4 be approved and made effective in conjunction with the rate decrease proposed in Docket No. 05-057-09, on November 1, 2006.

15. If the Commission or intervening parties would like a hearing in this matter, Questar Gas requests that the Commission schedule a scheduling conference as soon as possible for the purpose of establishing a procedural schedule for this docket.

DATED this 6th day of October, 2006.

Respectfully submitted,

QUESTAR GAS COMPANY

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