- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application of Questar Gas Company to Increase Distribution Non-Gas Rates and Charges and Make Tariff Modifications	))))))	DOCKET NO. 07-057-13 REPORT AND ORDER ON REVIEW, RECONSIDERATION AND REHEARING

ISSUED: February 26, 2009

SYNOPSIS

The Commission addresses issues raised in Requests for review, reconsideration or rehearing. The Commission alters the rate for natural gas service for natural gas vehicles (NGVs). The Commission also alters other distribution non-gas (DNG) rates to account for the change in the NGVs service rate and to provide an overall level of DNG revenues from DNG rates that matches the revenue requirement used in this case. The Commission reaffirms its conclusions and reasoning to eliminate GSS rates and alter EAC rates as ordered in the December 22, 2008, Report and Order.

By The Commission:

On December 19, 2007, the Questar Gas Company (QGC) filed an Application for an increase in its distribution non-gas (DNG) rates of $26,966,000 based on forecasted results of operations for the 12 months ending June 30, 2009. The general rate case was divided into two phases, the first to review QGC's costs and expenses or revenue requirement and the second to address rate design and the final rates to be set as part of this case. Due to our Order on Test Period, issued February 14, 2008, wherein we approved use of a forecasted 2008 calendar year for the appropriate test period, QGC filed updated direct testimony, reducing its requested DNG revenue increase to $22,157,542, based on the forecasted results of operations for the 12 months ending December 31, 2008. On May 16, 2008, QGC and a number of other parties filed a Joint Revenue Requirement Stipulation resolving disputed revenue requirement issues with the

exception of the rate of return on common equity, effectively reducing QGC's revenue increase request to $19,574,193.

By Report and Order issued June 27, 2008, the Commission resolved the disputes on the appropriate rate of return, setting a rate of return of 10 percent. The rate of return decision coupled with the revenue requirement resolutions coming from the parties' stipulation further reduced the DNG revenue requirement increase to $11,966,500. We directed this $11,966,500 increase to be effectuated, pending resolution of the second phase of the case, by increasing all rates an equal percentage and by increasing the Conservation Enabling Tariff (CET) allowed per customer DNG revenue value and the overall CET allowed revenue amount to correspond to the $11,966,500 increase. QGC subsequently submitted tariff revisions consistent with the Commission's decisions and direction. These tariff changes were approved by Order issued August 14, 2008.

We then undertook the second phase of this docket, dealing with final rate design, receiving evidence presented through cost of service studies and parties' testimony addressing their competing views of appropriate rate design and the ultimate rates to be set in this general rate case. By Report and Order issued December 22, 2008, we resolved the parties' disputes on rate design and final rates and set the DNG rates QGC was to charge its customers. ~~On~~ In January ~~21~~, 2009, Mr. Roger Ball and QGC filed requests for review, reconsideration or rehearing, requesting alteration of a number of the rate design and rate decisions made in the December 22, 2008, Report and Order. The Committee of Consumer Services and the Division of Public Utilities (Division) opposed, supported or took no position on various points made in

the QGC request. By order issued February 9, 2009, we stayed the December 22, 2008, Report and Order, denied Mr. Ball's request and granted QGC's request. Although we had indicated we could address QGC's claim disputing the overall sufficiency of the DNG rates through rehearing, we have now concluded that we may address all contentions through review and reconsideration. No rehearing is necessary for our resolution of the matters raised in the January, 2009, requests.

RATE FOR NGV SERVICE

QGC and the Division request we reconsider the rate changes ordered for service for NGVs. Cost study evidence presented in the proceedings showed that the service was priced significantly below the DNG costs incurred to provide the service. All parties recommended increasing the DNG rate for the service, although with varying amounts of increase. We resolved the disputes by ordering a two step rate increase, the first to be effective at the conclusion of the general rate case and the second to become effective on July 1, 2009. We also directed a change to exclude Wexpro gas supply commodity costs in the commodity rate charged for the fuel supplied through this service. As recognized in our February 9, 2009, Order, the pricing for the commodity portions of QGC services was not a matter to be addressed in this docket, which deals only with DNG rates. We have already vacated those portions of the December 22, 2008, Report and Order dealing with Wexpro gas use. If any change is to be made regarding the use of Wexpro gas, or any other specific gas supply, it will be done in a future docket where commodity pricing for natural gas service by NGV customers would properly be an issue to be considered.

With respect to the DNG rate to be charged for natural gas service for NGVs, upon review and reconsideration, we will alter the DNG rate included in the pricing of this service set in the December 22, 2008, Report and Order. As argued by QGC and the Division, we will have an opportunity to make a broader analysis of the use of natural gas for NGVs, including the costs and benefits of such use, in Docket No. 08-057-21 or other, future dockets. As we reconsider the timing for the gradual approach we intended, to raise the DNG rate for this service from its current below cost-of-service level, we now choose to make any further rate changes in the rate case to be filed in 2009 that will review the CET pilot program. This will allow us to examine an updated cost-of-service study, explore and weigh additional public policies that may be applicable to natural gas use by NGVs beyond those considered in this docket. In anticipating this new examination and in weighing and balancing the interests of the various customer classes contributing to the recovery of the overall DNG costs of QGC, we conclude we will increase the rate for natural gas service for NGVs to the rate recommended by QGC and the Division in this docket.

GSS and EAC CHANGES

Mr. Ball asks for reconsideration of our decision eliminating General Service South (GSS) rates and the changes to the calculation of Extension Area Charges (EACs) as required in the December 22, 2008, Report and Order. We reiterate that the allocation or assignment of capital costs to and among customer groups, the level of an interest rate or carrying charge that may be applied in calculating the costs of services to customer groups, and even the categorization of customers into differing groups for disparate rate treatment epitomize

the ratemaking process. We also recognize that reasonable minds may weigh differently and disagree on identifying a point said to balance every individual customer's interests, customer class or customer groups' interests, ratemaking principals underlying cost allocation and recovery, and public policy goals in setting rates intending to allow opportunity to recover a utility's revenue requirement. This is precisely why ratemaking is said to be an exercise of legislative authority conferred to a regulatory entity and intended to be used in a discretionary fashion. We continue to believe the resolution we made in the December 22, 2009, Report and Order is a reasonable exercise of that discretion, a reasonable determination of appropriate costs and allocation of those costs and a reasonable classification of customers to which different rates or charges should or should not apply. We denied Mr. Ball's reconsideration request for these reasons.

SUFFICIENCY OF FINAL RATES

QGC argues the final rates set in the December 22, 2008, Report and Order are insufficient to produce revenues that match the revenue requirement set in the first phase of this case. The discrepancy arises from the different methods QGC used to project GS1 and GSS DNG revenues in the two phases. In the first phase, QGC forecasted these revenues using the existing CET allowed revenue per customer value multiplied by QGC's forecasted number of customers.[1] QGC then added this forecasted CET revenue amount with other forecasted DNG revenue sources not associated with the CET and compared this forecasted total annual revenue

---

[1]While the annual aggregated revenue forecast can be characterized as following this approach, the monthly forecasts exhibit inconsistencies.

amount with its forecasted costs and expenses to conclude there would be a revenue deficiency. As noted previously, we resolved disputes on what that deficiency amounted to, $11,966,500, to conclude the first phase of this case. In the second phase of this case, rather than forecast revenues using the CET-allowed-revenues-per-customer approach described above, QGC used existing volumetric rates and other charges applied to forecasted volumes and billing incidents or units to compute a projected total annual revenue amount. The volumetric-based projection of revenues offered in the second phase is approximately $11.2 million less than the number-of-customers CET based revenue projection used in the first phase.

QGC argues it was an error to set final rates to only capture the revenue deficiency established in the first phase, $11.9 million, but not also include the additional revenue deficiency projected in the second phase calculations, another $11.2 million. QGC argues the Commission relied upon extra record information leading the Commission to believe the additional $11.2 million projected revenue deficiency would not occur. We note whether this additional $11.2 million revenue deficiency would or would not materialize is irrelevant to whether the utility or customers are harmed relative to volumetric rates not being congruent with the test period revenue requirement used in this case. If volumetric rates applied to actual volumes or billing units generate a revenue amount greater or less than the revenue amount obtained using the CET's allowed-revenue-per-customer value applied to the number of customers, the operation of the CET accrues, in a balancing account, the revenue excess or deficiency for subsequent amortization. The CET operates to remove differences between the

actual revenue collection and the allowed revenue per customer, the distinction is simply the timing of the ultimate collection.

We acknowledge our resolution in the second phase of this case was influenced by information contained in QGC's reports associated with revenues received through the CET. This information showed the projected $11.2 shortfall was not occurring as the case proceeded through the very time period in which the shortfall was projected to occur. This information was outside the evidentiary record for this docket. Accordingly, our rate setting decisions made in the December 22, 2008, Report and Order should be changed to cure this procedural error – reliance upon extra-record evidence. As no participant in the docket challenged QGC's revenue projections and calculations, in either of the two phases, QGC's projection of an $11.2 million deficiency in revenues collected through the CET remains unquestioned and unrebutted on the existing record. While the operation of the CET over time may, so to speak, allow the utility and customers to come out even, we hope that its existence does not lull those involved in the rate setting process to diminish the importance of making accurate analyses, calculations and projections for the revenues to be used in setting rates and charges that will be demanded of customers. Using the revenue projections received in the evidentiary record, which include an $11.2 million shortfall in CET revenues for the test period used in this case, we will reset final rates accordingly.

Based upon the changes we have concluded should be made as discussed above, we recalculate the rates and charges to be set through this case. The recalculated rates, which differ from those given in the December 22, 2008, Report and Order, are shown and set forth in

Attachment A to this Order on Review, Reconsideration and Rehearing. The unchanged rates given in the December 22, 2008 Report and Order and the recalculated rates given in this Order may become effective March 1, 2009, or on a later date determined by Questar Gas Company.

DATED at Salt Lake City, Utah, this 26th day of February, 2009.

/s/ Ted Boyer, Chairman

/s/ Ric Campbell, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary
G#60849

APPENDIX A: COMMISSION REVISED PRICING DECISIONS

Natural Gas Vehicle Service (NGV)

Volumetric Rate		$7.36392

GS-1 Distribution Non-Gas (DNG)

Winter 1st block	0 - 45 Decatherms	$2.25341
Winter 2nd block	Over 45 Decatherms	$0.93555
Summer 1st block	0 - 45 Decatherms	$1.89791
Summer 2nd block	Over 45 Decatherms	$0.70455

GS-1 Conservation Enabling Tariff (CET)

January	$44.35
February	$35.55
March	$27.60
April	$21.25
May	$13.87
June	$10.71
July	$10.48
August	$9.86
September	$11.31
October	$16.17
November	$27.66
December	$38.14