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 APPLICATION

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APPLICATION
AND
EXHIBITS

December 19, 2007

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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 APPLICATION

Pursuant to Utah Code Ann. §§ 54-4-4 and 54-7-12 (Supp. 2007) and Utah Admin. Code R746-100-1 *et seq.* (2007), Questar Gas Company (Questar Gas or the Company) respectfully applies for an order authorizing an increase in its distribution non-gas rates and charges for natural gas service rendered in Utah in the annualized amount of $26,966,000. This amount constitutes a revenue deficiency and reflects the effects of the increased costs of supplying utility service in Utah that are not covered under currently authorized rates. The rising costs associated with serving a steadily increasing number of customers and replacing aging infrastructure with high pressure feeder lines have resulted in existing rates that are no longer just and reasonable.

I. PRELIMINARY MATTERS

A. Questar Gas Company's Operations

Questar Gas is a corporation organized and existing under the laws of the state of Utah, with its principal business office located at 180 East First South Street, Salt Lake City, Utah. The Company is engaged in the business of providing natural gas as a local distribution company. Questar Gas currently distributes natural gas to approximately 840,000 customers throughout the state of Utah and in Franklin County in southeast Idaho subject to the ratemaking jurisdiction of the Utah Public Service Commission (Commission). In addition, the Company distributes gas to communities and rural areas in southwest Wyoming under the jurisdiction of the Wyoming Public Service Commission.

B. ***Articles of Incorporation; Tariff***

A copy of Questar Gas' Articles of Incorporation is on file with the Commission. The Company's present rates, charges, and general conditions for natural gas service in Utah are regulated by the Commission and are set forth in Questar Gas' Tariff PSC Utah No. 400. Rates and tariff provisions proposed by this Application will be published as revisions to Tariff PSC Utah No. 400 and will supersede the current rates and tariff provisions.

II. APPLICATION FOR AN INCREASE IN DISTRIBUTION NON-GAS RATES AND CHARGES FOR NATURAL GAS SERVICE IN UTAH

A. *Current Rate Structure*

Questar Gas' current rates are divided into three components: (1) distribution non-gas (DNG) rates, which relate to the costs incurred by the Company in providing service to its retail customers, exclusive of the costs of gas supplies and moving that gas to Questar Gas' system, (2) supplier non-gas (SNG) rates, which reflect the costs of moving the gas from gas fields to the Company's system at various city gates, and (3) commodity costs associated with gas supply, including gas purchases, operator service fees for the production of Company-owned gas supplies, and other gas-supply expenses, including gas processing.

The rate relief requested in this Application deals only with the DNG-cost portion of the Company's rates. The SNG rates and commodity rates are considered in separate pass-through proceedings in accordance with the rules and procedures of the Commission. The DNG costs are about 27% of Questar Gas' total rates while SNG and commodity costs make up the remaining 73%.

B. *Previous Rate Proceeding Establishing DNG Rates*

The Company's current DNG rates reflect the Commission's order approving the Settlement Stipulation in Docket No. 05-057-T01, as adjusted by Commission-approved Conservation Enabling Tariff and Demand-Side Management amortizations.

C. *Necessity for Relief*

The Company's present rates and charges authorized by the Commission will no longer provide the Company the opportunity to recover the costs of providing natural gas service while earning a reasonable rate of return. They are, therefore, not "just and reasonable" as required by Utah Code Ann. § 54-3-1 (2007), and do not meet the standards enunciated by the United States and Utah Supreme Courts. Relative to annual revenues produced by current rates and without rate relief in this case, Questar Gas will experience an annual revenue deficiency of $26,966,000 for the test period commencing July 1, 2008 and ending June 30, 2009.

Measured against equity return authorized in Docket No. 02-057-02, Questar Gas was experiencing an annualized deficiency of $2.1 million for the 12-months ending June 30, 2007, and a corresponding return on equity of 10.78%. Questar Gas will experience a forecast deficiency of $22.9 million in 2008, and a corresponding return on equity of 7.52%; and a deficiency of $26.6 million for the test period ending June 2009 with a return on equity of 7.01%. Further, on the basis of a 11.25% equity return that is consistent with current capital markets, the annual deficiency is $26,966,000. Failure to obtain rate relief to eliminate this deficiency will result in inadequate rates of return that will seriously damage the financial integrity of the Company's public utility operations and its ability to provide necessary utility service to Utah natural gas customers. Unless the Company is granted substantial and timely rate relief, current levels of earnings and the ability to attract capital will be jeopardized.

D. ***Basis for Determination of Rate Relief***

Questar Gas has chosen to base its rate request on a future test year that ends on June 30, 2009. This test year includes the revenues, expenses and plant that best reflect the conditions that will occur during the rate-effective period. This test period is provided for by statute in Utah Code Ann. § 54-4-4(3).

As more fully set forth in the direct testimony that is included with this Application, the procedure used by Questar Gas was to examine all its operations and the associated costs, revenues and plant; and to consider and project all the material changes that the Company knows or reasonably expects to occur by June 30, 2009. This has been carried out in as even-handed a manner as possible to include adjustments that reduce the determination of Company's revenue deficiency as well as those that increase it. The Company's unadjusted financial results for the 12-months ended June 30, 2007 is used as the foundation for the forecast of rate base, revenues and expenses that reflect the reasonably expected results for the test year. These forecast results were then adjusted for regulatory adjustments consistent with past Commission orders and practice to arrive at the revenue deficiency projected for the test year.

E. ***Major Factors Contributing to the Revenue Deficiency***

1. ***Increased Rate Base***. By June 2009, Questar Gas' total rate base will have increased by approximately $211 million since December 31, 2002, the end of the test year in the Company's last general rate case. This has been caused primarily by the major additions to plant necessary to serve an increase in the number of Utah customers and by necessary feeder line replacements. Revenues are not increasing fast enough to generate a reasonable, lawful return to shareholders on this steadily increasing investment.

2. ***Operation and Maintenance Expenses***. Increased productivity and number of customers served by employees have helped to mitigate increases in operation and maintenance costs. However, these results are no longer sufficient to offset the negative effects of increasing O&M caused by general inflation and increase in costs necessary to provide service to an additional 20,000 to 30,000 customers per year.

3. ***Rate of Return***. Questar Gas' proposed rate of return on equity (ROE) is fair and adequate in today's financial marketplace and falls within the range of reasonable ROEs of a proxy group of companies comparable to Questar Gas, as measured using the discounted cash flow analysis, a Capital Asset Pricing Model (CAPM) and Risk Premium analyses. Additionally, it is comparable to returns currently being authorized for top-performing gas utility companies. Failure to set an authorized ROE at the level required by investors will damage the Company's ability to attract the capital necessary for increased investment in plant.

To allow Questar Gas to meet its public service obligation to Utah customers, it must be given a reasonable opportunity to earn a rate of return that is commensurate with returns realized by investors on investments with similar risks in the capital markets. As established in the Direct Testimony of Robert B. Hevert attached to this Application, the Company's rates should be based on an authorized ROE of 11.25 percent. This rate is appropriate to maintain the long-term financial integrity of the Company's utility operations and to provide a fair return on shareholder investment.

F. *Summary of Test-year Deficiency and Rate Impact*

1. *Test-year Deficiency*. The factors discussed above contribute to a revenue deficiency in the Company's Utah operations, and Questar Gas requires $26,996,000 in additional annual revenues for its Utah operations.

2. *Rate Allocation and Deficiency Assignment*. Questar Gas requests that the revenue deficiency be spread among customer classes in accordance with the cost of service study and rate design as described in the direct testimony and exhibits of Gary L. Robinson and Steven R. Bateson, attached to this Application.

3. *Financial Impact*. The effect of the proposed rate increase on the typical GS-1 customer who uses 80 Dth per year will be an increase of about $47.06 per year. This is an overall increase to a customer's natural gas rate of about 7.16%.

G. Tariff Changes

Questar Gas requests that the tariff changes described in the direct testimony and exhibits of Brent A. Bakker be approved.

III. SUPPORTING EVIDENCE

Attached and made a part of this Application in support of Questar Gas' request for an increase in its DNG rates and charges is the sworn written testimony of the following witnesses: Barrie L. McKay, Alan K. Allred, Robert B. Hevert, John J. Reed, David M. Curtis, Kelly B. Mendenhall, Gary L. Robinson, Steven R. Bateson and Brent A. Bakker.

WHEREFORE, Questar Gas Company respectfully requests that the Commission:

A. Schedule a time and place for hearing on this Application and give appropriate notice in accordance with Utah law;

B. Authorize an increase in rates and charges applicable to natural gas service in Utah in the annualized amount of $26,966,000 as described in this Application;

C. Authorize the implementation of new rates and tariff changes as soon as reasonably possible, consistent with Utah Code Ann. §§ 54-4-4 and 54-7-12, but no later than 240 days from the date of filing; and

D. Provide for such other and additional relief as the Commission deems just, reasonable and proper.

RESPECTFULLY SUBMITTED this 19th day of December, 2007.

QUESTAR GAS COMPANY

____

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Colleen Larkin Bell
Questar Gas Company

Gregory B. Monson
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VERIFICATION

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 and correct to the best of his knowledge, information and belief.

____
Alan K. Allred

Subscribed and sworn to before me this ____ day of December, 2007.

____
Notary Public

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Application was served this 19th day of December, 2007, on the following by hand-delivery:

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