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: 09-057-16

TRANSCRIPT OF HEARING PROCEEDINGS

TAKEN AT: Public Service Commission
160 East 300 South
Salt Lake City, Utah

DATE: April 8, 2010

TIME: 10:03 a.m.

REPORTED BY: Kelly L. Wilburn, CSR, RPR

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WITNESSES

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(The previous exhibits and related testimony were prefiled and are part of the PSC record and filed at the Commission.)

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APRIL 8, 2010 10:03 A.M.

P R O C E E D I N G S

CHAIRMAN BOYER: May the record reflect that this is the time and place duly noticed for the hearing on the Motion to Approve Settlement Stipulation in Docket No. 09-057-16, In the Matter of the Application of Questar Gas Company to Increase Distribution Non-Gas Rates and Charges and to Make Tariff Modifications.

What I was thinking, unless someone has a better idea, is that we'll hear from all of the proponents of the stipulation. We'll hear cross examination, if any. We'll see if the Commissioners have questions.

And then we'll go to those opposed, if any. And redirect if you need to do redirect. And then we'll recess until 12:00, which is the time we've scheduled for public witnesses. Does that sound okay?

Okay. With that, let's take appearances, starting with Questar, please.

MS. BELL: Colleen Larkin Bell and Jenniffer R. Nelson on behalf of Questar Gas Company.

MR. GINSBERG: Michael Ginsberg for the Division of Public Utilities.

CHAIRMAN BOYER: Thank you.

MR. PROCTOR: Paul Proctor on behalf the Office of Consumer Services.

CHAIRMAN BOYER: Thank you Mr. Proctor.

MR. DODGE: Gary Dodge on behalf of UAE.

MR. PLENK: Bruce Plenk appearing on behalf of AARP and the Salt Lake Community Action Program.

CHAIRMAN BOYER: Welcome Mr. Plenk.

MR. PLENK: Thank you.

MS. HAYES: Sophie Hayes with Utah Clean Energy, with Kevin Emerson also from Utah Clean Energy.

CHAIRMAN BOYER: Very well, thank you. Welcome.

Are there any participating by telephone this morning? Apparently not. Okay. I think the first item we should deal with is admission of the prefiled testimony. There was a request that that be done in the application, as I recall, or in the motion to approve the stipulation.

MS. BELL: Yes. And I would like to move for the admission of the Company's Verified Application, including Appendix 1, and all of the attached exhibits. I have handed out an exhibit list to all of the parties and to the Commissioners. And I can briefly go through that.

We would move for the admission of QGC Exhibit 1.0, which is the direct testimony of Barrie L. McKay, with the accompanying exhibits, Exhibit 1.1 through 1.12.

The direct testimony of David M. Curtis, which has been marked as QGC Exhibit 2.0, with its accompanying exhibits, Exhibit 2.1 through 2.10.

The direct testimony of Kelly B. Mendenhall, which has been marked as Exhibit 3.0, with its accompanying Exhibits 3.1 through 3.38.

The direct testimony of Steven R. Bateson, marked as QGC Exhibit 4.0, with its accompanying Exhibits 4.1 through 4.11.

And the direct testimony of Judd E. Cook, marked as QGC Exhibit 5.0, with its accompanying Exhibits 5.1 through 5.7.

CHAIRMAN BOYER: Thank you Ms. Bell.

Are there objections to the admission of the direct testimony and exhibits described by Ms. Bell?

MR. GINSBERG: No.

CHAIRMAN BOYER: Very well, they are admitted.

(Questar's Verified Application and Exhibit Nos. QGC-1.0 through 1.12, 2.0 through 2.10, 3.0 through 3.38, 4.0 through 4.11, and 5.0

through 5.7 were admitted.)

CHAIRMAN BOYER: Is there other written evidence that we need to put on the record? No?

MR. PLENK: Commissioner Boyer? There is testimony that has been prefiled by Dr. Charles E. Johnson on behalf of AARP and Salt Lake Community Action Program that's been marked as AARP/Salt Lake CAP Exhibit No. 1.

And I would like to have Dr. Johnson present a brief summary of his testimony. And would either move the admission of that testimony now or at the conclusion of his summary, as you prefer.

CHAIRMAN BOYER: I don't really have a preference, but -- I guess I do have a preference. Let's wait until we hear from Mr. Johnson, and then we can present the evidence at that moment.

MR. PLENK: That would be fine. Thank you.

CHAIRMAN BOYER: And that -- would that be all of the written testimony then?

MS. BELL: (Moves head up and down.)

CHAIRMAN BOYER: Okay, very well. With that let's, let's begin with the Company witness.

MS. BELL: The Company would like to call Mr. Barrie L. McKay and have him sworn.

CHAIRMAN BOYER: Mr. McKay, you're most

welcome to stay down there by Counsel if you like.

(Mr. McKay was sworn.)

CHAIRMAN BOYER: Thank you. Please be seated.

You may proceed, Ms. Bell.

BARRIE L. McKAY,

called as a witness, having been duly sworn,
was examined and testified as follows:

DIRECT EXAMINATION

BY MS. BELL:

Q. Mr. McKay, please state your full name for the record.

A. Barrie L. McKay.

Q. And by whom are you employed?

A. I'm employed for the Quest -- by Questar Gas Company.

Q. And what is your title?

A. I'm the general manager of regulatory affairs and energy efficiency.

Q. In your capacity as general manager of state regulatory affairs do you have responsibility for general rate cases?

A. Yes.

Q. Are you familiar with the application, testimony, and exhibits filed in this case?

A. Yes.

Q. Are you prepared today to give a general overview of the settlement stipulation filed on March 18, 2010?

A. Yes, I am.

Q. Would you please proceed with your general overview of the settlement stipulation?

A. And what I'd like to do in just summary of that is to not necessarily walk us through or read any specific things but to identify by paragraph and specifically some of the exhibits that I think lend to the understanding, or a greater understanding of what the parties intended and what we're settling and agreeing to.

And to start that, simply -- or we have about three -- I guess about six paragraphs that have been identified as the procedural history in this stipulation.

And the biggest take away that I think that we were wanting to put forward in that portion of our settlement was, one, that the Company did file requesting a total revenue requirement of 277 million, approximately.

But when we filed it was under some new Commission rules. And we were found to be in compliance and meet having a complete filing at that time.

And what we had provided differently than ever before was information that was ordered by the Commission in their rules that provided far more information than we had ever provided with an initial filing. And put into the hands of the parties that are here today in stipulation information from the start that we think helped provide greater understanding.

As evidence to that we refer in paragraph -- the next few paragraphs to some specific technical conferences that took place. One of them dealt with our modeling. And we filed not only our proposed test period in that model but also had included in that, for parties having been involved in several rate cases before this Commission before, information not only for the historical forecasted period that we were proposing, which was a year-end test period, but also that same test period run using the average results of operations, as well as a 2009 historical results of operations either being able to be run on average or year end, as well as even going back to a June period in time.

So we put into people's hands information that was far more -- had a -- they had a greater ability to be able to do an analysis and work right from the start.

Additionally, we had another technical conference which helped to explain specifically what the parties have agreed and have before the Commission today, and that was a technical conference related to our infrastructure replacement tracker.

And specifically we were able to cover the information that dealt with the budgeting and planning of that, the actual tracking of the expenses themselves as they occur and the replacement occurs, as well as the accounting for that, all the way to the actual reporting and requesting of a change in the surcharge rate before this Commission.

Finally, the parties -- all here and represented today that have signed this stipulation -- performed their audits. Some of them were on site. Some of them were in the form of numerous data requests.

And we were able to provide that information using the technology that we had in the previous case, and that was what we call our V Bulletin. Which gave all intervening parties access to any of the data requests as soon as we had provided responses, as well as whenever the parties had asked them, so the parties could see what was out there and they had that in their hands.

And finally, we first met on the 2nd of March to begin discussions about the possibility of a settlement. And finally on the 18th of March there was an agreement reached, and that -- this settlement which is before you today has been signed.

Essentially what I wouldn't mind doing is just walking through. And the easiest thing for me is I'd actually take out -- and I'm going to. I don't think you have to. But Exhibit 1.

Which I'd like to point out that I think the words in this stipulation are important, but also that we provided what we hope to be clarifying understanding and actual ability to track through the points that the parties agreed to in the stipulation.

And I'll refer to that with the paragraphs that we walk through now. But beginning in paragraph 7, the parties agreed that for purposes of settlement that we would use an average test period rather than what the Company had proposed in the filing, which was a year end.

This has a revenue requirement impact of about $6.5 million. You can see that on Exhibit 1 by line 1, which starts in column B, with the 20 -- 277.3 million. And then the reduction in the total revenue requirement can be seen on line 2 as it relates to the average test period.

I'm prepared to talk about specifics and any details behind some of these adjustments, but in the interest of moving this forward would simply observe that the next lines, from line 3 through line 10, in the course of discovery, and audit, and review of particularly the Office and the Division there were adjustments that were discovered, identified, and agreed on for purposes of settlement.

And you can see the reflective revenue requirement changes that occurred, and all parties agreed to that.

Then beginning in paragraph J -- let's go with I. Paragraph 8(I), we identify and agreed for purposes of settlement to accept the depreciation study. The key change here from what our original filed position was is that we would agree that the amortization of the reserve would be over a ten-year period. This resulted in an additional revenue requirement reduction of $3.2 million.

Then moving to J -- and this is on line 12 in Exhibit 1, page 1 -- you can see that we agreed to an additional reduction in the rate base amount for the test period which resulted in about a $1.6 million reduction.

Further, the parties agreed that we would use an actual three-year historical percentage for bad debt. And this resulted in an additional 400,000 reduction. That's seen on line 13 of Exhibit 1, page 1, and is identified in paragraph 8(K.)

And finally, for purposes of settlement the parties agreed that a return on equity of 10.35 would be used. This resulted in additional increase -- decrease, sorry, of $1.7 million. Which resulted in a final agreed to in this settlement revenue requirement of $263.7 million.

This results, when comparing it using the volumetric revenue for this average test period, in a revenue deficiency of approximately $2.6 million. The key thing -- and you can see this in page 2 of the Exhibit 1 -- is that the parties agreed that this revenue requirement deficiency would be spread to the different rate classes using a uniform percentage increase.

You can see that in column D. And so all revenue classes were receiving a 1.03 percent change to the class. When adding that to the current revenue -- and you can see that spread of that 1.03 percent in column E, as in Elephant.

When you add that together to what is already in column C on this page 2 you come up with column F, which is the total revenue requirement by class once you have spread the $2.6 million deficiency on an equal percentage across all classes.

Now that you have the total revenue requirement that we've agreed to, the key thing then became to determine what -- how we would do our rate designer related to this change. And the parties agreed that we could accept the Company's proposal, in paragraph 11, for the temperature and elevation to more accurately bill customers.

The key thing from this is that this does not change the total revenue requirement. It's just changing the volumes which we will be applying the new rates to. So with that we also agreed that there would be no changes in paragraph 12 to the basic service fee, the administrative fee, or the tariff qualifications.

And that this equal percentage change that you can now see as far as the total requirement from the rate class, column F, would be applied to the volumetric rates. Except in one case there would be one rate schedule -- and that's the transportation schedule -- of which there would be a demand charge. And we have demand charge in that rate schedule. And it should be percentage changed accordingly.

And that brings us essentially to paragraph 13. And in paragraph 13 we did something that's at least unique to what I've ever done in requesting before a Public Service Commission, and that is we've agreed to the stipulating parties that we would like this Commission to open up a new docket.

And have that docket have its own number. And have it be specifically focused on cost of service, and rate design, and any other issues the parties may want to bring up related to those topics. And this would be taking place over the next 12 to 14 months.

If the parties can come to agreement on this we would present to the Commission our settlement, if you will, or agreement. If not, we would like that docket to move forward with being able to have testimony, rebuttal to that, and then a hearing. In which the Commission ultimately, we would hope, makes a decision on those issues or gives us direction on what we should do.

The key and binding thing from the Company's perspective is that whatever the Commission orders out of that docket we will use as our base case in our next filed general rate case.

And then finally, in following -- or completing this Exhibit No. 1 for clarity and understanding, recognizing that we have one of these rate classes, which is the general service rate class, that is decoupled or falls under the Conservation Enabling Tariff, we simply worked through that calculation.

And what you do is you take from col -- page 2, column F, line 1, the $239 million. You bring that forward to page 3, line 1. And you divide that total revenue requirement of that class by the average customers in the test period, which is 877,000, which results in an allowed revenue per customer that the Company will use going forward of $272.59.

That total amount is then, on lines 4 through 15, spread to have a specific dollar amount that's identified each month that we use for our monthly entries and calculations that we'll report on the records of the Company.

And that essentially summarizes that exhibit and brings us to the infrastructure tracker, which starts on paragraph 15. And the parties agreed that the Company could implement, on a pilot basis, an infrastructure tracker that would apply to all the rate classes.

So you'll see on the bottom of Page 7, the last line, the specific identification of all the rate classes for which this tracker will apply.

The party -- the Company agreed that we would file with this Commission no later than the 15th of each year our planned budget and the plan for the replacement for that upcoming year. We also agreed that we would provide quarterly reports during the year to the Commission, as well as the Division, so that they might be able to track and see how we're doing.

It is anticipated that, given our current analysis, that each year that this total dollar amount will be about 40 to 50 million dollars that we will be having capital expenditures on. This paragraph specifically calls out that the -- this investment shall not exceed 55 million. So it puts that cap on it.

And I think that brings us, as far as the summary, to paragraph 16, where we identified -- the parties realized that there were dollar amounts that are currently in the average test period. And therefore we need to have expenditures of capital investment in this year -- which is 2010 -- up to the level of $10 million before we would begin to track any investment or include any infrastructure costs in being included in this tracker. And that's what's identified in paragraph 16.

We anticipate and it's called out in paragraph 15 that the Company plans to file twice a year. We'll probably be doing this in conjunction with our other filings that we have on a twice-a-year basis. The plant that will be included in this infrastructure tracker will only be the identified replacement plant that is in service, with gas flowing.

And that is specifically called out and explained in the tariff sheets that we proposed and laid out in Exhibit 2 to this stipulation. It also works through the calculation of exactly how the plant, the depreciation, the accumulated deferred taxes, and property taxes will be calculated and spread to the various rate classes.

Finally, we agreed with this tracker -- and as long as it's in place -- that the Company should file a general rate case at least every three years. And the next general rate case should be filed no later than July of 2013.

Paragraph 20 simply identifies that the Conservation Enabling Tariff would no longer be considered a pilot program.

Paragraph 21 recognizes that the Company has a commitment to try to help with the development of infrastructure here in the State of Utah. And after that initial investment, that any future planned investment that the Company has in natural gas infrastructure, if it exceeds 1.5 million, that the Company would first come in and request approval from this Commission.

Finally -- and I think you'll have further testimony on this -- but paragraphs 22 and 23 specifically identify the low income assistance program that the parties have agreed to. And the take away from there is that this program is identified to be a $1.5 million level.

And that we will be shaping and bringing back to this Commission the specific details of this program, based on what is described in Utah Code. And our plan is to try to have that be brought back to you no later than June 15th.

In paragraph 24 we simply identified that the distribution integrity management program will be treated in the same manner as the current pipeline integrity man -- program.

And then in paragraph 25 is the rate calculations. And it again refers to Exhibit 4, in which we have calculated for each of the rate classes and shown both their current rates and what the new proposed rates would be with the approval of this stipulation. And identify that for a typical customer this results in about $4.70 annual change in their bill, or about $0.40 a month.

And then finally paragraphs 26 through the end, which is paragraph 32, is specific language that has been included in other stipulations, recognizing that we've agreed to these items that are before the Commission for settlement purposes.

And finally I'd like to simply say that I think this stipulation results in just and reasonable rates, and it is in the public interest.

MS. BELL: Mr. McKay, does that conclude your testimony?

THE WITNESS: Yes. Or summary.

CHAIRMAN BOYER: Thank you, Mr. McKay, very much.

Mr. Ginsberg.

MR. GINSBERG: The Division's witness is Phil

Powlick.

(Dr. Powlick was sworn.)

CHAIRMAN BOYER: Thank you. Please be seated.

PHILIP POWLICK,

called as a witness, having been duly sworn,
was examined and testified as follows:

DIRECT EXAMINATION

BY MR. GINSBERG:

Q. Can you go ahead and state your name for the record?

A. Philip, one "l," Powlick, P-o-w-l-i-c-k.

Q. And you are the director of the Division?

A. I am.

Q. And you were intimately involved in the development of this stipulation that's being presented today?

A. I was.

Q. Can you go ahead and present your statement in support of the stipulation?

A. Sure. Taken as a complete package, the DPU views the stipulation in this case to be just and reasonable and in the public interest. As with all settlement agreements there are some aspects that are more attractive to some parties than to others, but the balancing of all of these aspects we feel results in a reasonable settlement.

In making this statement I just -- I will lay out some key features of the stipulation. And I don't want to be overly redundant of what Mr. McKay has already said, but we are cognizant of the fact that the only evidence that you have on the record to this point is coming from the Company.

So there are some points where I may explain some background or provide the Division's rationale for supporting a particular aspect where we just want to make sure that, that we have our points on the record since we haven't filed testimony to this point.

Before I start talking about the stipulation itself, following up on Mr. McKay's comments about the amount of information that was provided I just want to comment that, in working through this rate case and these settlement agreements -- or settlement talks, I found there to be a very refreshing and useful transparency of the Company. And a great deal of willingness to provide information, both formally and informally.

We spent a lot of time working through cost of service and rate design issues before this settlement was arrived at. And the Company spent a great deal of time working with our consultant on the issue in a very useful way. And the same kind of cooperation happened on the accounting adjustments as well.

So I just wanted to make sure that the Commission is aware that things went very well in getting through this rate case.

Okay, I'll start talking about the individual features of the stipulation and settlement. The first one that I want to talk about is the revenue requirement. With this settlement the increase in the revenue requirement is changed from the Company-requested 17.2 million to 2.6 million.

The reduction is due to the discrete adjustments that you've seen and had described briefly in Exhibit 1, and I don't want to try to re-describe them here. And just would point out that in the model that was filed along with the settlement there are more explanations than are presented in the settlement stipulation itself or the exhibits.

The largest revenue adjustment of course, as Mr. McKay said, comes from the change from a year-end test year with year-end rate base expenses, depreciation, and revenues, to an average test year. And that amounts to about $6.5 million a year.

I would note that a lot of that revenue change represents the feeder line replacement costs that have been taken out of the rate case because we're not doing year-end rate base now. But that will later be rolled into the feeder line tracker when the Company makes its first filing there. So at some point we will see some -- a substantial portion of that 6.5 put back into revenues.

As I said, that resulted from moving to an average test year. The original Company filing had year-end rate base and depreciation, with annualization adjustments that moved expenses and revenues to what they were expected to be on December 31, 2010.

The settlement moves back to what we more typically have done in rate cases recently, which is an average test year. Where rate base, depreciation, expenses, and revenues were all averaged. And as I said, that means that a lot of the feeder line replacement that was in the original filing has been taken out of the rate case.

In essence, we view this as a trade-off or offset for permitting the feeder line tracker mechanism to be implemented this year. The accounting is more reliable and relies less upon year, year end estimates if we do the average test year.

At the same time the tracker allows the Company to recover feeder line costs incurred in 2010 without needing to rely upon or file another rate case that presumably, if we did an average test year without the tracker, they would file close to immediately after the end of this one or shortly thereafter.

Let me talk about the feeder line tracker as well. And I'll be going into some more detail here than Mr. McKay did. The agreement calls for establishing the feeder line tracker mechanism fair -- in a fairly similar manner to that which was requested by the Company in its original filing.

But modifications have been put in place that provide safeguards to permit greater control of the, of the program and of the mechanism by the Commission, and also to provide input by the parties along the way in the implementation of this tracker.

The tracker allows the Company to recover major infrastructure improvement costs for its feeder line replacement projects between rate cases. In essence, this mechanism allows the Company to avoid having to do rate cases every year while they're doing these feeder line replacements.

The mechanism also protects ratepayers. If the actual spending on feeder line replacement is less than what was projected in a rate case -- and we had that as a result of the most recent rate case. The difference is small. But this, but this corrects for any of those kinds of forecasting errors that might happen.

Conversely, this removes any incentive that the Company might have to overestimate or over forecast what would be built in the feeder line replacement program in a test year. It uses actuals. So what is actually spent will be trued up to any forecast after a rate case.

The Division believes that the feeder line replacement program is necessary. Portions of it are legally required by provisions in recent federal legislation, namely the Pipes Act. And also we believe the aging condition of much of the feeder line system suggests that the replacement of those lines would be prudent in order to maintain safety and rel -- the safety and reliability of the system.

With regard to the tracking mechanism, because the feeder line program represents an unusually large and ongoing level of capital spending we think a tracker is appropriate to protect the

Company from regulatory lag that would be created if we relied solely on rate cases to recover the program's cost.

And again, I want to emphasize that this recovers actual levels of spending after a line has been in service. The levels of spending will be subject to audit for prudence by a division and other -- the Division and other parties when the Company makes its filings every six months or so.

The DPU's auditors have reviewed the accounting procedures at Questar and are satisfied that the costs that this feeder line program incurs can easily be isolated from other costs and capital projects that the Company is doing. And that those costs can be audited relatively easily.

There may be some question, and I know we had some debate among staff in considering the feeder line tracker as to why the Company hasn't proposed to use the new single-item rate case statute that was put into place in the 2009 legislative session and has been codified as 54-7-13.4.

And with -- and we talked about it at some length with the Company as well. And what we've come to decide and agree with is that the requirements of that new statute don't fit the nature of the feeder line replacement program.

The statute requires that projects represent at least one percent of a Company's rate base in order to be eligible for that single-item treatment. That would be about 7.9 million for Questar at this time. Most of the feeder line projects actually fit this if you look at each of these projects taken as a whole.

The statute also requires that if the Company is to file one of these mini rate cases that they have to do it no more than 150 days prior to the in-service date for each major addition. For a single, discrete project, that's a workable provision.

For instance, if you have a power plant there is a date of which you throw the switch. Or if it's a pump station for Questar, that also has a date at which you throw the switch. These feeder line projects, though, are brought into service in segments, as we learned at the technical conference.

As discrete segments are completed, they're connected to the system. They don't just sit there waiting for the entire, 10, 15, or however many miles of the pipeline are to be completed. And it obviously brings the benefits of the improvements to customers immediately to do it that way.

But typically each of those segments that brought into service is too -- are too small to meet that one percent threshold. And by waiting to complete the entire project the Company could well wait a year or two, if it's one of the larger feeder lines, before they could actually seek recovery for that line. In other words, there's no single in-service date for these feeder line projects.

Now, since the purpose of the single-item rate case legislation was to allow a company to avoid regulatory lag without having to file a complete rate case every year, we feel that using the tracker as an alternative mechanism is a reasonable way to go forward.

Okay, let me talk a little bit more about some of the other provisions and safeguards regarding the tracker. The ability to recover tracker expenses begins when the projected test year average spending has been reached. And the stipulation says that that's $10.1 million.

That's just the amount of spending on the feeder lines that's been forecast to occur in the -- by the time we reach the middle of the test year. After that point, then the Company can begin keeping track of the additional expenses and later file for recovery under this tracker mechanism.

Let me talk about the safeguards that we put into place. We're cognizant of arguments that some may have made -- maybe will make, I don't know -- that this could be some kind of a slippery slope. That it would get out of control and all -- lots of projects would get thrown into it, and it would never end.

First of all, it is a three-year pilot. And the Company agrees that it will file a rate case at least every three years while the tracker is in effect. So all parties and the Commission have the opportunity to review it at least every three, every three years.

And at the same time it prevents the Company from adding 40 or 50 million dollars to rate base every year and get recovery without having to also do rate cases to review the rest of what the Company is doing.

The stipulation also requires that the Company file, annually, a billing plan and budget for the following calendar year. This allows parties to analyze and comment on both the budget and the planned building. And provides the opportunity for the Commission to disapprove or modify that plan if it should see fit.

The stipulation provides for an annual budget cap on the feeder line replacement program of $55 million, for the reasons Mr. McKay described. There's an inflation adjuster on that.

I learned something in doing this settlement. The inflation adjuster for that 55 million is the Global Insight Distribution Steel Main index. I had no idea that there was an inflation index for distribution steel mains. I guess there must be inflation adjustors for a lot of things that we don't want to know about.

If the Company has uncompleted work in any given year for which it had planned and budgeted, it has the ability to roll that work over into the next year without that counting toward the 55 million budget after that next year. So it gives flexibility to the Company for unexpected construction delays, weather delays, et cetera, et cetera.

If the Company expects to exceed the cap they have to file and receive permission to exceed the cap. The Company has to file quarterly reports on that year's progress and disclose the amounts that have been spent year to date, progress on planned work, and notify the parties of any changes to the previously-filed plan. And presumably give reasonable explanations as to why those changes have occurred.

I note finally that the tariff that's been filed as, I think it's Exhibit 2, that describes the feeder line tracker mechanism has a definition of replacement infrastructure that hopefully puts bans on what is allowed into this tracker mechanism.

As I say, there were concerns expressed among parties informally at the beginning of this process that this could become some kind of a catchall. The tariff says that only "replacement infrastructure" as defined in the tariff is allowed.

And this is defined as high-pressure feeder lines that are to be replaced -- I'm not quoting directly. High-pressure feeder lines that are to be replaced due to age, condition, reconditioned pipe, operating his -- history, and as necessary for pipeline safety compliance.

Moving on to the provisions on return on equity. The stipulation moves the Company's current return on equity from 10 percent to the stipulated 10.35 percent. When the settlement was agreed upon, the DPU had largely completed its analysis of the appropriate range for cost of equity.

An ROE of 10.35 percent is at the high end of the range that the DPU had found to be reasonable, but it was within that range of reasonableness. DPU agreed to this level of ROE in the context of the complete agreement.

In light of the concessions in the stipulation by Questar on major items such as average test year and overall revenue requirement, the DPU feels that this return on equity is -- and the agreement as a whole are just and reasonable.

Moving on to cost of service and rate design. As Mr. McKay described, essentially this agreement settles cost of service at present allocations, and settles rate design with a uniform increase into the variable rates for all classes. Fixed charges will stay the same.

This, this settlement provision is really a postponement of cost of service and rate design issues pending further study. And let me give some explanation to you behind that.

As required by the Commission in the '07 rate case, the DPU was in the process of examining how to split up the GS-1 class. Which of course is -- covers 98 percent of the customers, all of the residentials, and many of the commercials, both large and small.

And we were looking to see how it could be split at least in taking off the residential class and perhaps also having several commercial classes. One of the methods that we were exploring to distinguish commercial customers was the basic service fees that they pay.

The basic service fees are essentially being used as a proxy for meter size, which itself is a proxy for the throughput capacity of that particular customer. However, in the pr -- in the process of discovery and dialogue Questar on these issues we found that Questar was planning to revise how it classified customers' basic service fees.

In other words, one of the methods that we were going to use to distinguish membership in these new classes was about to become obsolete, and we might have to do it all over again.

Moreover, we learned that Questar was planning to update its cost of service study with a new and very detailed examination of service lines that's now made possible by GIS and other mapping technologies that allows them to not -- no longer estimate the length of service lines but actually know, for each customer, how long the service line is, and therefore be much more accurate on the cost of service modeling and allocations.

In light of this we determined, and other parties have agreed, that it doesn't make much sense to undertake a major modification of Questar's classes until both of those processes -- the new mapping and cost of service model, along with the basic service fee reclassification -- has been done.

So as a result, the stipulation contemplates a comprehensive examination of Questar's cost of service allocation and methodologies, along with determining a method for splitting the GS class over the next one to two years.

As Mr. McKay described, the stipulation also requests that the Commission open a new docket, in which case -- in which docket new class definitions and new cost of service modeling and allocations can be examined. And that the outcome of that case would be used in the next general rate case filing expected before July 2013.

Moving on to compressed natural gas vehicles. I'll just use the acronym from here on out "CNG" vehicles. The settlement reflects the ongoing concerns that have been expressed previously by both the Division and the Office.

And again, I want to give you some background on what's going on there. The major provision, of course, deals with ongoing levels of infrastructure investment that the Company wishes to make in natural gas vehicles.

Behind this is the fact that there was a U.S. Department of Energy solicitation for alternative vehicle projects that was going to use stimulus money to do some major projects all across the country.

And Utah Clean Cities asked for and was awarded nearly $15 million from the Department of Energy to do natural gra -- natural gas and other alternative fuel vehicle infrastructure upgrades in Utah. And as part of this application Questar had pledged matching funds of $14.7 million. When that award was granted, Questar was then obligated to provide that 14.7.

The DPU's concern on this was basically twofold: The degree of investment in natural gas facilities that is appropriately carried in general rates, or stated differently, the degree to which CNG vehicle users are subsidized by other users, has still not really been resolved among the parties.

And of course you heard arguments on this in the last rate case, and folks were teeing up positions in this rate case as well.

The second concern is that these funds, nearly $15 million, were committed for projects that are really outside the normal scope of Questar's business of providing natural gas, and incurred without Commission review or approval.

Again, there's a story to this. And that is essentially that the Company had -- has expressed to several people publicly -- so this isn't settlement talk -- that they had felt as if Governor Huntsman was asking them to make that commitment and they had done that in response to his request. And therefore they went ahead and did it.

So the settlement reflects essentially an agreement, perhaps even a retrospective acceptance of that, that it was okay for them to do that given that the -- Governor Huntsman had asked them to do that. But basically sets up a mechanism going forward so that if that kind of an opportunity or that kind of a request comes through again, that it work through the regulators as well.

But basically what we've done is allow that 14.7 million to go through. And it specifies that that's the amount for these -- the cap for these projects. And then says that from here on out you shouldn't make upgrades to the system and you shouldn't spend on, on it beyond 1.5 million per year. Which the Company has estimated represents the routine upkeep of the existing system.

The settlement gives the compressed natural gas users the same rate increase as other classes, as we've already said, and postpones the cost of service discussions that I feel will probably come again at a later point in time.

With regard to the revenue decoupling provisions, or the so-called CET, the parties agree to remove the term "pilot" from the decoupling tariff. And to reset the allowed revenue per customer, based on the outcome of this case.

I point out that it leaves -- aside from removing the word "pilot" and resetting the base allowed per customer, it leaves everything else about the existing tariff and program in place. That includes the 5 percent cap on annual recruit -- accruals that are in place, and the 2.5 percent cap on annual amortizations to the fund.

The DPU believes that Questar's decoupling mechanism has worked well, and variations in the associated balancing account have been well within a tolerable range. We also believe that Questar has done what they said they would do.

That they're, that they're walking the talk. That they're making exemplary efforts in implementing their DSM programs. That they've enjoyed great success in implementing those programs. And this is what we wanted when we established the decoupling pilot, so we're more than willing to allow it to continue.

With regard to the low income assistance fund, the stipulation provides only the general outlines of that program. The parties were unable to come to agreement, in the time frame we had, on all of the nitty-gritty details of how it would work.

Eligibility for the program is set at 150 percent of the poverty level. And applicants have to be certified by the Department of Community and Culture. Consistent with the new statutory language that allows such a program, the cap per customer per month is set at $50.

Annual target funding is 1.5 million. And the term "target" is used here essentially in recognition of the fact that actual expenditures in one year will depend upon the state of the economy, how cold of a winter we're having that year.

As was stated earlier, implement -- implementation details are to be worked out among the parties and a proposal made to you by June 15th, with the goal of having a program in place by the next heating season.

Finally, on temperature and elevation adjustments the parties have accepted the Company's temperature and elevations adjustment proposal as filed in its direct testimony and application. The Division has reviewed the proposed adjustments and believes that they are consistent with the laws of physics regarding gases.

My friend Mr. Swensen will be happy, I think, we're supporting the laws of physics. And they're consistent with industry standards and guidelines. For those of you that didn't understand that in joke, catch me later and I'll explain it.

Correcting the measurement and billing errors that can result from incorrect Btu value assumptions in the gas billing will significantly reduce intraclass subsidies that can result from those inaccuracies. And therefore we feel that this is a good thing to do moving forward.

In summary and in conclusion, the Division believes that the stipulation before the Commission today is just, reasonable, and in the public interest. And recommends that the Commission approve the proposed settlement of Questar's 2009 general rate case. Thank you.

CHAIRMAN BOYER: Thank you, Dr. Powlick.

Anything further, Mr. Ginsberg?

MR. GINSBERG: No.

CHAIRMAN BOYER: We'll turn now to Mr. Proctor.

MR. PROCTOR: Thank you. Ms. Beck needs to be sworn.

(Ms. Beck was sworn.)

CHAIRMAN BOYER: Thank you. Please be seated.

MICHELE BECK,

called as a witness, having been duly sworn,
was examined and testified as follows:

DIRECT EXAMINATION

BY MR. PROCTOR:

Q. Ms. Beck, you are familiar with the settlement stipulation, are you not?

A. Yes, I am.

Q. Could you describe the Office's view of that stipulation?

A. Do you want me to do the whole --

Q. Right.

A. Are you asking for my whole summary? Okay. My name is Michele Beck, I'm the director of the Office of Consumer Services. As you all know, our office is charged with representing the interests of residential and small commercial com -- consumers.

First and foremost, in our analysis and judgment we believe that the outcome of this settlement would be just and reasonable rates for the consumers we represent.

And I'd like to speak a little bit about the analysis that we did. I -- when I say "a little bit" I don't mean 25 minutes, I actually mean probably 25 seconds. But I want the Commission to be assured that we did significant analysis on behalf of the small consumers.

I actually double checked our invoices. We have almost 600 consultant hours into this case. Some of that will be work that would be used towards the new docket if the settlement is accepted by the Commission.

Most of that was used in reviewing all of the material presented by the Company and, and going about the same kind of analysis we'd do if we filed a full -- full testimony in the case. And that work also included an on-site audit and numerous discovery requests as well.

So I want to call out just a few points of the settlement that were important to us. First, it was important to us to have that average test year in there, the amortization of the reserve variance associated with the new depreciation study, and the rate-based adjustment.

And looking at those, those are some of the biggest adjustments and issues that we would have raised in testimony. We also shared the concern about the NGV. Our concern of course was that the, the Company may have been committing ratepayer money without approval.

We are very much in agreement with the settlement concept that came up surrounding the NGV future investments.

In general, we do not support trackers. So we are very hopeful that our support of a single tracker in this case does not lead towards a trend. But we do think that this tracker in this case for -- will result in just and reasonable rates.

Two primary reasons: One is it facilitates necessary infrastructure investments. And the second one is that, as Dr. Powlick has explained, we think there are enough consumer protections that have been put in place surrounding that tracker that we do feel comfortable.

We support the introduction of a low income program. Right now we've had discussions that extend beyond what's being presented to you today. And we think that there's a good concept emerging on that, and we'll continue in those discussions to work towards a good program. Not being proposed as modest, but we'll continue to monitor that.

And as you know, we're -- we, you know, we feel like we have to carefully evaluate a low income program because we represent both the beneficiaries and those who are paying for it. So it's something that we watch carefully, and we'll continue to do so as this emerges.

We did evaluate cost of service and rate design issues. Certainly not to the extent that I think the Division has, has done so. In fact we were beginning to be concerned about the way that the process itself would unfold, because if we see a -- something as large as the breaking apart of the GS class that comes kind of late in the process if it comes in direct testimony -- which is not to say that it was late in, in contradiction of any scheduled order -- it just would be difficult for us to respond in as productive of a way as we would like.

So we're very supportive of moving that into a different docket so that it would allow for the full investigation and exploration of those issues.

Now we come to the issue of the ROE. It may not come as a surprise to the Commission that we are one of the parties that do not accept the ROE of 10.35 in explanation is a reasonable return on equity, as was highlighted in paragraph L for you.

For us it was too far outside of our range of reasonableness. We don't think it recognizes the risk deduct -- reduction associated with making the CET permanent or having a tracker, and we do not think it can be explained by commonly-used methodology.

And for that reason I wanted to highlight one sentence in the stipulation for you at the bottom of page 5, where it says:

> "Thus, identification of the ROE is unrelated to the parties' evidence that the settlement stipulation as a whole and end result is just and reasonable."

That being said, we recognize that this will be in place for a relatively short term. The Company will be filing within three years. And taken in total with the other benefits that we perceive in this settlement, not the least of which is a greatly-reduced revenue requirement, we still believe that the end result will be just and reasonable rates.

CHAIRMAN BOYER: Thank you Ms. Beck.

Anything further, Mr. Proctor?

MR. PROCTOR: Nothing, thank you.

CHAIRMAN BOYER: Mr. Dodge, you do not have a witness, do you?

MR. DODGE: We do not, thank you.

CHAIRMAN BOYER: Thank you for being here anyway.

Mr. Plenk, please.

MR. PLENK: Thank you, Mr. Chairman. I'd like to have Dr. Charles Johnson sworn in, please.

(Dr. Johnson was witness sworn.)

CHAIRMAN BOYER: Thank you. Please be seated.

CHARLES E. JOHNSON,

called as a witness, having been duly sworn,

was examined and testified as follows:

DIRECT EXAMINATION

BY MR. PLENK:

Q. Dr. Johnson, would you please state your name and address for the record?

A. Charles E. Johnson. My business address is 7B Pleasant Boulevard, No. 1086, Toronto, Ontario, Canada.

Q. And Dr. Johnson, are you the Charles Johnson who recently prefiled testimony in this case focussing on the low income rate assistance program aspect of the stipulation settlement?

A. Yes, I am.

Q. And if you were to be asked the questions and answers in your prefiled testimony, would they be the same?

A. Yes, they would.

Q. Do you have any corrections to make to your prefiled testimony?

A. No.

Q. All right.

MR. PLENK: Mr. Chairman, at this point I'd move the admission of what's been marked as AARP/Salt Lake CAP Exhibit No. 1, Direct Testimony of Charles E. Johnson.

CHAIRMAN BOYER: Are there any objections to the admission of Dr. Johnson's prefiled direct testimony?

Seeing none, it is admitted.

(Exhibit No. AARP/SLCAP-1 was admitted.)

MR. PLENK: Thank you very much.

Q. (By Mr. Plenk) Dr. Johnson, would you please present your summary of your testimony, and your position on the proposed settlement stipulation?

A. Yeah. The, the purpose of my testimony is to support the settlement stipulation. AARP and Salt Lake Community Action Program fully support Commission approval of the entire agreement.

Now, my test -- my prefiled testimony is somewhat longer than would generally be expected for this purpose. The reason for that is that only Questar's testimony was filed prior to the signing of the stipulation -- settlement stipulation, so there's nothing in this record about the issues surrounding the proposed low income assistance program.

So my testimony covers four areas to remedy that. First of all, the need for the program. I have used Census Bureau data from their surveys about the levels of poverty in the State of Utah to demonstrate that need.

One additional thing that I did in that regard was to cite a study performed by Northeastern University about the impact of the recent economic downturn -- I guess not so recent now -- economic downturn on low income people.

The people who -- the households that have the lowest income also have suffered the greatest job loss. And are -- have much higher levels of unemployment today.

The second thing I talk about is the effort of the task force. I commend Questar for its efforts in putting together the task force that worked on this during the past year, and the preparation of the report that was filed with the Commission last December.

The third thing is that, as with the Rocky Mountain Power Help program, this program we propose to be -- the details of this program will be worked out by the interested parties subsequent to Commission approval of the overall general program.

Lastly, the familiarity of the parties with Utah Code 54-7-13.6 that en -- the enabling legislation for the low income assistance, is something the Commission should be aware of.

Both the low income task force and the parties to the settlement discussions are quite familiar with these programs. And the low income task force report and the settlement stipulation are a result of that familiarity.

As far as the settlement stipulation itself is concerned, I participated in the settlement discussions and have examined the settlement stipulation. I believe the stipulation, taken as a whole, will produce rates that are just and reasonable and in the public interest. And I recommend that the

Commission adopt the settlement stipulation in its entirety.

The low income rate assistance program, as part of the agreement, will assist tens of thousands of low income Utah families pay their winter heating bill. This will result in benefit to these customers, to Questar, to other gas companies, and to the State of Utah.

Lastly, subsequent to my preparation of the prefiled testimony I did some calculations on the likely impact of the cost of the program on various customers in the GS class. For this analysis I used the test year sales levels and billing determinants provided by Questar for the past year.

That is, this was data I had obtained during the discovery phase. And it was through October of last year, so it included last winter's heating season and last summer's data. Based on that data, the annual cost to an average residential customer would be about $1.15. This is at the proposed $1.5 million annual funding level.

Even during the peak month of January a year ago, half of the residential customers would have a surcharge of less than $0.21. During the low-use summer months, half would have a surcharge of less than $0.04. Now, obviously half of the customers would have surcharges greater than those numbers, and some would pay substantially more than those amounts.

The average residential use that I derived from these billing determinants for the past year was 11 decatherms in a winter month, on average. But there were some residential customers who used thousands of decatherms per month, so their surcharge would be substantially higher than the $0.21 I identified.

I believe that these impacts are acceptable. And I recommend that the Commission approve the settlement stipulation in its entirety. That concludes my summary.

Q. Thank you, Dr. Johnson.

CHAIRMAN BOYER: Thank you, Dr. Johnson.

Anything further, Mr. Plenk?

MR. PLENK: No. Thank you, Mr. Chairman.

CHAIRMAN BOYER: Turning now to Ms. Hayes.

MS. HAYES: Utah Clean Energy's witness is Kevin Emerson. And he needs to be sworn in.

(Mr. Emerson was sworn.)

CHAIRMAN BOYER: Thank you, please be seated.

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KEVIN M. EMERSON,

called as a witness, having been duly sworn,
was examined and testified as follows:

DIRECT EXAMINATION

BY MS. HAYES:

Q. Mr. Emerson, will you please state your full name for the record?

A. Kevin M. Emerson.

Q. And by whom are you employed?

A. I'm employed by Utah Clean Energy.

Q. What is your position and business address?

A. My position is senior policy and regulatory associate. And my business address is 1014 Second Avenue, Salt Lake City, Utah 84103.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of Utah Clean Energy and Southwest Energy Efficiency Project.

Q. Were you involved in and are you familiar with this stipulation?

A. Yes.

Q. Do you have a statement you would like to present today?

A. Yes. I'd like to read comments in support of the settlement stipulation. Utah Clean Energy is a nonprofit public interest group working to advance energy efficiency and renewable energy in Utah as key components of our energy future.

And the Southwest Energy Efficiency Project is a regional nonprofit organization working to advance energy efficiency in six states in the Southwest, including Utah.

Our prime area of interest in this proceeding is the continuation of the Conservation Enabling Tariff, or the CET, that will be made permanent through the settlement stipulation.

While Utah Clean Energy and Southwest Energy Efficiency Project do not take a position on the other individual provisions in the settlement stipulation, when taken as a whole we agree that this settlement stipulation is reasonable and in the public interest.

By making the CET permanent we understand that Questar will be able to continue its successful ThermWise program on a permanent basis, for which the Company incidentally recently received recognition from the Energy Star Program as an Energy Star partner of the year. That was in March, I believe.

The ThermWise program has, in many cases, cost-effectively exceeded projections. And continues to transform the market and increase awareness about energy efficiency, conservation, and efficient products and practices.

And I'd also like to note that energy conservation, efficiency, and well-designed DSM programs offer least-cost reasonably-priced energy resources, while providing tremendous co-benefits and producing extra -- externalities associated with natural gas use.

These externalities can include criteria pollutant emissions, greenhouse gas emissions, public land issues, threats to national and regional energy security. Thank you.

Q. Does that conclude your testimony?

A. Yes.

CHAIRMAN BOYER: Thank you, Mr. Emerson.

Is there anyone who else wishes to speak in favor of the stipulation?

Are there parties in attendance today who are going to speak against the stipulation?

Okay. Well, let's see if the Commissioners have questions. Commissioner Allen?

COMMISSIONER ALLEN: Thank you, Mr. Chair. Those summaries were pretty effective. I think I had several of my questions answered, especially on the history of your settlement.

I am curious, and I think for the Company I have a question. And I probably asked this before, but everyone is keeping us so busy I've forgotten the answer. And it's a minor item. But you've got depreciation for land on your settlement spreadsheet, and I've forgotten what -- that's counterintuitive for those of us who are plagued by a background in accounting.

MR. McKAY: It's a little counterintuitive for the Company too. Bottom line is, is we had some people review. And we observed that we had included a portion of land in one particular county to -- who was incurring depreciation, and it should not be.

And we will agree readily that that should be removed, and we did. So it's some good eyes on those who reviewed our case, and we appreciated that.

COMMISSIONER ALLEN: Great. That makes a lot more sense now. I'm just curious about these trackers. To the Company, are you aware on these specific trackers, are a lot of LGCs now using them around the country?

I'm familiar it's been a trend, but what -- do you have some sense of how many people are finding these just and reasonable around the country?

MR. McKAY: Yes, we do. And that specifically was addressed in the testimony that was admitted to this record. And at the time of our filing -- and I should point out that that was back in December -- we had done research at the time in which we had, one, identified all of those LGCs across the country that had similar-type mechanisms to what we were proposing.

Meaning specific infrastructure, we found that most of those were like the cast iron, bare steel. Some of them were actual ageing to where they weren't functioning properly, and they were replacing that.

Some even had -- they went so far as to have it part of their state programs that they were ordered -- or I shouldn't say "ordered." It was actually passed in legislature in a couple of them. But in total there was 20 of them across the country.

And we were pleasantly surprised as we went about doing our research and analysis. So it's not something that necessarily new to the industry. But it made sense in several other jurisdictions, and we recommended it and proposed it before this Commission.

COMMISSIONER ALLEN: Okay, great.

MR. McKAY: And I, I'm sorry, I was gonna actually refer to the exhibit. That is found -- that summary is found in Exhibit 1.8 of my direct testimony.

COMMISSIONER ALLEN: Great, thank you. Let's see here. When it comes to existing accounting treatment of feeder lines I think they're probably spread pro rata among -- amongst the blocks, speaking now of our different blocks groups.

Is that correct, it's a pro rata assessment? So that people who are, say, in blocks two and three are being a allocated smaller amount of feeder line. Is that correct? Am I reading that right?

MR. McKAY: I think you're specifically referring to a class cost of service issue. And I've got my good backup man that's sitting behind me if I blow it here.

But the feeder lines, my memory is is that those have been identified and have been included -- at least in what we proposed in this case -- as being allocated on a weighted factor that uses both our throughput, in other words energy, and our demand, peak. And that was going to be our proposal.

What I want us to make sure that we understand is, is what we agreed for purposes of settlement was to simply percentage change all of the classes. So that particular issue is not necessarily being resolved before this Commission.

But it has been typically allocated that way in the past. Although as soon as I say that statement I have to observe that what the Commission has done in several of our rate cases back through the '90s and the early 2000s is that we, again, we may have a percentage change from where we have been before.

And there hasn't been specific findings on how a particular account should be allocated for cost of service purposes. My guess is, is you might see that in play before you as we move forward into this next docket that we -- would be opened up with the acceptance of this stipulation.

COMMISSIONER ALLEN: You actually approached my next, my next question. It was a follow up. And that is, the tracker doesn't change that, but we can expect that we might see this in the future. And if we open a new docket this can be resolved as far as specificity of how this is calculated?

MR. McKAY: Yes.

COMMISSIONER ALLEN: Okay, great.

And then, let's see, I have a question for the Division, for Dr. Powlick. I'm just -- I'm pretty certain you answered this in your summary, but I want to make certain I'm clear. If the CET becomes permanent then, rather than a pilot, do you feel you'll still have adequate opportunity to test the efficacy of the program, review it, and track it?

DR. POWLICK: Certainly from an accounting viewpoint we'll be able to do that. As I say, the variations in the balancing account have been fairly under control and readily auditable.

With regard to the efficacy of the DSM programs, I assume you're asking? There's of course a report due, I believe it's in June, that's supposed to be a comprehensive look at the effectiveness of the program. And obviously we're recommending continuation of the CET before that's in.

I'm not expecting any surprises with that report. If there are, of course the Commission would always have the ability to open up a new docket and say, Wait a minute. You know, maybe the CET isn't doing what it's supposed to do.

I don't know -- and I'm part of the, this steering committee or whatever we're calling it these days for the Questar DSM. But I don't recall -- Gary maybe can correct me -- whether or not we've put in place a mechanism for doing annual reporting, tri-annual reporting?

I don't think we've, we've put that in place. But certainly now, once we have this report, this three-year report coming in June, we probably ought to establish something like that to have outside parties review the efficacy of the program.

Right now the Company is filing quarterly reports on results. And those are giving us a lot of granularity in what the individual programs are doing, so I'm satisfied from that viewpoint. But you -- your question does raise in my mind maybe we do need to establish going forward a mechanism to have an outside party review the program.

And, and a little bird just put a paper in front of me that reminds me that of course we can always challenge the prudence in the future.

COMMISSIONER ALLEN: All right, great. Thank you, that's helpful. And something tells me the Company might have an answer to your implied question about the annual report or how that works.

MR. McKAY: I'll agree with Dr. Powlick in his observation of what we have out there. But also remind the Commission that the way we currently have done this is slightly different than maybe other utilities that are operating in this state.

And that is this: We come before the Commission with a proposed budget every year. And right now all we have before this Commission that they've approved is a budget for 2010. There's not a budget for 2011.

We simply have a Conservation Enabling Tariff on the accounting side of revenues that's gonna move forward. We anticipate that we would again follow -- as has been our standard procedure after input from the advisory board, which Phil has been on, as well as the Office, and Utah Clean Energy, and others with their input.

And we're anticipating making adjustments to our current programs when we get this June report. Just in fine tuning them, improving them. Some measures might need to be eliminated if we don't feel like and the results come back that they're not producing the benefits that we thought. Others could be added.

But we would be filing at the 1st of October again for approval of a 2011 budget moving forward. And unless the Commission were to change -- and that's also a separate docket that it be docketed every year -- unless they were to change that procedure, we would anticipate moving forward in that same manner.

COMMISSIONER ALLEN: Okay, great. Those, those questions are helpful. I think that the other questions that I had have been answered during summary, so thank you.

CHAIRMAN BOYER: Commissioner Campbell?

COMMISSIONER CAMPBELL: My first question I guess would go to the DPU. And it is what rate of return on equity will the DPU use as it evaluates whether the Company's over earning?

Are you intending to use the 10.35 in the stipulation? Are you intending to use what you feel like is the appropriate ROE.

DR. POWLICK: We would use the 10.35 in the stipulation.

COMMISSIONER CAMPBELL: Have the parties, as you've talked about this issue, have you established any sort of agreement on capital structure or cost of debt? Did that come up at all in the context of the stipulation?

DR. POWLICK: We haven't. I believe, I believe it's as filed.

COMMISSIONER CAMPBELL: Is that your understanding, Mr. McKay, that it's as filed?

MR. McKAY: The revenue requirement upon which is specifically identified in Exhibit 1, page 1, used the capital structure and cost of debt as filed to reach that agreed 263.7 million total revenue requirement.

And that has been consistent with how this Commission has ordered in all of our rate cases since '93, that I'm aware of.

COMMISSIONER CAMPBELL: Then let me ask you a question, Mr. McKay, from the Company's respect. And I don't know if you're prepared to do this, but on Exhibit 2?

MR. McKAY: Correct.

COMMISSIONER CAMPBELL: There is a number for a current Commission allowed pre-tax rate of return of 11.79 percent. Do you have the details to that calculation?

MR. McKAY: Yes, we have them. I don't know if I have them in front of me. I can tell you what they're based on, and then give you the exact numbers that I don't have memorized.

And they are this. They are the average capital structure for the test period of 2010, with -- a forecast that's based on the average capital structure. With the cost of debt beyond the -- being the actual cost of debt for that period.

We're not doing any financing, so that's essentially historical. Meaning that it is what it is today. With the stated allowed return on equity of 10.35, which results in a average rate of return of

8.42 percent is the rate of return. The equity was 10.35.

When you use those numbers, given our current federal and state tax rate, it produces a pre-tax rate of return of 11.79.

COMMISSIONER CAMPBELL: Could you provide us that calculation? When our staff tried to come up with that number they came, they came to that number in a different way which showed your 10.6 original request and a gross of debt as well as equity.

So if you could provide that for us, that would be helpful. Because we could not figure out how, with the 10.35, you got to that number.

MR. McKAY: I -- yes, we can provide that. We'll provide it not only on a separate sheet of paper, but I think -- I'm gonna turn around and look at my revenue requirement witness here.

I think we might also be able to specifically refer to you in the settlement model that was filed with this settlement stipulation. And --

COMMISSIONER CAMPBELL: I think that's where they got their numbers for the gross factor and some of the other things. So if you could just point us to the numbers, that would be helpful.

MR. McKAY: We can do that.

COMMISSIONER CAMPBELL: Let me -- I'm gonna move on to decoupling. And I think I'll ask Ms. Beck the first question. You left decoupling out of your summary. I was anxious to hear what you had to say about that paragraph.

So could you harmonize for me your agreement to the paragraph, "Explanation of implementing full decoupling in the state," with the pages of testimony and the testimony we're gonna hear on Monday and Tuesday as it relates to the other company?

Could you just harmonize that for me from the Office's standpoint?

MS. BECK: Within the Office -- first of all, I want to be careful and say that I personally was not here for the majority of the process associated with the implementation of the CET. So I don't have quite all of that history.

And I think, to be fair and honest, I think there were -- was -- we maybe did not have complete consistency in the positions that were taken. Although also to be fair, the Office itself was going through a great deal of turmoil during that time.

So viewing it today and going forward, in the Office's judgment there are significant differences between Questar and the company about which we will be speaking on Monday. Some of those differences have been outlined in the testimony I presented in that other case.

And so that's, I think, one of the, one of the key differences. One of the things that we had intended to do within this Questar Gas rate case, and did give up in the settlement, is take a more specific look at some of the details.

Now, in our view -- not that the question was asked of me, but to respond to Commissioner Allen -- we don't think anything is ever permanent. I mean, we think that in any case before the Commission we can always come back and ask for changes, or adjustments, or challenge prudence.

And so there may be elements of this decoupling program -- and one of them, by the way, is that I hate the name. But that's, that's there. I -- but this decoupling program, there may be elements that we'll want to come back and try and refine and try and ask for in future cases.

And to be honest and clear, we gave that up in this case in the interest of pursuing I think in many respects what we think would be the best use of our resources, given limited resources and multiple cases.

So, but I think that's one of the clear distinctions that's made. And I think probably it would be more appropriate to discuss in the other case, come out in the other case. And that is the difference between the companies.

COMMISSIONER CAMPBELL: And I'm sure we'll have that description on Monday or Tuesday.

MS. BECK: I mean, I'd be happy to go further, I just don't want to cross cases.

COMMISSIONER CAMPBELL: I just, in context of this stipu -- just in context of this stipulation and your signing off on this stipulation, it raised the question.

MS. BECK: Uh-huh (affirmative.)

COMMISSIONER CAMPBELL: With that other case so close in time.

MS. BECK: Did my answer provide an adequate response?

COMMISSIONER CAMPBELL: I understand your answer.

But let me ask Dr. Powlick, you mentioned that the caps in the decoupling -- or the CET tariff would remain in place. My question is, to you or the Company, have they ever been applied?

DR. POWLICK: My recollection is that we have not reached either of those caps in the, what is it now? Three years that we've been doing it.

COMMISSIONER CAMPBELL: Is that correct?

MR. McKAY: We apply them each month. We compare to see if --

COMMISSIONER CAMPBELL: Have they ever been reached?

MR. McKAY: No, they've never been reached.

COMMISSIONER CAMPBELL: Okay. Let me ask a little bit about NGV now. I think in the last order the Commission by -- through that order had suggested a policy of narrowing the subsidy that's provided to customers that have NGV -- the NGV customers.

And the question is, does this stipulation increase that subsidy? Does it move us in the opposite direction, and if so, by how much?

DR. POWLICK: Because this is a uniform percentage rate increase, it -- I'm -- it -- I'm having to do some math in my head.

COMMISSIONER CAMPBELL: Well, then let --

DR. POWLICK: Yes, but by a miniscule amount.

COMMISSIONER CAMPBELL: Let me ask it this way. There's a significant capital investment, yet the volumes are unchanged, so. Maybe I should go to the Company on this one.

MR. McKAY: One of the other things that came out -- just to bring us all on the same page first, then I'll specifically answer that question -- was that we wanted to break out the natural -- the NGV rate as a -- its own specifically allocated to schedule.

In the previous case that was -- that had not occurred. And so that's one thing that happened that is part of the -- excuse me -- the data that is before all of the parties.

And when that was done, because of the principle of average allocations and -- that occur when you try to allocate all of the costs and then also mix that with specific allocations, the actual amount of "subsidy" that you're specifically referring to was less, just to begin with, than was identified in the last case. Which did it in a different manner.

I think to further answer your question though is we anticipate -- and we've put that issue into this next portion of the cost of service and rate design. And it very much is a cost of service and rate design issue.

And we would anticipate that all the parties that Dr. Powlick had identified earlier as perhaps lining up to weigh in would need to weigh in at that time. And no party's position is limited as to what they could -- would or could recommend before the Commission and have you decide in that portion. Or in that case.

COMMISSIONER CAMPBELL: But do I have the math right? I mean, with the significant capital investment to go along with the Clean Cities grant we're making new stations, we're beefing up the compression, but the volumes don't go up. So is this subsidy increasing?

MR. McKAY: No. The -- for specific purposes there was 5.1 million included in the total investment for the 2010 test period. On average that's gonna be something more along the 2 to 3 range, so that's what the amount it affected rates by.

Second, the volumes have gone -- have continued to be at a higher level than what we were providing in the last case, so that actually works to reduce it. And then third, because of it being broken out in a separate rate class, that also had an overall effect of helping to reduce.

So we are slightly less subsidized, because of usage and allocations, in the results that we have put forward in this case when compared to the previous case.

COMMISSIONER CAMPBELL: Okay, thank you.

Let me ask a question about, from a customer's perspective, as it relates to the surcharges. We're gonna have a surcharge for the tracker as well as a surcharge for the low income program.

Are both of those gonna be on the bill? Or is the tracker surcharge gonna be on the -- in the tariff, where it ends up in the volumetric rate? And it comes down to the question of you want transparency, but you don't want confusion. And so.

I believe the low income tracker on your statute has to be on the bill, as I reread that statute this morning. But I -- what is your intent as it relates to the infrastructure tracker surcharge?

MR. McKAY: Our intent is to treat it like other tariff components and have it broken out specifically on the tariff page. But to have it be treated like the other ones that are on the regular bill in the essence of it not creating the confusion.

We -- my understanding is also consistent with yours, Commissioner, and that is that I think that the low income does require that. I didn't know for sure, but I assumed that that would get clarified and worked out in our efforts of meeting together and hammering that out and trying to have the recommendation to you by June 15th.

CHAIRMAN BOYER: Okay, I have just a couple of questions. My first is, how long is the infrastructure tracker pilot? I heard Dr. Powlick say three years, but as I read the stipulation it looks like it is revisited every three years, at least every three years in a rate case, but it continues so long as the feeder line projects are going on? So it could go longer than three years?

MR. McKAY: I think all of our understanding is we recognize that currently what we have out there is ten-plus years of specific infrastructure to be replaced, but the idea is to have it be reviewed and revisited at least every three years.

CHAIRMAN BOYER: Thank you. And so about a ten-year period to complete the feeder line, more or less? I'm not gonna hold you to it, but that's what you estimate?

MR. McKAY: More or less.

CHAIRMAN BOYER: Okay. Question for Dr. Johnson. In the course of your analysis did you look into the issue of whether or not the low income assistance program might result in savings to the Company in terms of reducing uncollectible accounts, bad debt expense, those sorts of things?

DR. JOHNSON: I did look at that in the last Questar general rate case, but I did not at this time. I think it's -- it would be expected that it would reduce it somewhat. But I think as Questar has recognized, their level of uncollectibles is lower than many comparable companies.

CHAIRMAN BOYER: Okay, thank you.

DR. JOHNSON: I would like to just correct one thing. The legislations does require that the credit to the beneficiaries of the low income program be on the bill, but I can't find any reference to the surcharge being a separate item.

COMMISSIONER CAMPBELL: I think in the statute it use the term -- it uses the term "bill surcharge." Which makes me think. I think in the case of our other utility they actually put that in singly on the bill.

CHAIRMAN BOYER: Okay. Another question, you know, for anyone to respond to, I guess. And that is, in the course of the settlement discussions did anyone raise the issue of whether or not the infrastructure track -- tracker reduces risk for the Company that could, or might, or should be reflected in the rate of return?

Ms. Beck?

MS. BECK: Yes.

CHAIRMAN BOYER: So is the -- does the stipulation reflect some kind of consensus on that issue?

MS. BECK: Paragraph L reflects our view on whether or not the ROE properly reflects all risk.

CHAIRMAN BOYER: Mr. McKay?

MR. McKAY: Chairman, I'll agree with the yes, because it was brought up, it was reviewed, it was discussed. I think there's a couple of different sides to that issue. And therefore we -- there -- the need for compromise in what's before you here in the form of a settlement.

We recognized the very first thing out of the block was for us to agree to an average test period. Which essentially, at the time these rates will go into effect, will be 100 percent historical. Because the average point will be June 2010. That was a significant give and take on our part.

And then in the form of the tracker we will not be able to do what the statute allows, and that is file a forecasted test period that could go out 20 months. And instead the only historical inservice plant.

I also recognize that the Office had points that recognized other issues that could say, Hey, I can argue to have it be reduced. So I think it absolutely was discussed and vetted.

CHAIRMAN BOYER: Okay, thank you. Did anyone represent NGV users or these folks who retrofit automobiles in the course of these discussions?

They didn't participate? Okay.

DR. POWLICK: I don't believe so.

MR. McKAY: Chairman, we did have those parties contact us. We told them that they should monitor and review this case, and that there would be a public witness day. But that was at the time that we were anticipating a full-blown perhaps litigated proceeding.

I don't know if they're necessarily gonna show up today. But we did tell those also that communicated with us that what would be in play in the next portion of this case could absolutely be that issue as it relates to cost of service allocated to natural gas vehicles, as well as whether or not it continues to be subsidized.

DR. POWLICK: Chairman Boyer, I believe none -- no such parties intervened in the case. So they wouldn't have been in on the settlement discussions.

CHAIRMAN BOYER: Thank you. And then my last question. There's a reference in -- on page 22 that states more or less that the parties agree that the Company will account for the costs incurred in compliance with the new distribution and integrity management program rules in the same manner.

Is that -- does that just apply to the cost tracking and not to allocation?

MR. McKAY: Correct. It's an accumulation of costs or the tracking of it, not the allocation. It's never been specifically called out to be allocation.

CHAIRMAN BOYER: Thank you. Since there are no other questions from the Commissioners, do any of the parties wish to do any cross examination of any of those who have spoken in favor of the -- or any redirect?

Okay. Very well. We'll be in recess then until 12:00.

Ms. Bell, did you --

MS. BELL: I'm aware -- I believe Mr. McKay may have one comment he would like to maybe --

MR. McKAY: Maybe I'm asking a procedural, so I'll ask it as a question. And maybe it's premature, too, because we need to have a opportunity for the public witness.

But I'm really curious, recognizing that I want to keep our commitment as it relates to the stipulation, of how we would proceed forward in making sure that we're meeting and providing the document to this Commission by the 15th of June.

And didn't know if that's something we need to be waiting for as far as the Commission's indication or -- of acceptance of this stipulation, or we -- how that would go forward. And maybe that's a legal issue.

CHAIRMAN BOYER: Well, I don't want to tip our hand at this moment. I think we'll just have to -- we will work expeditiously to get the order out on this stipulation.

But if there's nothing else, let's be in recess then until 12:00. We'll see if anyone from the public wishes to speak. And thank you for your participation. We'll see you then.

(A recess was taken from 11:41 to 12:09 p.m.)

CHAIRMAN BOYER: Any members of the public shown up?

Okay. We noted at this time that we'd start at 12 and continue until we finished, but it looks like we'll finish earlier than we anticipated.

We did have an opportunity to discuss the case and the stipulation and are prepared to order from the bench on this one our ruling, which is we will approve the stipulation as presented.

And we'll ask the Company if they would prepare a first draft of the order, circulate it among the parties. And we'll put our finishing touches on it and issue it ASAP.

Thank you all for your participation.

MS. BELL: Thank you.

CHAIRMAN BOYER: Have a good day.

(The hearing was concluded at 12:10 p.m.)

C E R T I F I C A T E

STATE OF UTAH)
) ss.
COUNTY OF SALT LAKE)

This is to certify that the foregoing proceedings were taken before me, KELLY L. WILBURN, a Certified Shorthand Reporter and Registered Professional Reporter in and for the State of Utah.

That the proceedings were reported by me in stenotype and thereafter caused by me to be transcribed into typewriting. And that a full, true, and correct transcription of said proceedings so taken and transcribed is set forth in the foregoing pages, numbered 1 through 80, inclusive.

I further certify that I am not of kin or otherwise associated with any of the parties to said cause of action, and that I am not interested in the event thereof.

SIGNED ON THIS 14th DAY OF April, 2010.

____
Kelly L. Wilburn, CSR, RPR
Utah CSR No. 109582-7801

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