- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application of Questar Gas Company to Increase Distribution Rates and Charges and Make Tariff Modifications	)))))	DOCKET NO. 13-057-05 REPORT AND ORDER

ISSUED: February 21, 2014

SHORT TITLE

Questar Gas Company 2013 General Rate Case

SYNOPSIS

The Commission approves a settlement stipulation addressing revenue requirement, rate spread, and rate design. The settlement stipulation and the Commission's decision on cost of capital increases Questar Gas Company's annual distribution non-gas revenue by $7.614 million, or 2.6 percent, effective March 1, 2014. The revenue requirement is based on an average test year ending December 31, 2014, an allowed rate of return on equity of 9.85 percent and an overall return on capital of 7.64 percent.

The revenue increase is allocated to all service schedules producing movement of each schedule toward cost of service and resulting in non-uniform percentage increases to the rate schedules. The increase will be implemented in two steps with the first step on March 1, 2014, and the second step in 2015. Within each rate schedule, the revenue change will be collected through rates consistent with the stipulation and includes changes to basic service fees.

The approved settlement stipulation includes continuation and expansion of the infrastructure tracker pilot program that will now include both feeder lines and high pressure belt lines. The Commission also approves a second stipulation addressing modifications to the Transportation Service tariff.

The Commission approves a change to the commodity rate for Interruptible Service customers from market pricing to Questar's weighted average cost of gas, effective coincident with the effective date of the first 191 account pass-through filing on or after August 1, 2014. Finally, the Commission approves modifications to the line extension policy and directs a workgroup to monitor and evaluate these changes.

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I. INTRODUCTION

This matter is before the Public Service Commission of Utah ("Commission") on Questar Gas Company's ("Questar" or "Questar Gas" or "Company") July 1, 2013, application requesting authority to increase its distribution non-gas ("DNG") retail rates by $18.96 million, or approximately 6.4 percent ("Application"). The Application was filed pursuant to a commitment in a settlement stipulation approved by the Commission on June 3, 2010, in Docket No. 09-057-16.[1]

The Application is based on the forecast test period ending December 31, 2014, a 13-month average rate base with an historical base period, and a requested return on equity of 10.35 percent. The Application requests approval to increase the residential monthly basic service fee for a Category 1 meter from $5 per month to $8 per month. Questar also proposes changes to the transportation service ("TS"), interruptible sales service ("IS") and FT-1[2] rate schedules, and changes to the method by which contributions in aid of construction ("CIAC") for both main and service lines are calculated. Additionally, Questar proposes to expand and continue the infrastructure tracker pilot program.

II. PROCEDURAL HISTORY

On July 1, 2013, Questar filed the Application. On July 2, 2013, the Commission issued a notice of filing and a notice of scheduling conference to be held on July 16, 2013. On July 12, 2013, the Division of Public Utilities ("Division") filed a memorandum summarizing the results of its review of the Application pursuant to Utah Code Ann. § 54-7-12(2)(b)(ii). The

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[1] *See 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 (Report and Order; June 3, 2010, Settlement Stipulation at P.19).

[2] FT-1 is a specific form of firm transportation service.

Division's memorandum indicates the Application constitutes a "complete filing" as defined in Utah Administrative Code R746-700-(10), (20), (21), and (22).

Between September 12 and December 2, 2013, the following parties petitioned and were granted intervention in this docket: Utah Association of Energy Users ("UAE"); Nucor Steel, a Division of Nucor Corporation ("Nucor"); Dunford Bakers; Federal Executive Agencies ("FEA"); US Magnesium LLC ("US Mag"); Summit Energy, LLC ("Summit Energy"); Utility Cost Management Consultants ("UCMC"); The Home Builders Association of the State of Utah ("UHBA"); Utah Asphalt Pavement Association ("UAPA"); Emery County Economic Development Department ("Emery County"); and Holcim, Inc. and Kennecott Utah Copper LLC, collectively referred to as the Industrial Gas Users ("IGU").

On July 22, 2013, the Commission issued a scheduling order and notices of technical conference and hearing, setting the procedural schedule for this docket. On August 1, 2013, the Commission distributed a list of topics to be discussed during the August 13, 2013, technical conference. On August 9, 2013, Questar filed corrected pages for QGC Exhibit 3.37. At the conclusion of the August 13, 2013, technical conference parties determined additional time was necessary to address all of the discussion topics. On August 15, 2013, the Commission issued a notice of continuation of technical conference to be held on August 26, 2013. On August 29, 2013, the Commission posted in this docket the Division's Infrastructure Tracker Pilot Program Report filed in Docket No. 09-057-16.

On September 5, 2013, the Office of Consumer Services ("Office") filed a notice of appearance and request for notice that was amended on September 11, 2013. On October 18, 2013, the Division filed a request to set a schedule to consider Questar's proposed depreciation and amortization rates included in a depreciation study circulated to parties on October 11,

2013.[3] On October 21, 2013, the Commission issued a notice of scheduling conference to be held on October 28, 2013, to discuss the Division's request.

On October 30, 2013, direct testimony on revenue requirement, cost of service, cost allocation, rate design and/or proposed tariff changes was filed by the Division, the Office, collectively by UAE and Nucor ("UAE/NUCOR"), US Mag, Summit Energy, and UCMC. On November 1, 2013, Dunford Bakers filed direct testimony. On December 3, 2013, Questar, representing various parties involved in this proceeding, filed a motion to modify the scheduling order. Specifically, Questar requested the Commission modify the July 22, 2013, scheduling order to reflect the following three items: 1) rebuttal testimony on return on equity issues will be due on December 5, 2013; 2) rebuttal testimony on all other issues will be due on December 12, 2013; and 3) discovery on revenue requirement, the infrastructure tracker pilot program, and various other issues is suspended and outstanding discovery requests on those issues need not be answered. On December 4, 2013, the Commission issued an order modifying the scheduling order and notices of hearings. On December 5, 2013, Questar filed rebuttal testimony addressing Questar's requested return on equity.

On December 12, 2013, UAE, US Mag, UAPA, UHBA, and Questar filed rebuttal testimony. On December 13, 2013, Questar Gas, the Division, the Office, UAE, Nucor, UAPA, and FEA filed a Partial Settlement Stipulation in resolution of some of the issues raised in the Application pertaining to revenue requirement, revenue spread, and rate design (hereafter, the "Revenue Stipulation").

On December 16, 2013, the Commission issued a second order modifying the scheduling order requiring parties to delineate in the joint-position matrix the issues they intend

[3] Questar's 160-page depreciation study was made available on October 11, 2013, on its web-based V-Bulletin site and was subsequently filed with the Commission on December 16, 2013, in Docket No. 13-057-19.

to litigate at hearing in light of the Revenue Stipulation. On December 18, 2013, IGU filed a signature page to the Revenue Stipulation indicating it joined the Revenue Stipulation along with the other signatory parties.

On January 6, 2014, Emery County filed surrebuttal testimony responding to UHBA's rebuttal testimony. On January 7, 2014, Questar, the Division, and the Office filed surrebuttal testimony. In addition, Questar filed the Partial Settlement Stipulation Regarding TS Tariff Language ("TS Stipulation") executed by Questar, the Division, the Office, UAE, US Mag, and Summit Energy.

On January 8, 2014, the Commission issued a third order modifying the schedule in this proceeding requesting the signatory parties to the Revenue Stipulation be prepared during the January 13-17, 2014, hearings to provide additional detail about how rates would be adjusted as a result of any potential changes to depreciation expense resulting from new depreciation rates under consideration in Docket No. 13-057-19.[4] Finally on January 10, 2014, Questar filed a joint-position matrix summarizing the positions of the parties prior to hearing. This matrix identified four contested issues: 1) return on equity, 2) IS commodity rates; 3) main and service line extension policy; and 4) customer installation of mains and service lines.

On January 13 and 14, 2014, the Commission conducted hearings, including a public witness hearing, on the two settlement stipulations and contested issues. Two interested parties provided unsworn testimony during the public witness hearing. The Commission also received eight public comment emails from five businesses and two individuals during this proceeding.

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[4] *In the Matter of the Application of Questar Gas Company for Authority to Change its Depreciation Rates*, Docket No. 13-057-19.

III. REVENUE REQUIREMENT, REVENUE SPREAD AND RATE DESIGN

Following the filing of rebuttal testimony on cost of capital and proposed changes to the TS rate schedule, IS rate schedule, and line extension policy, Questar and seven other parties filed the Revenue Stipulation for Commission consideration. The Revenue Stipulation addresses revenue requirement, the allocation or spread of the revenue increase to classes of customers, rate design, modifications to the infrastructure tracker pilot program, and other items.

A. Revenue Stipulation Overview

The Revenue Stipulation, excluding Exhibits 2, 6, 7 and 8,[5] is attached as Appendix A to this Report and Order. Without modifying the Revenue Stipulation, we briefly highlight its major features. Questar, the Division, the Office, Nucor, UAE, FEA, UAPA, and IGU signed the Revenue Stipulation and are collectively referred to as the "Parties." At hearing, Questar, the Division, and the Office testified in support of, and UAE and US Mag offered their support for, the Revenue Stipulation.

1. Procedural History (Paragraphs 1-5)

Paragraphs one through five of the Revenue Stipulation provide the background and procedural history leading up to the filing of the Revenue Stipulation.

2. Terms and Conditions (Paragraphs 6-42)

a. Revenue Requirement, Rate Spread, and Rate Increase (Paragraphs 6 – 8)

Paragraph 6 states the parties agree to make the adjustment outlined in Paragraph 7 to calculate a revenue requirement amount of $306,182,401 before making any adjustments for

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[5] Exhibit 2 is the electronic model entitled "13-057-05 Settlement Stipulation Model.xls" ("Settlement Model"); Exhibits 6-8 are confidential.

return on equity. Paragraph 7 states for the purposes of settlement the Parties agree to specified revenue requirement adjustments listed in Exhibit 1 of the Revenue Stipulation.

In Paragraph 8, the Parties list the total revenue requirement using Questar's recommended 10.35 percent return on equity ($306,182,401), the Division's recommended 9.45 percent return on equity ($298,673,230) and the Office's 9.3 percent return on equity ($297,421,702). These results produce revenue deficiencies of $11,785,809, $4,276,639, and $3,025,110, respectively.

b. Interruption Testing (Paragraphs 9-10)

Paragraph 9 specifies Questar will not conduct gas delivery interruption testing as proposed in the Application and summarizes the modifications to Questar's Utah Natural Gas Tariff PSCU 400 ("Tariff"). These modifications identify the consequences for customers who fail to interrupt when properly called upon to do so, including a $40 per decatherm penalty for all volumes utilized during the course of an interruption to be credited to the infrastructure rate adjustment mechanism.

Paragraph 10 lists new conditions for IS customers. These conditions require IS customers to provide by February 28th of each year representations that: 1) backup systems are in place and maintained or the customer is fully able to interrupt that portion of its gas service when required, 2) the customer can and will interrupt when requested to do so by Questar and, 3) the customer understands and acknowledges the consequences associated with a failure to interrupt when properly requested to do so by Questar.

c. Interruptible Gas Supply Call Option (Paragraphs 11-12)

Paragraphs 11 through 12 list the agreed language changes to Tariff Sections 5.04 and 5.07. These sections address a customer's option to sell their gas during periods of interruption.

d. FT-1 Qualifying Criteria (Paragraph 13)

This paragraph modifies Tariff Section 5.05 which identifies the annual usage criteria for a customer to be able to receive natural gas service under the FT-1 rate schedule.

e. Rate Spread (Paragraphs 14-15)

Paragraph 14 specifies that rate spread will be calculated based on the settlement model included in the Revenue Stipulation as Exhibit 2 ("Settlement Model"). In Paragraph 15 the Parties agree that beginning March 1, 2014, the cost of service for the TS and IS rate schedules will be 60 percent of the difference between the test period revenue collected and the test period revenue that would be collected under the results of the Settlement Model. Additionally, in 2015, coincident with the effective date of Questar's first fall Infrastructure Rate-Adjustment Mechanism filing, the TS and IS classes will receive an adjustment to collect 72 percent of the difference between the test period revenue collected and the test period revenue that would be collected under the results of the Settlement Model. Paragraph 15 further indicates that other rate classes will be adjusted accordingly pursuant to the Settlement Model.

f. Rate Schedule Adjustments (Paragraph 16)

Paragraph 16 specifies that in 2014 only, Questar will extend deadlines set forth in Tariff Sections 2.01, 4.01, and 5.01 pertaining to annual requests to transfer to firm sales service, interruptible sales service, and transportation service, respectively, to March 30, 2014. In

addition, those customers transferring to transportation service will have until April 30, 2014, to provide a fully executed contract and meet with Questar's telemetry technician.

g. Infrastructure Tracker Pilot Program (Paragraphs 17-25)

Collectively, Paragraphs 17-25 specify Questar may continue the infrastructure tracker pilot program[6] ("Program") as a pilot program with several modifications including: 1) the replacement of certain intermediate high pressure beltlines in the Program, 2) a Program limit of $65 million, adjusted annually for inflation using the most recent corresponding Global Insight "GDP Deflator," and 3) deferring tracking of infrastructure replacement costs until $84 million of infrastructure investment is reached. These paragraphs also specify pipe replacement criteria, identify lines for replacement, and contain reporting and auditing requirements.

h. Timing and Filing of Next General Rate Case (Paragraph 26)

Paragraph 26 specifies Questar will file its next general rate case no later than July 1, 2016.

i. Interim Studies (Paragraphs 27-28)

Paragraph 27 identifies Questar's requirement in the next general rate case to provide revenue neutral percentage changes for each rate schedule based on Questar's cost-of-service study. Paragraph 28 identifies Questar's requirement to convene a work group to study alternative IS and TS rate designs on or before July 1, 2014.

j. Depreciation (Paragraph 29)

Paragraph 29 summarizes Questar's commitment to file for Commission approval a depreciation study based on 2012 data. The Parties agree that upon approval of the new

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[6] The Revenue Stipulation refers to the infrastructure tracker pilot program as the "infrastructure rate-adjustment mechanism pilot program." Some parties also refer to it as the infrastructure replacement program. We use these terms interchangeably in this Report and Order.

depreciation rates, the rates and reserve variance will be applied to the rate base identified in the Revenue Stipulation and the rate spread, consistent with the Settlement Model. The revenue requirement and rates in this docket will be adjusted accordingly.

k. Basic Service Fee (Paragraph 30)

Paragraph 30 specifies the agreed upon basic service fee for each category of meter as follows: Category I = $6.75, Category II = $18.25, Category III = $63.50, and Category IV = $420.25.

l. Rate Design (Paragraphs 31-34)

These paragraphs present the rules upon which final firm sales, and TS, FT-1 and IS rates are designed using the basic service fees identified in Paragraph 30. The rules address applicable summer-winter block rate differentials, administrative charges, demand charges, and volumetric charges for each rate schedule.

m. General (Paragraphs 35-42)

The terms contained in paragraphs 35 through 42 generally address the precedential value of, and potential challenges or amendments to, the Revenue Stipulation. Additionally, Paragraph 35 states the Parties agree the Revenue Stipulation is in the public interest and the results are just and reasonable. Paragraph 42 authorizes Parties to represent that intervenors who have not entered into the Revenue Stipulation either do not oppose it or take no position on it.

B. Parties' Comments on the Revenue Stipulation

The Parties represent the settlement of issues identified in the Revenue Stipulation "is in the public interest and that the results are just and reasonable."[7] Three of the Parties (Questar, the Division, and the Office) testify recommending the Commission approve the Revenue Stipulation.

Questar provides a detailed summary of the major elements of the Revenue Stipulation and testifies it believes the Revenue Stipulation results are in the public interest and produce just and reasonable rates. Questar notes the Parties to the Revenue Stipulation are unaware of any parties who oppose it.

The Division testifies the Revenue Stipulation is in the public interest. The Division states its objectives in the case include: 1) to move each class to full cost of service, 2) to allow Questar a reasonable opportunity to recover prudent costs, 3) to support a fair rate spread and a reasonable rate design, and 4) to construct a well-defined feeder line replacement program. The Division maintains that although the Revenue Stipulation does not achieve a full cost of service for each rate class, it represents a reasonable compromise of the issues and progress towards the Division's objectives.

The Division believes the Revenue Stipulation appropriately resolves the issues it addresses. First, the Revenue Stipulation limits the increase in the revenue requirement to an amount consistent with the Division's direct testimony. Second, the stipulated rate spread limits the revenue requirement increase for the IS and TS classes. Although the Division does not believe the Revenue Stipulation strictly adheres to cost of service, the Division asserts the Revenue Stipulation mitigates the relatively large rate impact Questar proposed for the IS and TS

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[7] *See* Revenue Stipulation at p.35.

rate schedules while having relatively minor impacts on the remaining rate schedules. Third, the Revenue Stipulation provides for a two-step increase, further mitigating the rate impacts for the IS and TS rate schedules. In combination, these provisions, as well as others, represent a reasonable settlement of the revenue and cost-of-service issues and are in the public interest.

Based on the terms and conditions of the Revenue Stipulation, the Division recommends it is in the public interest to continue the infrastructure tracker pilot program and to expand it to include intermediate high-pressure lines. The Division believes the Revenue Stipulation and the associated exhibits, including Questar's agreement to continue and augment its reporting, provide clarity, represent improvements in the infrastructure tracker pilot program, and assuage the Division's concerns.[8]

The Office conducted a full review of the proposed spread of the revenue requirement among customer classes and the rate design for the GS rate schedule,[9] from the perspective of the residential and small commercial customers on whose behalf the Office advocates. The Office testifies the Revenue Stipulation is in the public interest and results in just and reasonable rates and requests that the Commission approve the Revenue Stipulation.

The Office believes the adjustments to the revenue requirement presented in the Revenue Stipulation result in a revenue requirement that is in the range of reasonableness, recognizing Questar's authorized return on equity will be determined by the Commission. The Office testifies Questar provided additional evidence and explanation during settlement negotiations that helped bridge the gap between the Office's and Questar's revenue requirement positions. Had it filed surrebuttal testimony on revenue requirement, the Office asserts its

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[8] *See* Orton Direct at pp.56-62.

[9] Firm sales service for customers which use no more than 1,250 decatherms on a winter day.

position would have been very close to the revenue requirement identified in the Revenue Stipulation.

Pertaining to rate spread, the Office maintains the Revenue Stipulation brings the IS and TS rate schedules about halfway to the revenue the Office believes is required for full cost of service. The Office notes Parties have differing views on how to calculate full cost of service, so the percentage movement is seen differently by the various Parties. According to the Office, this partially explains the Revenue Stipulation's language stating the agreed cost of service is not intended to be precedential. From the Office's perspective, this movement toward cost of service is significant and a good outcome for the case.

The Office explains that the two-step nature of the rate spread and rate change proposal provides for an increase to GS and FS[10] rates in the first step and a slight decrease in GS and FS rates in the second step. As a result, the concomitant changes for the IS, TS, and FT-1 rate schedules are appropriately gradual. The Office asserts the changes are in the range of variability often seen in pass-through and other rate mechanisms.

Finally, the Office notes the change to the basic service fee for the Category 1 meter substantially resolves its previous concerns about intra-class subsidies from larger GS customers to smaller GS customers. In the Office's view, this basic service fee encompasses the appropriate cost elements.

[10] FS is firm sales service for customers that have a 40 percent load factor or greater and that use at least 2,500 decatherms of natural gas annually.

At hearing, the counsel representing both UAE and US Mag indicated support for the Revenue Stipulation.[11] IGU's counsel stated his clients agree the Revenue Stipulation, as a whole, is in the public interest, and results in just and reasonable rates.

Several parties responded to the Commission's January 8th request for additional information about the accounting mechanism under which rates would be adjusted as a result of any potential changes to depreciation expense resulting from new depreciation rates approved by the Commission in Docket No. 13-057-19.

In response, Questar notes Paragraph 29 addresses a particular cost the Parties "haven't quite been able to get all our hands around," but have agreed on how it should be spread to the customer classes, and the associated rate design.[12] The Revenue Stipulation recognizes the Parties' need for sufficient time to evaluate the depreciation rates and determine the associated costs. Questar also explains the mechanics of implementation of the new depreciation rates.

The Division states it is comfortable with the relatively close timing between this case and the depreciation case. The Division understands that when depreciation rates change Questar will apply the new depreciation rates as if they had always existed and then compare those to the current depreciation rates. The Division asserts the resulting variance will then be amortized over a specified period of time which could be the remaining life of the plant. If new depreciation rates are delayed, for example for two years, the Division states the total amount will be amortized over a shorter period of time resulting in a larger rate impact than would

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[11] A review of the signature pages of the Revenue Stipulation and the TS Stipulation indicates that UAE signed the Revenue Stipulation whereas both UAE and US Mag signed the TS Stipulation.
[12] *See* January 13, 2014, Tr. 37:14-18.

otherwise exist. The Division recommends implementing the new depreciation rates as soon as practical following their approval by the Commission.[13]

The Office states that in Paragraph 29 of the Revenue Stipulation the Parties agreed to implement the depreciation change after the initial rate changes because the overall dollar amount at issue is relatively limited and the change will take place very close in time to the complete examination of all costs and offsets. The Office explains that depreciation changes are typically limited to shifting costs in time and the Office supports implementing depreciation rates so that the appropriate customers are paying the appropriate rates. The benefit of having the appropriate customers pay outweighs any of the Office's concerns about single-item ratemaking. Thus, for settlement purposes, under the specific facts and circumstances before the Commission in this docket and Docket No. 13-057-19, the Office supports this approach.

With respect to the infrastructure tracker pilot program, Questar testifies the level of $65 million set in the Revenue Stipulation is "a good level." Moreover, to ensure the adequate and safe operation of Questar's facilities, Questar notes the Revenue Stipulation allows it to petition for an increase in this level if needed to maintain safety and reliability. Questar believes this is an important provision recognizing that the system, customer growth patterns, and loads change. Questar feels confident the pipe that is currently in service, including the pipe to be replaced in the coming years, is providing safe service today. The infrastructure tracker pilot program enables Questar to employ a systematic approach for replacing pipe near the end of its duty.[14]

The Division agrees with Questar's comments. The Division adds that the infrastructure tracker pilot program began with a $55 million annual limit with an annual

[13] *See* January 13, 2014, Tr. 55:17-25; 56:1.
[14] *See* January 13, 2014, Tr. 66:9-25; 67:1-6.

inflation factor. Based on that factor, over approximately three years the limit for just the high pressure lines has grown to about $67 million per year. In reviewing the infrastructure tracker pilot program during this case, however, the Division recognized Questar was spending considerably less than $67 million annually to replace high pressure lines. The Division maintains that by including the intermediate high pressure lines, $65 million appears to be an adequate limit at this time. In addition, the Revenue Stipulation enables Questar to exceed the $65 million limit with Commission approval and the budget cap will be reset in each general rate case.

The Office supports the $65 million level of investment and believes it is an appropriate level for this replacement program. The Office, however, continues to believe that Questar is responsible for maintaining the safety of its system and that it should not be limited by the favorable rate treatment allowed in the infrastructure tracker pilot program. The Office emphasizes the amount in an adjustment mechanism should never be seen as a limiting factor when additional investment is needed to maintain safety.

At the public witness hearing two individuals provided unsworn comments on the Revenue Stipulation's proposed TS rates and the adverse impact the rates would have on businesses. SimTek Fence is a polyethylene fence manufacturing company and highly reliant on gas-burning ovens. SimTek testifies the impact of the proposed TS rates on SimTek would be about a two to three percent decrease on its pre-tax bottom line thereby significantly decreasing profits and slowing the company's rate of growth. UCMC, an intervenor, acknowledged that it supports the outcome of the process and then read a statement from Merit Medical's ("Merit")

Chief Financial Officer,[15] a non-intervenor, stating Merit strenuously objects to the proposed TS rate schedule increases. Merit discusses the impact of the TS rate schedule in context of its current budget, other recent tax changes, and recently installed telemetry equipment on its gas meters.

C. Discussion, Findings, and Conclusions on the Revenue Stipulation

The Revenue Stipulation presents a partial settlement of many issues associated with the Application. Our consideration of the Revenue Stipulation is guided by provisions in Utah Code Ann. § 54-7-1 et seq. encouraging informal resolution of matters brought before the Commission. The Commission may approve a stipulation or settlement after considering the interests of the public and other affected persons if it finds the stipulation or settlement in the public interest.[16] In reviewing a settlement, the Commission may also consider whether it was the result of good faith, arms length negotiations.[17] When reviewing a settlement involving a rate increase, the Commission may limit factors and issues to be considered in its determination of just and reasonable rates.[18] The eight Parties signing the Revenue Stipulation represent a diversity of interests who began discussing how to resolve their differences on November 12, 2013. The Parties agree the Revenue Stipulation is in the public interest and will produce just and reasonable results.

Based on our consideration of the evidence before us, the testimony and recommendations of the parties, and the applicable legal standards, we find approval of the Revenue Stipulation is in the public interest and conclude it constitutes a reasonable and lawful basis for establishing just and reasonable rates. We further find the Revenue Stipulation is the

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[15] Merit also filed the statement presented at the public hearing with the Commission on January 13, 2014.
[16] *See also Utah Dept. of Admin. Services v. Public Service Comm'n*, 658 P.2d 601, 613-14 (Utah 1983).
[17] *See Utah Dept. of Admin. Services*, 658 P.2d at 614, n.24.
[18] *See* Utah Code Ann. § 54-7-1(4).

product of good faith, arms length negotiations conducted by parties representing a broad spectrum of customer interests. Based on the evidence of record summarized above, we approve the Revenue Stipulation. Our approval of the Revenue Stipulation is not intended to alter existing Commission policy or to establish Commission precedent. Rather, our approval acknowledges the reasonableness of the balance of the compromises reached by the Parties.

In particular, we find the TS rate schedule increase proposed in the Revenue Stipulation to be just and reasonable. Given the significant reduction in natural gas market prices during recent years, the movement of customers from firm service schedules paying Questar's WACOG to the TS schedule is understandable. With this migration, the evidence shows the TS rate schedule is not recovering the cost of serving TS customers. We find the Revenue Stipulation's two-step rate change appropriately provides gradual movement to cost of service for the TS rate schedule. This approach also mitigates the size and duration of the subsidy required from GS and FS customers.

D. Cost of Capital

Using a projected capital structure, with a long-term debt ratio of 47.93 percent, a common equity ratio of 52.07 percent, a weighted average cost of long-term debt of 5.25 percent and an allowed rate of return on common equity of 9.85 percent, we conclude a rate of return on capital of 7.64 percent is fair and reasonable.

1. Capital Structure and Cost of Long-term Debt

Questar, the Division and the Office provide testimony on capital structure and the cost of long-term debt. As parties to the December 13, 2013, Revenue Stipulation, Questar, the Division and the Office agree on and advocate use of a capital structure consisting of 47.93 percent long-term debt and 52.07 percent common equity, and a 5.25 percent weighted average

cost of debt. This was derived from the projected 2014 average capital structure including projections for net income and dividends for 2014 and reflects bonds issued and/or retired prior to the end of December 2014. No party proposes any alternative or change to the foregoing capital structure and cost of debt.

2. Cost of Common Equity

a. Positions of the Parties

Questar

Questar recommends continuation of its currently authorized 10.35 percent return on equity, with a 7.90 percent overall rate of return on capital. Questar's recommendation is based in part on returns ranging from 6.34 to 15.30 percent, derived from various financial models and analyses, including two separate versions of the single-stage Discounted Cash Flow ("DCF") model, the Capital Asset Pricing Model ("CAPM"), a comparable earnings analysis, and an analysis of authorized returns on equity for natural gas distribution companies in other jurisdictions.[19] In addition to the results of its financial modeling, Questar's recommendation is based on its views of equity and debt holders' considerations in providing capital to Questar, market conditions and specific factors pertaining to Questar. Questar opposes reductions to equity returns, as proposed by the Office, for the proposed expansion to the infrastructure tracker pilot program. Questar argues the proxy companies also have similar revenue stabilization mechanisms and similar risks included in the equity return calculations.[20]

(1) Proxy Group

Questar applied the financial models discussed above to a group of eight comparable companies it asserts have attributes similar to Questar. In the past, Questar included

[19] *See* Curtis Rebuttal at p.3.
[20] *See* Curtis Rebuttal at p.9.

the Laclede Group in the proxy group; however, Questar excluded Laclede from its comparable companies for this case because Laclede is in the process of acquiring the natural gas distribution operations of Missouri Gas.[21]

Questar explains comparison to a proxy group is necessary because, as a wholly-owned subsidiary of Questar Corporation, Questar's common stock is not publicly traded and therefore equity-market data does not exist for Questar. As such, it is impossible to measure directly investor expectations of returns for Questar. Since return on equity is a market-based concept, Questar states it is necessary to use a group of companies with similar risks that are publicly traded as a proxy for investor expectations for Questar.[22]

(2) DCF Models

Questar prepared two versions of the DCF model to arrive at a range of return-on-equity estimates. The first version uses analyst growth estimates and dividend yields, resulting in a range of 6.36 percent to 9.76 percent, with a mean of 8.57 percent.[23] According to Questar, the growth estimates, as reported by the few sell-side analysts that actively follow the stocks in Questar's proxy group, are relatively static and are generally lower than either actual historical earnings growth rates or future growth rates.[24]

The second DCF model prepared by Questar utilizes an average of the five-year historical earnings growth rate, the ten-year historical earnings growth rate, and industry growth rate projections as reported to investors by five of the eight proxy companies and Questar. The second version of the DCF model results in a range of 6.34 percent to 12.66 percent, with a mean

[21] *See* Curtis Direct at p.5.
[22] *See* Curtis Direct at p.4.
[23] *See* Curtis Rebuttal at p.3.
[24] *See* January 14, 2014, Tr. 239:17-25.

of 10.75 percent.[25] Questar asserts the second model corrects for a systematic bias by investment analysts in understating earnings growth projections.[26]

(3) Risk Premium Models

Questar prepared a CAPM analysis adjusted for company size because, according to Questar, smaller companies have a higher investor return requirement because of higher volatility.[27] Questar's CAPM provides estimated results ranging from 9.85 percent to 10.97 percent, with a mean of 10.30 percent.[28]

Questar also prepared an analysis of the proxy group compared to Questar based on certain identified risks. Based on these risks, Questar asserts it has a slightly higher risk than the average for its group of proxy companies.[29]

(4) Comparable Earnings Analysis

Questar compiled actual returns on equity for its proxy companies for the years 2002 through 2012, resulting in a range from 8.20 percent to 15.30 percent, with a mean of 11.50 percent. Questar asserts its recommended return on equity of 10.35 percent is within the range of these historical returns and is significantly lower than the mean.[30]

(5) Authorized Returns on Equity

Questar also provided recently-authorized returns on equity for natural gas distribution companies for two time periods. The time period from 2009 through June 2013 resulted in a range from 8.83 percent to 11.35 percent, with a mean of 10.04 percent. The time period from 2012 through June 2013 resulted in a range from 9.06 percent and 10.50 percent,

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[25] *See* Curtis Rebuttal at p.3.
[26] *See* Curtis Direct at p.7.
[27] *See* Curtis Direct at p.12.
[28] *See* Curtis Rebuttal at p.3.
[29] *See* Curtis Direct at p.13.
[30] *See* January 14, 2014 Tr. 242: 17-20; Curtis Rebuttal at p.3.

with a mean of 9.88 percent.[31] Questar asserts its recommended return on equity of 10.35 is consistent with the returns authorized in other jurisdictions in recent cases.[32]

(6) Bond Rating/Financial Integrity

According to Questar, its bond ratings are at risk even if it is allowed to continue its currently authorized 10.35 percent return on equity and would be under serious risk of downgrade if the returns on equity proposed by the Division or the Office are approved in this case. Questar asserts such a downgrade could result in higher debt costs resulting in an increase in the overall cost of capital. Moreover, Questar expresses concerns that too low a return on equity could constrain Questar's ability to access the necessary capital to provide adequate, safe and reliable service.[33]

Division

The Division recommends a return on equity of 9.45 percent for Questar, with a 7.44 percent overall return on capital. The Division's recommendation is based in part on returns ranging from 6.41 percent to 12.91 percent, derived from financial models and data similar to those used by Questar, including single and two-stage DCF models, the CAPM, a comparable earnings analysis, and an analysis of authorized return on equity for natural gas distribution companies in other jurisdictions.[34] The Division's recommendation is also based on its views of equity and debt holders' considerations in providing capital to Questar, market conditions, and specific factors pertaining to Questar.

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[31] *See* Curtis Rebuttal at p.3.
[32] *See* January 14, 2014, Tr. 243: 5-6.
[33] *See* Curtis Direct at p.17.
[34] *See* DPU Exhibit 1.1 SR.

Based on its analysis, the Division asserts its recommended return on equity of 9.45 percent is fair and reasonable and will allow Questar to earn an adequate return on its rate base, to remain financially sound, and to raise the money necessary for continued operations.[35]

(1) Proxy Group

The Division disagrees with Questar's exclusion of Laclede Group from the proxy group based on its pending acquisition of Missouri Gas. According to the Division, the pending acquisition does not affect the historical earnings or dividend payments used in the analysis and does not appear to have significantly influenced the reported beta or the forecast earning and growth rates. As such, the Division included Laclede in its analysis, along with the same eight companies employed by Questar.[36]

(2) DCF Models

The Division used the forecasted average growth rates for its proxy companies as reported by Reuters, Zacks and Yahoo Finance to complete a two-stage DCF model, resulting in a range of 6.41 percent to 9.79 percent, with a mean of 8.2 percent.[37] The Division's two-stage model using Value Line growth estimates resulted in a range of 8.15 percent to 12.37 percent, with a mean of 9.37 percent.[38]

The Division also used the forecasted average growth rates for its proxy companies as reported by Reuters, Zacks and Yahoo Finance to complete a single stage DCF model resulting in a range of 6.95 percent to 10.18 percent, with a mean of 8.21 percent. The Division also ran its single-stage DCF models with forecasted growth rates from Value Line,

[35] *See* January 14, 2014 Tr. 296: 8-12.
[36] *See* Wheelwright Direct at p.8; Wheelwright Surrebuttal at pp.7-8.
[37] *See* DPU Exhibit 1.1 SR.
[38] *See* DPU Exhibit 1.1 SR.

resulting in a range of 7.71 percent to 12.09 percent, with a mean of 9.26 percent.[39] The Division utilized the results of the single-stage DCF model using Value Line growth estimates in its final recommendation.[40]

Like Questar, the Division provides its views of the reasonable dividend and growth rate estimates that could be used in DCF modeling. The Division challenges Questar's assertion that there may be a bias for investment analysts to understate earnings growth potential and testifies there is no supporting study or information to support this alleged bias.[41] As such, the Division disagrees with Questar's use of a DCF model that includes a 6.94 percent growth rate derived by averaging the historical five-year earnings growth rate for each company, the historical ten-year earnings growth rate for each company and a calculated industry midpoint based on the forecast of six companies (including Questar).[42]

The Division also expresses concern regarding Questar's use of estimated growth rates from only five of the eight comparable companies and the inclusion of a sixth company, Questar, to forecast the industry growth rate.[43] According to the Division, Questar provides no explanation why estimates for the other comparable companies were not included or why a forecast for Questar was included in the calculation to determine the appropriate growth rate for Questar.[44]

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[39] Unlike Questar's DCF models, the Division used single-stage DCF models with a growth rate derived from 75 percent analysts' earnings growth estimates and 25 percent analysts' dividend growth expectations, as approved in compliance with the Commission's decision in Docket No. 02-057-02. *See* DPU Exhibit 1.1 SR; Wheelwright Direct at p.11; *See also, In the Matter of the Application of Questar Gas Company for a General Increase in Rates and Charges,* Docket No. 02-057-02 (Report and Order; December 30, 2002, p. 32).
[40] *See* Wheelwright Surrebuttal at p.9; DPU Exhibit 1.3b SR; January 14, 2014 Tr. 295: 2-7.
[41] *See* Wheelwright Direct at p.9.
[42] *See* Wheelwright Surrebuttal at p.8.
[43] QGC Exhibit 2.3, page 2.
[44] *See* Wheelwright Direct at pp.9-10.

(3) Risk Premium Models

The Division completed a CAPM analysis using a historical risk premium, resulting in a range of 6.94 percent to 9.8 percent, with a mean of 8.13 percent. Additionally, the Division completed a CAPM analysis using historical risk premium data from a different source, resulting in a range of 9.68 percent to 10.67 percent, with a mean of 10.04 percent.[45] The Division notes it did not include a size premium like that used by Questar due to the uncertainty over the use of industry size premiums for public utilities.[46]

As a reasonable test, the Division also performed a simple calculation of the current 30-year U.S. Treasury Bond plus the long term risk premium for comparison, resulting in a range of 7.96 percent to 8.97 percent, with a mean of 8.48 percent.[47]

(4) Comparable Earnings Analysis

The Division's comparable earnings analysis includes the actual returns on equity for the Division's proxy group and calculates the average return for 2012 along with three- and five-year average returns. The 2012 average return results in an estimated return on equity range of 7.89 percent to 12.44 percent with an average of 10.53 percent. The three-year average return results in an estimated return on equity range of 8.60 percent to 12.81 percent with an average of 10.71 percent. Finally, the five-year average return results in an estimated return on equity range of 8.41 percent to 12.91 percent with an average of 11.10 percent.[48]

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[45] *See* DPU Exhibit 1.1 SR.
[46] *See* Wheelwright Direct at p.28; Wheelwright Surrebuttal at pp.9-10.
[47] *See* January 14, 2014 Tr. 295: 8-19; Wheelwright Direct at pp.30-31; Wheelwright Surrebuttal at pp.9-10; DPU Exhibit 1.1 SR.
[48] *See* Wheelwright Surrebuttal at pp.10-11; DPU Exhibit 1.1 SR.

(5) Authorized Returns on Equity

In its direct testimony on cost of capital, the Division provides recently-authorized returns on equity for natural gas distribution companies for 2012, resulting in a range from 9.06 percent to 10.50 percent, with a mean of 9.93 percent. The Division updated this information in its surrebuttal testimony where the Division provides authorized returns on equity for natural gas companies for 2013, through December 27, 2013, resulting in a range from 9.08 percent and 10.25 percent, with a mean of 9.66 percent.[49]

The Division notes Questar also updated its authorized returns on equity for comparable companies through June of 2013 but then selectively included only the return-on-equity decision for Alabama Gas Corporation (10.8 percent) from November 2013. The Division asserts that including only the Alabama decision provides an incorrect comparison to other general rate case decisions because Alabama does not follow the formal rate case process like other gas utilities across the country and the recent award is actually a reduction of the stabilization rate allowed for this utility.[50]

The Division also criticizes Questar's return on equity update because, although it includes the Alabama decision, it fails to include cases showing allowed returns on equity demonstrating a downward trend. In support of this assertion, the Division points to DPU Exhibit 1.2 SR, showing the average allowed return on equity for 2013 was 9.66 percent, with a high of 10.25 percent and a low of 9.08 percent. As noted by the Division, the average return on equity for 2013 is down from the 9.94 percent average in 2012, and 9.92 percent in 2011.[51]

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[49] *See* Wheelwright Surrebuttal at pp.3-4; DPU Exhibit 1.1 SR; DPU Exhibit 1.2 SR.
[50] *See* Wheelwright Surrebuttal at pp.3-4.
[51] *See* Wheelwright Surrebuttal at p.4.

(6) Bond Rating/Financial Integrity

The Division disputes Questar's assertion that Questar's bond rating is in jeopardy of downgrade. In support of this assertion, the Division points to the November 8, 2013, decision by Moody's to possibly upgrade many of the regulated utilities in the U.S. including Questar Gas Corporation and Questar, due to a more favorable view of credit supportiveness of the U.S. regulatory environment.[52] The report cited by the Division states "[o]ur placement of these issuers on review considers improving regulatory trends in the US, including better cost recovery provisions, reduced regulatory lag, and generally fair and open relationships between utilities and regulators."[53]

Office

The Office recommends a return on equity of 9.25[54] percent for Questar. The Office's recommendation is based in part on returns ranging from 9.01 percent to 9.91 percent, derived from financial models and data similar to those used by Questar and the Division, including single and two-stage DCF models; the empirical CAPM; and a risk premium model.[55]

(1) Proxy Group

The Office applied the financial models discussed above to the same group of proxy companies utilized by Questar.[56]

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[52] *See* Wheelwright Surrebuttal at p.5.
[53] *See* Wheelwright Surrebuttal at p.5, citing Moody's Investor Service, Rating Action: Moody's places rating of most US regulated utilities on review for upgrade, November 8, 2013.
[54] The Office recommends a 9.3 percent return on equity with a 5 basis point reduction if the Commission approves Questar's proposed expansion of the infrastructure tracker pilot program as we have done with our approval of the Revenue Stipulation above. *See* Lawton Direct at pp. 40-41; Lawton Surrebuttal at p.2.
[55] *See* Lawton Surrebuttal at p.2.
[56] *See* Lawton Direct at p.17.

(2) DCF Model

The results of the Office's single-stage DCF analysis fall in a range of 9.01 percent to 9.66 percent, with a 9.34 percent midpoint. The Office performed an additional DCF analysis of the proxy group using a two-stage DCF analysis, resulting in a return on equity range of 9.13 percent to 9.46 percent, with a 9.30 percent midpoint.[57]

The Office disagrees with Questar's use of historical information to estimate expected growth rates in its second version DCF model. Rather, the Office argues that analysts, most regulatory authorities, and most financial theory and textbooks generally rely on forecasted estimates when evaluating the DCF model. According to the Office, historical information provides little help in estimating what investors expect in the future and there is no basis for employing historical growth rates. Moreover, the Office argues there is no evidence supporting the "systematic bias" claims of Questar.[58]

(3) Risk Premium Models

The Office's empirical CAPM results provide a range of return on equity estimates from 8.85 percent to 9.62 percent, with a midpoint of 9.23 percent.[59] The Office also performed a risk premium analysis, resulting in a range of return on equity estimates from 9.85 percent to 9.91 percent, with a midpoint of 9.88 percent.[60]

The Office criticizes Questar's CAPM results, arguing Questar used sources or methods the Office views as tending to overstate the rate of return estimates. For example, unlike Questar, the Office did not apply a size premium in its CAPM analysis. The Office notes that

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[57] *See* Lawton Surrebuttal at p.2.
[58] *See* Lawton Direct at pp. 37-38.
[59] *See* OCS Exhibit SR 2.8.
[60] *See* Lawton Surrebttal at p.2.

although a size premium may be relevant for non-regulated companies, financial literature suggests that size becomes less relevant for regulated companies.[61]

(4) Authorized Returns on Equity

As with the Division, the Office testifies that regulatory authorities around the country have recognized the declining cost of equity and debt and capital in setting rates. Specifically, the Office indicates regulatory authority cost-of-equity decisions for calendar year 2012 averaged about 10 percent for electric utilities and 9.94 percent for gas utilities.[62] Also like the Division, the Office criticizes Questar's use of the recent return on equity decision for Alabama Gas Corporation in its updated analysis of authorized returns on equity for comparable companies. The Office points out that the Alabama decision provides an incorrect comparison to other general rate case decisions because Alabama does not follow a formal rate case process.[63]

(5) Bond Rating/Financial Integrity

The Office argues there is no evidence to support Questar's claim of financial harm or lowering of Questar's bond rating in this case and points to the regulatory framework in Utah that affords Questar risk-reducing regulatory mechanisms such as revenue decoupling, infrastructure adjustments, and use of a forecasted test year.[64]

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[61] *See* Lawton Direct at pp. 38-39, citing Wong, Annie. "Utility Stocks and Size Effect: An Empirical Analysis." *Journal of the Midwest Finance Association* (1993) at 98.
[62] *See* Lawton Direct at p.13.
[63] *See* Lawton Surrebuttal at p.7.
[64] *See* Lawton Direct at p.13.

FEA

FEA did not provide expert testimony regarding rate of return on equity. At hearing, however, FEA's counsel requested the Commission give strong weight to the expert witness testimony of the Office and Division in determining return on equity in this case.[65]

E. Discussion, Findings, and Conclusions on Cost of Capital

We find Questar's proposed capital structure reasonable. No party objects to its use and it falls within the range established by comparable companies referenced by Questar, the Division and the Office. Likewise, we find the cost of long-term debt, 5.25 percent, stipulated by the Parties in this case to be reasonable. Accordingly, we adopt Questar's proposed capital structure and the stipulated cost of long-term debt.

We next turn to authorization of a return on equity for Questar. At the outset, we observe the determination of an appropriate return on equity for a public utility is not an exact science. Instead, the determination of an appropriate return on equity is a legislative function delegated to this Commission, involving questions of judgment and discretion. In exercising this judgment we consider and weigh the testimony of the qualified experts in this case whose return-on-equity recommendations range from 9.25 to 10.35 percent.

As the testimony in this case demonstrates, there is no single financial model or set of data inputs on which experts conclusively agree for identifying a specific utility's return on equity. Moreover, there is no consensus on the specific weighting to be assigned to the results obtained from any of the financial models. In this context, we address the evidence and considerations that inform our judgment and discretion to arrive at an authorized return on equity of 9.85 percent for Questar.

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[65] *See* Tr. 341:2-8.

We begin with Questar's request for continued authorization of the 10.35 percent return on equity we approved as part of a settlement stipulation in Questar's last general rate case in Docket No. 09-057-16 ("2009 Rate Case").[66] At hearing, the Division cross-examined Questar's cost-of-capital witness regarding the calculation of his recommended 10.35 percent return on equity. In response, he testified:

> The 10.35 is what we are currently allowed to earn in Utah. And my belief is that we should be able to continue to be allowed to earn that 10.35. There's not a mathematical--it's not any sort of average of these numbers. There's certainly a range, it's within the range of these numbers. And so, you know, as we put this case together, you know, what we're asking for is we're not asking for something much greater than we're allowed today. We're asking to be allowed to continue to earn the 10.35.[67]

Questar's cost of capital witness was also cross-examined by FEA regarding his return on equity testimony in the 2009 Rate Case. In that testimony Questar's witness provided an overview of the then-current U.S. economy, still suffering from the most significant recession since the Great Depression, and its effect on the various data inputs and financial models utilized by Questar to arrive at a recommended return on equity for the 2009 Rate Case.[68]

With reference to the testimony of Questar's cost of capital witness above, we note our approval of Questar's 10.35 percent return on equity in the 2009 Rate Case was based on our approval of the settlement stipulation as just and reasonable in result. Parties to that case did not agree on each component of the settlement and indeed, the Office explicitly rejected the stipulated 10.35 percent return on equity component. There is no finding regarding the return on equity component of that settlement stipulation *per se*, but rather our determination the

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[66] *See 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 (Report and Order; June 3, 2010).
[67] Tr. 257: 11-19.
[68] *See* 2009 Rate Case, Curtis Direct at p.3.

settlement stipulation was just and reasonable as a package. Like our determination then, our current determination is based on our judgment and discretion in light of the evidence relevant for this case. As such, we do not consider the Commission's approval of a 10.35 percent return on equity included as part of a stipulation in the 2009 Rate Case as persuasive evidence that continued authorization of a 10.35 percent return on equity is just and reasonable.

Financial conditions have changed since our approval of the 2009 Rate Case stipulation. The Office's witness on cost of capital testifies that although financial markets and the economy in general have experienced periods of uncertainty and turmoil since September 2008, government intervention has affected financial markets. We are influenced by the Division's and the Office's analyses demonstrating that as a general matter, capital costs remain low in comparison to historical levels due to federal monetary policy and low interest rates.

As discussed above, Questar's recommended 10.35 percent return on equity is based in part on the results of various financial models. As pointed out by the Division, the second version of Questar's DCF model is based on an average of the five-year historical earnings growth rate, the ten-year historical earnings growth rate, and industry growth rate projections.[69]

As noted by the Division, Questar provides no explanation of the appropriateness of including Questar's own forecasted growth rate as a proxy to estimate investor expectations for Questar.[70] We likewise find little justification to use public utilities' growth rate forecasts, and place little reliance on the results derived from the second version of Questar's DCF model that utilizes such forecasts.

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[69] *See* Wheelwright Direct at pp.9-10; Wheelwright Surrebuttal at pp.8-9; QGC Exhibit 2.3, p.2.
[70] *See* Wheelwright Direct at pp.9-10.

Questar's recommended 10.35 percent return on equity is based on the assertion that Questar has slightly higher risk as compared to the average risk of its proxy companies and therefore a higher allowed return on equity is appropriate. Both the Division and the Office counter this assertion and argue that as a result of the various Commission-approved revenue-stabilization and rate-recovery mechanisms, Questar actually has similar to lower risk than other natural gas distribution companies.

According to the Office, regulatory mechanisms such as revenue decoupling, infrastructure adjustments, and use of a forecasted test year reduce Questar's risks through enhancing cash flow and improving the timing of cost recovery. The Office further testifies that the benefits of these regulatory mechanisms are viewed as important attributes by credit rating agencies in evaluating risk and creditworthiness.[71] For example, the Office and Division note that both Moody's and Standard & Poor's view the regulatory mechanisms in Utah as credit supportive to Questar.[72]

As further evidence of Questar's lower risk profile, the Division points to the last column of its DPU Exhibit 1.6 SR, which calculates the standard deviation of the returns on equity over the 2004-2012 time period. As explained by the Division, standard deviation is a common statistical measure of variability; the higher the standard deviation, the more risk there is to the expected return, and *vice versa*. The Division notes that Questar has a standard deviation that is one-third of the average, thus supporting the view that Questar has less risk than the typical company for the proxy group.[73]

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[71] *See* Lawton Direct at 15.
[72] *See* Lawton Direct at p.16; Wheelwright Direct at p.34.
[73] *See* Wheelwright Surrebuttal at p.11; DPU Exhibit 1.6 SR.

Based on the evidence presented, we do not believe Questar has a higher risk profile than comparable natural distribution companies and may, in some instances, have a lower risk profile. We further acknowledge the regulatory mechanisms approved by this Commission in recent years have positively affected Questar's risk profile. For example, the decoupling mechanism, approved on October 5, 2006, through the Conservation Enabling Tariff in Docket No. 05-057-T01, ensures Questar collects the authorized revenue per customer regardless of the weather, the economy, customer conservation, movement of customers between rate schedules, or other influences on consumer demand. The Commission also approved a Demand Side Management cost balancing account in that docket, which further reduced cost recovery risk and, *ceteris paribus*, stabilized earnings.

Additionally, the infrastructure tracker pilot program approved on June 3, 2010, in Docket No. 09-057-16 allows Questar to begin recovery of investment associated with high-pressure feeder lines between rate cases, thus reducing regulatory lag and cost recovery risk, and stabilizing earnings. The Commission also approved deferred accounting for transmission and distribution pipeline integrity management costs in Docket Nos. 04-057-03[74] and 09-057-16, respectively, which again reduced cost recovery risk. The reduction of Questar's risks resulting from these mechanisms is evidenced by the reports from the financial rating agencies described above. We view these reports as positive outcomes associated with a constructive regulatory framework and a well-managed utility.

In light of the evidence discussed above, we find that Questar's request for continuation of its currently authorized 10.35 percent return on equity is not justified. While we decline to grant Questar's request to maintain a 10.35 percent return on equity, we also find the

[74] *See In the Matter of the Application of Questar Gas Company for an Accounting Order Regarding Treatment of Transmission Line Safety Compliance Costs,* Docket No. 04-057-03.

evidence of record shows a 9.25 or 9.45 return on equity is too low to support properly Questar's operations. In surrebuttal testimony, the Division's witness provides 2013 authorized returns on equity for natural gas distribution companies through December 27, 2013, resulting in a range from 9.08 percent to 10.25 percent, with a mean of 9.66 percent.[75] When looking at authorized returns on equity for the last quarter of 2013, there appears to be an upward trend in authorized returns on equity with an average authorized return on equity of 9.81 percent.[76]

These data support a return on equity that is meaningfully higher than the proposals of the Office and the Division. Moreover, this conclusion is consistent with the range of model results presented by the various expert witnesses.

Questar presents testimony that Questar delivers safe, reliable, natural gas service to its customers at rates that are among the lowest in the country. Furthermore, Questar testifies that based on the results of customer satisfaction surveys, Questar's customers are very satisfied with the service they receive. We are pleased with these results and believe Questar's ability to obtain capital at reasonable cost is a key component to continuing this success.

Based on our consideration of the testimony and evidence in this case, we conclude that an allowed return on equity for Questar of 9.85 percent is just and reasonable. This return on equity is well within the range of returns of 9.25 percent to 10.35 percent recommended by the experts on the record and will allow Questar to raise capital in the market on reasonable terms. Our conclusions regarding the cost of debt, return on equity, and capital structure result in an overall return on capital of 7.64 percent. This is the allowed return on which Questar's revenue requirement in this case is set and its financial performance shall be reported and evaluated.

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[75] *See* DPU Exhibit 1.1 SR.

[76] *See* DPU Exhibit 1.2 SR.

F. Revenue Requirement, Spread of Revenues, Rates and Charges

Based upon our decision on the cost of capital, our approval of the Revenue Stipulation, and the Settlement Model agreed to in the Revenue Stipulation, we determine a DNG revenue requirement for Questar Gas of $302.010 million necessitating a $7.614 million revenue increase. Pursuant to the Revenue Stipulation, the $7.614 million revenue increase is spread to the rate schedules as shown in Table 1, and to rate elements as shown in Tables 2 and 3. Table 1 presents the spread of revenue requirement to the various rate schedules in Steps 1 and 2.

TABLE 1: SPREAD OF REVENUE CHANGE

Rate	Test Period	Step 1, March 1, 2014		Step 2, 2015	
Schedule	Revenue	$ Change	% Change	$ Change	% Change
GS	$270,948,319	$5,043,801	1.9%	($474,356)	-0.2%
FS	$3,578,143	$64,649	1.8%	($6,080)	-0.2%
NGV	$3,632,517	$70,341	1.9%	($6,615)	-0.2%
IS	$820,693	$99,885	12.2%	$19,977	2.4%
TS	$10,790,569	$2,055,289	19.0%	$411,058	3.8%
FT-1	$1,470,474	$280,082	19.0%	$56,016	3.8%
FT-1L	$3,155,877	$0	0.0%	$0	0.0%
Total	$294,396,592	$7,614,047	2.6%	$0	0.0%

Table 2 presents approved fixed monthly charges by rate schedule, and provides a comparison of current charges to approved charges.

TABLE 2: MONTHLY FIXED CHARGES

Description	Current Charges	Approved March 1, 2014 Charges	$ Change	% Change
Basic Service Fees:				
GS, FS, FT-1, MT				
Category 1	$5.00	$6.75	$1.75	35%
Category 2	$21.00	$18.25	($2.75)	-13%
Category 3	$55.00	$63.50	$8.50	15%
Category 4	$244.00	$420.25	$176.25	72%
IS, TS				
Category 1	$5.00	$6.75	$1.75	35%
Category 2	$29.00	$18.25	($10.75)	-37%
Category 3	$67.00	$63.50	($3.50)	-5%
Category 4	$274.00	$420.25	$146.25	53%
Administrative Charges:				
Primary	$375.00	$375.00	$0.00	0%
Secondary	$187.50	$187.50	$0.00	0%

Table 3 presents approved Base DNG Rates and also provides a comparison of current base DNG rates to approved base DNG rates in Steps 1 and 2. The bill impact for a typical GS customer using 80 decatherms per year is attached as Appendix C to this document. Bill impacts to other GS customers and rate schedules will depend on the unique demand and usage characteristics of each customer.

TABLE 3: BASE DNG RATES ($/decatherm)

		Current Rates	Step 1, Mar 2014	$ Change	% Change	Step 2, 2015	$ Change	% Change
GS General Service								
Winter								
1st block	0 – 45	$2.22938	$2.36887	$0.13949	6.3%	$2.36405	($0.00482)	-0.2%
2nd block	over 45	$0.92557	$1.36887	$0.44330	47.9%	$1.36405	($0.00482)	-0.4%
Summer								
1st block	0 – 45	$1.87767	$1.73460	($0.14307)	-7.6%	$1.72978	($0.00482)	-0.3%
2nd block	over 45	$0.69704	$0.73460	$0.03756	5.4%	$0.72978	($0.00482)	-0.7%
FS Firm Sales								
Winter								
1st block	0 – 200	$0.73761	$1.25260	$0.51499	69.8%	$1.25134	($0.00125)	-0.1%
2nd block	201 - 2,000	$0.59009	$0.87260	$0.28251	47.9%	$0.87134	($0.00125)	-0.1%
3rd block	over 2,000	$0.53109	$0.47260	($0.05849)	-11.0%	$0.47134	($0.00125)	-0.3%
Summer								
1st block	0 – 200	$0.65960	$0.82085	$0.16125	24.4%	$0.81960	($0.00125)	-0.2%
2nd block	201 - 2,000	$0.51587	$0.44085	($0.07502)	-14.5%	$0.43960	($0.00125)	-0.3%
3rd block	over 2,000	$0.44825	$0.04085	($0.40740)	-90.9%	$0.03960	($0.00125)	-3.1%
NGV Natural Gas Vehicles		$5.01140	$5.45472	$0.44332	8.8%	$5.44497	($0.00975)	-0.2%
IS Interruptible Sales								
1st block	0 - 2,000	$0.23781	$0.42429	$0.18648	78.4%	$0.43742	$0.01313	3.1%
2nd block	2,001 - 20,000	$0.21878	$0.06407	($0.15471)	-70.7%	$0.06605	$0.00198	3.1%
3rd block	over 20,000	$0.20128	$0.03771	($0.16357)	-81.3%	$0.03888	$0.00117	3.1%
ES Emergency Service (terminated)		$1.77311						
FT-1 Firm Transportation								
1st block	0 - 10,000	$0.20575	$0.23049	$0.02474	12.0%	$0.23750	$0.00701	3.0%
2nd block	10,001 - 122.500	$0.19082	$0.21601	$0.02519	13.2%	$0.22258	$0.00657	3.0%
3rd block	122.501 - 600,000	$0.12688	$0.15164	$0.02476	19.5%	$0.15625	$0.00461	3.0%
4th block	over 600,000	$0.02803	$0.03094	$0.00291	10.4%	$0.03188	$0.00094	3.0%
Demand Charge	per Dth	$0.00	$12.44	n.a.	n.a.	$12.96	$0.52	4.2%
MT Municipal Transportation		$0.65141	$0.66801	$0.01660	2.5%	$0.65141	($0.01660)	-2.5%
TS Transportation Service								
1st block	0 – 200	$0.20175	$0.70672	$0.50497	250.3%	$0.73628	$0.02955	4.2%
2nd block	201 - 2.000	$0.20175	$0.46199	$0.26024	129.0%	$0.48131	$0.01932	4.2%
3rd block	2,001 - 100,000	n.a.	$0.18893	n.a.	n.a.	$0.19684	$0.00790	4.2%
4th block	over 100,000	n.a.	$0.06992	n.a.	n.a.	$0.07285	$0.00292	4.2%
Demand Charge	per Dth	$19.01	$24.88	$5.87	30.9%	$25.92	$1.04	4.2%

Table 4 presents current and approved GS DNG revenue per customer per month for the conservation enabling tariff ("CET") for Steps 1 and 2.

TABLE 4: ALLOWED GS DNG REVENUE PER CUSTOMER PER MONTH

Month	Current Rates	Step 1, Mar 2014	$ Change	% Change	Step 2, 2015	$ Change	% Change
January	$43.54	$49.69	$6.15	14.1%	$49.59	($0.10)	-0.2%
February	$35.07	$41.23	$6.16	17.6%	$41.15	($0.08)	-0.2%
March	$29.96	$33.04	$3.08	10.3%	$32.98	($0.06)	-0.2%
April	$19.64	$20.77	$1.13	5.7%	$20.73	($0.04)	-0.2%
May	$14.06	$13.67	($0.39)	-2.8%	$13.65	($0.02)	-0.1%
June	$12.73	$11.65	($1.08)	-8.5%	$11.63	($0.01)	-0.1%
July	$10.18	$11.10	$0.92	9.1%	$11.09	($0.01)	-0.1%
August	$10.11	$11.07	$0.96	9.5%	$11.06	($0.01)	-0.1%
September	$11.24	$12.82	$1.58	14.1%	$12.81	($0.02)	-0.1%
October	$15.74	$17.20	$1.46	9.3%	$17.17	($0.03)	-0.2%
November	$26.96	$31.89	$4.93	18.3%	$31.84	($0.05)	-0.2%
December	$43.36	$44.67	$1.31	3.0%	$44.58	($0.08)	-0.2%
Total	$272.59	$298.80	$26.21	9.6%	$298.28	($0.51)	-0.2%

IV. TS STIPULATION

A. TS Stipulation Overview

Without modifying its terms in any way, we briefly highlight major features of the TS Stipulation that contains 17 numbered paragraphs. The TS Stipulation is attached to this Report and Order in its entirety as Appendix B. Questar, the Division, the Office, UAE, US Mag, and Summit Energy signed the TS Stipulation and are collectively referred to as the "TS Parties." At hearing, Questar, the Office, and the Division testified in support of the TS Stipulation. Counsel for UAE and US Mag provided a statement supporting the TS Stipulation as in the public interest.

1. Background (Paragraphs 1-5)

Paragraphs one through five of the TS Stipulation provide the background and procedural history of the proceeding leading up to the filing of the TS Stipulation. Paragraph 5 provides a statement that the TS Parties have agreed to pursue a more holistic approach to address issues and problems relating to interruption and TS tariff language changes.

2. TS Tariff Language (Paragraphs 6-7)

Paragraph 6 presents changes to be incorporated in Tariff Section 5.01 under the heading “Applicability.” Paragraph 7 specifies Questar will withdraw changes proposed in the Application pertaining to Tariff Section 5.01 under the heading “Upstream Capacity” and Tariff Section 5.07, Subsection 10.

3. Collaboration (Paragraph 8)

This paragraph establishes the date, April 1, 2014, by which the TS Parties and other interested parties will collaboratively explore additional changes to Tariff Sections 5.01 and 5.07 to address interruption and related concerns and issues.

4. General (Paragraphs 9-17)

The terms contained in Paragraphs 9 through 17 generally address the precedential value of, and potential challenges or amendments to, the TS Stipulation. Additionally, Paragraph 9 indicates the TS Parties agree the settlement of the issues identified in the TS Stipulation is in the public interest and the results are just and reasonable.

B. TS Parties’ Comments on the TS Stipulation

Questar believes the TS Stipulation is in the public interest and results in just and reasonable rates and recommends Commission approval. Questar maintains that all parties who may have an interest in this issue can participate in the workgroup and learn about tariff changes

that may be proposed by Questar in the future. Questar will evaluate the lessons learned relating to the service interruptions occurring in December 2013 to inform its position going forward. Questar testifies the TS Parties are unaware of any party opposed to the TS Stipulation.

The Division recommends the Commission adopt the TS Stipulation. While the Division does not take a position in testimony on issues surrounding the TS rate schedule, it is interested in ensuring the provisions in Tariff Section 5.0 are correct and that existing or potential concerns are addressed. The Division understands there may be a multi-pronged solution to the problems raised; therefore, it supports the initiation of a study group.

The Office testifies the TS Stipulation is in the public interest and is administratively efficient. US Mag and UAE provided a statement that the TS Stipulation is in the public interest. They are hopeful all affected parties will participate in the workgroup to help resolve TS service language questions.

C. Discussion, Findings, and Conclusions on the TS Stipulation

As we have noted in previous orders, settlements of matters before the Commission are, by statute, encouraged at any stage of our proceedings.[77] The TS Stipulation is a partial settlement addressing the TS tariff language proposed in the Application and results from settlement discussions conducted by the TS Parties. The TS Parties represent they agree to pursue a more holistic approach to address issues and problems relating to service interruptions and tariff language changes.

The six parties signing the TS Stipulation represent a diversity of customer interests. The TS Parties agree the TS Stipulation is in the public interest and all of its terms and

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[77] *See* Utah Code Ann. § 54-7-1; *See also, In the Matter of the Application of Questar Gas Company to Adjust Rates for Natural Gas Service in Utah,* Docket No. 04-057-04 (February 6, 2006 at p.26). *See also* Section III.C of this Report and Order for the legal standards governing settlement approvals.

conditions will produce fair, just, and reasonable results. Three of the signing TS Parties and a representative for UAE and US Mag provided statements at hearing in support of the TS Stipulation, and recommend the Commission's approval. No intervening party opposes approval of the TS Stipulation. Moreover, we are encouraged by the TS Parties' commitment to engage in additional discussion to further address remaining issues.

Based on our consideration of the evidence before us, the testimony and recommendations of the TS Parties, and the applicable legal standards, we find approval of the TS Stipulation to be in the public interest and find it constitutes a reasonable and lawful basis for establishing just and reasonable rates. Based upon the foregoing, we approve the TS Stipulation. Our approval of the TS Stipulation, as with the Revenue Stipulation discussed above, is not intended to alter existing Commission policy or to establish Commission precedent.

V. CONTESTED REGULATORY POLICY ISSUES

A. Commodity Pricing for the Interruptible Sales Rate Schedule

Questar's Application includes a proposal to change the commodity rate charged in the IS rate schedule from a market index price to Questar's weighted average cost of gas ("WACOG"). Questar maintains its proposal benefits all sales customers by eliminating potential subsidies and reducing administrative costs.

At hearing Questar provided background on how the IS rate schedule commodity rate has evolved through time. Questar's goal is for this rate to reflect as closely as possible the actual cost Questar incurs to provide gas to IS customers. Approximately 10 years ago the IS rate schedule commodity rate was modified to match the actual Questar market purchase price in a given month, based on the first month's index price. This pricing recognized Questar's need to purchase more gas than is needed only for the IS customers.

In contrast with past gas purchasing requirements, Questar asserts that from May 2012 through September 2012 it did not need to purchase any gas in summer because increased volumes from Company-owned gas (*i.e.*, Wexpro Gas) met its needs. Questar forecasts the increased availability of Company-owned gas will continue in 2013 and 2014. In addition, the price of market gas has been below the WACOG for several years. Questar essentially contends it is using higher cost Wexpro gas in summer months to supply IS customers but is receiving only the lower market price for this gas. Therefore, other customers are subsidizing this price/cost and will continue to do so unless the IS rate schedule is changed to charge the WACOG.

The Division supports Questar's proposal to change the IS rate schedule commodity rate to the WACOG. At hearing the Division characterized this issue as one of cost causation. Historically, Questar made market purchases in the summer months to provide gas for IS customers; therefore it was reasonable to charge IS customers the market price of that gas. The Division agrees with Questar that circumstances have now changed and Questar, during certain months, no longer needs to purchase gas on the market for IS or other customers. As in the past, when the Division became aware of a discrepancy between what was actually being charged to the IS customers and the amount Questar was paying for the gas, the Division recommended changes to the IS rate schedule. The Division believes it is now appropriate to charge IS customers the WACOG – the same amount other customers are being assessed.

The Office supports Questar's proposal and asserts allowing IS customers to "have different commodity pricing represents poor policy, sends improper price signals to IS

customers, and creates inter-class subsidies."[78] The Office maintains the current use of the monthly market pricing method for IS customers does not reflect Questar's actual costs incurred and results in a subsidy to IS customers.

UAPA disagrees with the proposal to change the IS rate schedule commodity pricing. UAPA asserts Questar's proposal is a significant change in the method, dating back decades, for pricing natural gas delivered to asphalt producers and oil terminals. UAPA argues that its members were not aware of IS pricing concerns, although it now understands Questar, the Division, and the Office have been evaluating this issue for several years as conditions have changed. UAPA asserts it was not until the filing of this rate case that its members were notified of the significant change proposed for IS commodity pricing. UAPA recommends the Commission stay the change to the WACOG, and allow the working group established in Paragraph 28 of the Revenue Stipulation to examine this issue with input from affected customers.

B. Discussion, Findings, and Conclusions on IS Commodity Pricing

We find that the change in the availability of Company-owned gas during the summer months requires a change to the IS rate schedule commodity prices for the reasons given by Questar and the Office and supported by the Division. It is through diligent on-going examination of cost of service, as has been completed here, that inter-class subsidies should be identified and addressed.

We are, however, sensitive to UAPA's concern regarding the impact of this pricing change on its members. Based on the regulatory objective of gradualism, we conclude it reasonable to implement the change to the commodity portion of the IS rate in conjunction with

[78] *See* Martinez Surrebuttal at p.7.

the effective date of Questar's first 191 account pass-through filing that occurs on or after August 1, 2014. This will provide IS customers sufficient time to evaluate options and make necessary changes. In addition, this decision supports UAPA's request to allow the working group identified in Paragraph 28 of the Revenue Stipulation to examine this issue. Should the working group identify an alternative solution to the issue, a change to the Tariff could be proposed as part of the 191 account filing as noted above or at a later time.

C. Line Extension Policy, Tariff Sections 9.03 and 9.04

Questar's Application proposes changes to the method by which CIAC is determined in Tariff Sections 9.03 and 9.04. Questar also proposes removing definitions, outdated text, certain qualifying provisions, and the section pertaining to CIAC refunds for previously installed main extensions.

Questar currently provides an allowance to a new customer to extend a residential main and service line according to a specific formula representing a 50/50 sharing, on average, of the incremental costs of installation of main and service lines between new customers and existing customers.[79] The allowance requires that a customer install at least two natural gas appliances. For main extensions, Questar refunds a portion of the customer's main extension cost if additional customers connect service lines directly from the main extensions within five years of completion of construction.

To determine customer line extension cost, Questar currently sums the external and internal costs for a new connection and deducts the line extension allowance from the total.

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[79] This method of sharing was first approved in Docket No. 02-057-02, *In the Matter of the Application of Questar Gas Company for an Increase in Rates and Charges*, (Report and Order; December 30, 2002), and adjusted in Docket No. 11-057-T02, *In the Matter of the Application of Questar Gas Company to Make Tariff Modifications to Clarify the Method for Determining Allowances for Residential Main and Service Line Extensions* (Commission Correspondence; May 3, 2011).

External costs are defined as the costs of work performed by a contractor, including trenching and laying pipeline, pipe materials, backfill and compaction and can also include permitting and pavement restoration. Internal costs are defined as the costs for work performed by Questar employees.

The external costs are the actual costs charged by the successful zone bidder for a job, along with any other actual costs associated with the job (for example, permitting costs).[80] Questar determines internal costs by analyzing annual costs for work orders for new main and service lines. These internal costs are then divided by the footage that was installed that year to calculate an internal cost per foot that is used to determine the internal cost of each new connection. Questar states the current ratio of external to internal costs is about 50/50.[81]

Under the current policy customers with shorter lines benefit more from the allowance than customers with longer lines because the allowance covers a larger percentage, or even all, of the cost of the new connection. Questar maintains the current policy has worked reasonably well in the past; however, "refund and contribution policies have been administratively burdensome to [Questar] and confusing to developers and builders."[82]

At the beginning of 2013, Questar states it assembled an internal team, composed of representatives from its legal, regulatory, preconstruction customer relations, accounting, and operations departments, to analyze the existing mains and services extension policy to determine if modifications were necessary. Questar considered the impacts the proposed policy would have on all stakeholders, including Questar, rate payers, builders, developers, rural customers, and future homeowners.

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[80] Questar completes a zone bid process every three years.
[81] *See* Summers Direct at p.20.
[82] Summers Direct at p.20.

Based on this evaluation Questar proposes a policy whereby Questar is responsible for the internal costs associated with new connections and recovers these costs via the rates of existing customers.[83] New customers are responsible for the external costs of the new connection. The new customer will continue to be responsible for excess construction costs. Questar also proposes to charge new customers directly for meter and riser costs while picking up the internal costs associated with these items (*e.g.* labor). Questar proposes that the new policy would apply to residential customers and any new customers connecting to an intermediate high pressure main. High pressure lines will be addressed under the revised Tariff Section 9.03.

Questar proposes to maintain the long-standing policy of sharing incremental new connection costs 50/50 between new customers and existing customers. Questar proposes, however, to eliminate line extension allowances and the refunds that were available over a five-year period, and to require a CIAC from new customers equal to the external costs. Questar proposes to honor over the next five years the allowed refunds for main extensions that are subject to the current tariff language.

Questar states the new policy "splits the costs equally between existing and new customers, but there are benefits to both Questar Gas and the new customers."[84] Questar explains the benefits to new customers are that up-front costs are lower, and, as opposed to waiting up to five years before receiving all of the currently-allowed refunds, the customer will now pay a single defined CIAC with no future refunds. Questar maintains the proposed policy is easier to explain, will be simple to administer, and will reduce costs associated with tracking and

[83] The Company summarizes internal costs at Summers Direct at pp.19-20.
[84] *See* Summers Direct at p.21.

refunding allowances. The result of the proposed policy, however, is that new customers with shorter lines will be charged more than under the current policy.

Questar asserts that for short service lines, energy efficiency rebates for the installation of a 95 percent efficient furnace and a Tier I water heater would offset the additional costs associated with the proposed policy. Questar has already proposed to allow new customers who participate in specific energy efficiency programs to apply their rebates to the cost of the meter.

Questar argues a fixed allowance of $781 does not provide the same benefit to every builder or developer and is therefore not a fair policy. Questar asserts that under the proposed policy, the customer will pay the external costs it is causing. Questar maintains the new policy is designed to be revenue neutral.

The Division supports Questar's proposed changes to the main and service line extension policy as the changes appear to allocate the costs to the users of the line extension services more closely than under the current policy. While recognizing new homes requiring a short line extension will be paying more under the new program than would be required under the current program, the Division maintains the proposed change will treat all customers in a similar manner and does not favor urban or rural communities or a specific home size. Additionally, the Division supports the new policy because it believes the cost of a service meter should be paid by the new customer, not shared by all rate payers.

The Division asserts it not fair for customers with short line extensions to pay nothing for their line extension. The Division contends Questar's proposed policy will not create a burden on low income customers requiring a short service line extension. Based on an average

service line extension of 46 feet, the proposed policy would result in an increased line extension cost of approximately $275.

The Office does not oppose Questar's CIAC proposal and recommends the Commission approve the proposed changes to the current CIAC method for service line extensions. Additionally, the Office does not oppose Questar's other changes to the line extension policy in Tariff Sections 9.03 and 9.04. The Office testifies Questar's CIAC proposal represents a change from a cost sharing policy to a cost splitting policy. Further, it is a cost-based method that maintains a similar split of service line installation costs between existing and new customers, and results in a more equitable treatment among new customers with differing service line lengths. The Office asserts Questar's proposal would eliminate the unintended current windfall for new customers with shorter service lines, as all new customers will pay the cost-based external installation costs.

Emery County supports Questar's proposed changes to its line extension policy. While not a final solution, Emery County argues the changes will result in a more equitable system for rural customers who are typically farther away from main lines or adequately-sized main lines. Emery County believes the lack of natural gas infrastructure in rural areas creates economic disparity between Utah communities, and the proposed changes to the line extension policy are key to increasing the availability of natural gas services to both residences and entire communities. Additionally, Emery County and other rural counties support the proposed line extension policy because it will enhance access to natural gas service resulting in improved air quality in the affected rural areas.

Emery County argues the current residential line extension policy disadvantages customers located further from the main line and results in an unfair subsidy system. In addition,

the current system provides a substantial and increasing financial obstacle to these customers. Emery County supports Questar's proposed changes to the main line extension policy as they will lower costs to new customers, especially for longer line extension projects, and are more equitable than the current policy.

UHBA does not support Questar's proposal and recommends no change to the line extension policy. UHBA is concerned the proposed changes will place a greater burden on Questar customers in smaller-than average homes and/or customers with homes on relatively small lots with shorter main extensions by causing these customers to pay a greater proportion of the line extension costs than they currently pay.

UHBA recognizes that some formula or cost allocation process must be used by Questar to effectively manage new connections but is concerned about the impacts of the proposed changes. UHBA is skeptical of Questar's claim that costs are shared 50/50 between new and existing customers and argues that the proposed changes will increase Questar's revenue.

UHBA is also concerned about the proposed requirement that new customers pay the full cost of the gas meter. UHBA's analysis indicates a customer needing a 15 foot service line would pay a total of $457 to connect a house to an existing gas main, of which $190 is for the meter, and $125 is for the riser, *i.e.,* 69 percent of the cost to that customer is due to the meter and riser. UHBA contends the gas meter and related facilities are clearly Questar's property and should be treated as an asset by Questar. UHBA prefers Questar to capitalize the costs of meters and risers rather than directly charge these costs to new customers.

UHBA's position on the proposed changes to the main extension CIAC is similar to that for service lines. UHBA suggests, however, that Questar's internal costs likely do not

have a direct relationship with the length of a main extension being installed as is the case with service lines. UHBA agrees that up-front costs for main extension will be lower and will benefit some developers. The absence of refunds for additional connections, however, shifts much of the risk connected with future development from developers and builders to Questar. UHBA contends the current refund system serves as a good economic incentive that motivates developers to invest in infrastructure that will be well-utilized. Finally, UHBA does not believe Questar's proposed line extension policy will encourage customers to install an energy efficient appliance.

UAPA is uncertain how CIAC refunds for main line extension projects covered under existing five-year refund agreements will be affected by Questar's proposal. To alleviate this concern UAPA recommends these projects be grandfathered under any new policy and that Questar refund the internal costs associated with these projects. In other words, in exchange for receiving a refund of Questar's internal costs charged for these projects, UAPA will relinquish existing contractual refund rights. UAPA maintains its proposal would potentially simplify and streamline the policy, reduce Questar's costs associated with tracking and refunding allowances, and assure compliance with keeping the long-standing policy of sharing incremental costs 50/50. Contingent on adoption of its proposal, UAPA believes Questar's modifications to its existing line extension policy would be fair and reasonable.

D. Discussion, Findings, and Conclusions on Line Extension Policy

For the reasons expressed by Questar, the Division, the Office, and Emery County, we approve Questar's proposed line extension policy as described below. We conclude it is reasonable public policy for new and existing customers to share the cost of new customer connections on a 50/50 basis. This objective is also consistent with prior policy. The proposed

policy additionally assigns the costs Questar incurs for line extensions more equitably among new customers within a class. We understand UHBA's concerns with the proposed change, but we find the improvement in the allocation of costs among new customers within the class outweighs the impact to those homeowners who benefit from the existing policy.

However, we conclude it is not readily apparent from the record that the 50/50 sharing objective will be achieved through the proposed line extension policy. Indeed, through time, internal costs could decrease through improved efficiencies and lowered administrative costs. To ensure the proposed policy yields its intended objective of a roughly 50/50 sharing of new customer connection costs between new and existing customers, we approve the proposed policy on a pilot basis until year-end 2016.

To review the success of the new policy, we direct Questar to maintain detailed accounting records during the pilot period and direct the Division to provide an annual evaluation report by April 1 of each year for the prior calendar year. We direct the formation of a workgroup, led by the Division and open to all interested parties, to identify the data necessary to evaluate the new line extension policy and to discuss the content of the evaluation reports. For example, the reports could include an evaluation of the ratio of internal and external costs, an audit of the data used in the report, whether the new policy has resulted in an increase in gas service in rural counties, identification of the impacts to customers with various line extension lengths, whether this policy is resulting in an increase in participation in the ThermWise program, a review of the Tariff and whether language changes are needed to improve transparency and/or clarity of the line extension policy, and any other information necessary to assess the new policy.

Also, UHBA raises an issue that was not fully explored in the record. UHBA notes the current policy provides an incentive to developers to locate mains such that the investment cost is likely to be recovered through continued development in the area. In the proposed policy it is less obvious how decisions to properly size facilities for growth will be made. We direct Questar to discuss this issue at a meeting of the workgroup described above and we direct the Division to include a summary of this issue in an annual evaluation report.

Regarding pending refunds, we accept Questar's proposal for addressing refunds due customers under the existing policy. Refund amounts will be determined pursuant to the refund and allowance provisions of the line extension policy in place as of the date of the main extension agreement.

E. Main Extension Bidding Proposal/Self Build Option

Questar's Application proposes language in Tariff Section 9.03 enabling a customer to request that Questar bid a main extension project if Questar's estimate for the project exceeds $200,000. Questar is confident that pricing is fair for the installation of other natural gas lines. Questar explains that since 1985, it conducts a zone bid process every three years and encourages participation from all qualified bidders.

In rebuttal testimony UHBA proposes that Questar allow developers, builders, or customers to self-install gas lines. UHBA maintains this would open up the market for such services, allow more competition, increase efficiency and lower prices for this service. Such an arrangement would not only allow smaller contractors and excavating companies to compete for gas line installation jobs, but would also allow more flexibility in the timing of gas line installations.

UHBA recognizes gas line installations are subject to a myriad of government regulations and that contractors performing such installations must meet all applicable requirements. UHBA suggests Questar could maintain a list of approved contractors to perform gas line installations, which would allow Questar control over the quality of work while providing lower costs and more flexibility to developers and customers.

Emery County supports UHBA's proposal asserting that this policy change could reduce the cost of line extensions for a significant number of customers. Based on its contacts with construction contractors, pipeline companies, and others who have the ability to provide certified grade installation of natural gas pipelines, Emery County believes appropriate expertise exists in rural Utah to allow self-installations. Emery County states that in one case, for a 1,100 foot service line under the current line extension policy, the line could be installed for one-third of the cost quoted by Questar.

Questar opposes UHBA's proposal because it could compromise safety. Questar asserts the installation of natural gas lines is governed by 49 CFR Part 192, as well as other federal and state safety regulations. Questar further states pipeline installation is technical and specialized work, and no other underground utility is subject to such a level of safety regulation. Questar states that as the ultimate owner of the facilities, it bears the liability risk going forward. Additionally, Questar does not believe a self-installation option would guarantee a contractor's familiarity with Questar's system, local geology, and municipal permitting requirements. This familiarity helps ensure the safe and economic installation of natural gas services and mains.

With regard to smaller projects, Questar states UHBA's proposal to have a list of approved contractors may address some of Questar's concerns. Questar, however, does not believe builders/developers would enjoy any cost benefit under this approach, as they would not

receive the benefit of Questar's economies of scale and Questar's contractors' familiarity with the area and involved municipalities. Questar argues UHBA's proposal could increase costs both for the builder/developer and Questar's customers.

F. Discussion, Findings, and Conclusions on Main Extension Bidding/Self Build Options

Based on Questar's testimony, we approve its proposal for bidding main extensions estimated to cost more than $200,000. While we are sensitive to Questar's concern pertaining to the safe installation of all of its facilities, both UHBA and Emery County raise valid points regarding Questar's construction costs and the level of local contractor expertise that we find merit further investigation. Therefore, in addition to approving Questar's proposal, we direct the workgroup described above to also evaluate the issues raised in this docket regarding self-installation of pipelines and whether the $200,000 bidding threshold should be lowered. We direct the Division to provide any recommendations on these issues in a report to the Commission by November 1, 2014.

VI. ORDER

Pursuant to our discussion, findings and conclusions, we order:

1. The Partial Settlement Stipulation regarding revenue requirement, revenue spread, and rate design, filed in this docket on December 13, 2013, is approved.
2. The Partial Settlement Stipulation regarding TS Tariff language, filed in this docket on January 7, 2014, is approved.
3. Questar is granted a distribution non-gas revenue increase of $7.614 million in Utah's jurisdictional revenue, allocated to the rate schedules as shown in Table 1.

Charges, rates, and allowed revenue per customer are approved as shown in Tables 2, 3, and 4.

4. The approved revenue increase of $7.614 million shall be implemented in two steps. As shown in Table 1, the Step 1 increase shall be effective March 1, 2014. The Step 2 increase shall be implemented in 2015 on the Commission-approved effective date of Questar's first fall Infrastructure Tracker Pilot Program filing.
5. Questar's proposal to increase the commodity rate of the Interruptible Service Schedule to WACOG is approved and shall be implemented on the Commission-approved effective date of Questar's first 191 account pass-through filing made on or after August 1, 2014.
6. Questar's proposed changes to its Line Extension Policy in Tariff Sections 9.03 and 9.04 are approved as a pilot through December 31, 2016. Questar shall collect line extension data and the Division shall convene a workgroup and file an annual report on the line extension policy as directed herein.
7. The workgroup convened to evaluate the Line Extension Policy also shall evaluate the issue of self-installation of pipelines and whether Questar's $200,000 bidding threshold should be lowered. The Division shall provide a report and any recommendations on those issues to the Commission by November 1, 2014.
8. Questar shall file appropriate tariff revisions reflecting the Step 1 revenue increase and all other tariff changes approved herein within 14 days after the date of this Report and Order.

9. Questar shall file tariff sheets to implement the Step 2 revenue increase no later than 30 days prior to the proposed rate effective date of Questar's first fall Infrastructure Tracker Pilot Program filing in 2015.
10. The tariff revisions shall reflect the determinations and the decisions contained in this Report and Order. The Division shall review the tariff revisions for compliance with this Report and Order.

DATED at Salt Lake City, Utah, this 21st day of February, 2014.

/s/ Ron Allen, Chairman

/s/ David R. Clark, Commissioner

/s/ Thad LeVar, Commissioner

Attest:

/s/ Gary L. Widerburg
Commission Secretary
DW#251016

Notice of Opportunity for Agency Review or Rehearing

Pursuant to §§ 63G-4-301 and 54-7-15 of the Utah Code, an aggrieved party may request agency review or rehearing of this Order by filing a written request with the Commission within 30 days after the issuance of this Order. Responses to a request for agency review or rehearing must be filed within 15 days of the filing of the request for review or rehearing. If the Commission does not grant a request for review or rehearing within 20 days after the filing of the request, it is deemed denied. Judicial review of the Commission's final agency action may be obtained by filing a petition for review with the Utah Supreme Court within 30 days after final agency action. Any petition for review must comply with the requirements of §§ 63G-4-401 and 63G-4-403 of the Utah Code and Utah Rules of Appellate Procedure.

CERTIFICATE OF SERVICE

I CERTIFY that on the 21st day of February, 2014, a true and correct copy of the foregoing was served upon the following as indicated below:

By Electronic-Mail:

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____
Administrative Assistant

APPENDICES A, B AND C

APPENDIX A: PARTIAL SETTLEMENT STIPULATION

APPENDIX B: PARTIAL SETTLEMENT STIPULATION REGARDING TS TARIFF LANGUAGE

APPENDIX C: EFFECT ON TYPICAL GS CUSTOMER

APPENDIX A

PARTIAL SETTLEMENT STIPULATION

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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF QUESTAR GAS COMPANY TO INCREASE DISTRIBUTION RATES AND CHARGES AND MAKE TARIFF MODIFICATIONS	Docket No. 13-057-05 **PARTIAL SETTLEMENT STIPULATION**

Pursuant to Utah Code Ann. § 54-7-1 and Utah Admin. Code R746-100-10.F.5, Questar Gas Company (Questar Gas or Company); the Division of Public Utilities (Division); the Office of Consumer Services (Office); the UAE Intervention Group; Nucor Steel-Utah, a Division of Nucor Corporation; Utah Asphalt Pavement Association; and the Federal Executive Agencies (collectively Parties) submit this Partial Settlement Stipulation in resolution of some of the issues raised in the Company's Verified Application in this docket.

PROCEDURAL HISTORY

1. On July 1, 2013, Questar Gas filed its Verified Application and direct testimony with the Utah Public Service Commission (Commission) seeking an order authorizing a total revenue requirement of $313.4 million based on a test period ending December 31, 2014 (Verified Application). The Verified Application was filed pursuant to the filing requirements, Utah Admin. Code R746-700-1, *et seq*.

2. On July 22, 2013, the Commission issued its Scheduling Order setting dates for filing testimony, technical conferences, and hearings.

3. On August 13, 2013, a technical conference was held to discuss and provide information on the Company's models used in its Verified Application. The Company explained its models, demonstrated how Parties and other intervenors could modify inputs and assumptions and responded to questions regarding the models.

4. Since the Verified Application was filed, both the Division and the Office have performed on-site audits and the Parties and other intervenors have conducted discovery. In conjunction with these audits and discovery, Parties and other intervenors have asked and Questar Gas has responded to more than 800 data requests and posted them on its "V Bulletin" website for the convenience and review of all intervenors.

5. On October 30, 2013, the non-Company Parties and many other intervenors filed direct testimony. On November 12, 2013, the Parties and other intervenors engaged in Confidential Settlement discussions regarding the Verified Application. Subsequently, the Parties continued to engage in confidential settlement discussions and have reached agreement on the portions of the Company's Verified Application specifically outlined herein.

TERMS AND CONDITIONS

Revenue Requirement, Rate Spread, and Rate Increase

6. In settlement of revenue requirement and rate spread issues in this case, the Parties submit this Partial Settlement Stipulation for the Commission's approval and adoption. Settlement Stipulation Exhibit 1, which shows the stipulated revenue requirement adjustments and which is incorporated in this Partial Settlement Stipulation, begins with the Company's requested revenue requirement of approximately $313,358,742 (line 1) based on an average test period ended December 31, 2014. The Parties agree for purposes of settlement to make the adjustments outlined below to calculate a revenue requirement amount of $306,182,401 (line 19, column A), before making any adjustments for Return on Equity (ROE).

7. The Parties agree for purposes of settlement to the revenue requirement adjustments shown on Settlement Stipulation Exhibit 1. A brief summary of each adjustment is listed below. A settlement model is being provided in "13-057-05 settlement model.xls", attached hereto as Settlement Stipulation Exhibit 2 (Settlement Model) that includes all of the settlement adjustments.

a. The Parties agree for purposes of settlement to adjust the Inflation Factors to reflect the 2nd quarter Global Insight inflation percentages. This increases the revenue requirement by $194,820 (Settlement Stipulation Exhibit 1, line 2).

b. The Parties agree for purposes of settlement to the Pension and OPEB expense adjustments of $3,805,815. This reduces the revenue requirement by approximately[1] $3,805,815 (line 3).

c. The Parties agree for purposes of settlement to a Fines and Penalties adjustment that reduces the revenue requirement by approximately $4,437 (line 4).

d. The Parties agree for purposes of settlement to an Economic Development adjustment that reduces the revenue requirement by approximately $260,242 (line 5).

e. The Parties agree for purposes of settlement to a Telecom Rent adjustment that reduces the revenue requirement by approximately $76,182 (line 6).

f. The Parties agree for purposes of settlement to a Lobbying Expense adjustment that reduces the revenue requirement by approximately $7,237 (line 7).

g. The Parties agree for purposes of settlement to an O&M adjustment that reduces the revenue requirement by approximately $167,491 (line 8).

h. The Parties agree for purposes of settlement to a Distrigas allocation adjustment that reduces the revenue requirement by approximately $107,356 (line 9).

i. The Parties agree for purposes of settlement to a Questar Gas Labor adjustment that reduces the revenue requirement by approximately $255,394 (line 10).

j. The Parties agree for purposes of settlement to a Questar Corporation Labor adjustment that reduces the revenue requirement by approximately $406,416 (line 11).

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[1] The dollar change to revenue requirement will be different based on the order of operation that the adjustments are made and on the final Return on Equity that is approved by the Commission. These numbers represent approximate amounts.

k. The Parties agree for purposes of settlement to a Change in Long Term Debt Cost rate from 5.23% to 5.25%. This increases the overall revenue requirement by approximately $97,036 (line 12).

l. The Parties agree for purposes of settlement to a Rate Base adjustment that reduces the overall revenue requirement by approximately $1,410,234 (line 13).

m. The Parties agree for purposes of settlement to an adjustment to the Construction Not Classified, Account 106, that reduces the overall revenue requirement by approximately $467,392 (line 14).

n. The Parties agree for purposes of settlement to a non-specified adjustment to the rate base that reduces the overall revenue requirement by $500,000 (line 15).

o. The Parties agree for purposes of settlement to make an adjustment to the intercompany return based on the Commission approved Return on Equity (line 16).[2]

8. When all stipulated adjustments are included, the result is a total revenue requirement before Return on Equity adjustments of approximately $306,182,401 (applying the Company-recommended 10.35% ROE), $298,673,230 (applying the Division-recommended 9.45% ROE), or $297,421,702 (applying the Office-recommended 9.3% ROE) respectively (Settlement Stipulation Exhibit 1, line 19).[3] Subtracting the average test period volumetric revenues of approximately $294,396,591 results in a revenue deficiency of $11,785,809

[2] Questar Corporation charges Questar Gas a return on equity for assets that are owned by Questar Corporation but used by Questar Gas. The return is based on the Commission-allowed return on equity for Questar Gas. Any adjustment from the currently allowed 10.35% will result in an adjustment to the intercompany return.

[3] The Parties recognize that if another ROE were applied, or ordered in this case, the numbers set forth in paragraph 8 would change. For illustrative purposes, the Parties have included numbers reflective of the ROEs proposed by the Company, the Division and the Office, respectively.

(applying the Company-recommended 10.35% ROE), $4,276,639 (applying the Division-recommended 9.45% ROE), or $3,025,110 (applying the Office-recommended 9.3% ROE) as shown on line 21.

Interruption Testing

9. The Parties agree, for purposes of settlement, that the Company will not conduct Interruption Testing, as detailed in the Verified Application. Instead, the Company's Utah Natural Gas Tariff No. 400 (Tariff) will be modified to contain the following terms of service:

a. A customer who fails to interrupt when properly called upon by the Company to do so will incur a $40-per-decatherm penalty for all interruptible volumes utilized during the course of an interruption. Each failure to interrupt will result in the imposition of the per-decatherm penalty. Any such penalties recovered by the Company shall be credited to the ratepayers as a reduction to the Infrastructure Rate-Adjustment Mechanism.

b. If a customer fails to interrupt when called upon by the Company to do so, then beginning on July 1st following the failure to interrupt, the customer will be moved from the interruptible rate schedule to an available firm rate schedule for three years for those interruptible volumes it failed to interrupt. To the extent that the Company determines that providing firm service is operationally infeasible, then the customer will pay a demand charge that would have applied for those interruptible volumes it failed to interrupt for three years, beginning on July 1st following the failure to interrupt, but will continue to receive interruptible service.

10. Additionally, each interruptible customer will, as a condition of service, provide the following:

a. By February 28th of each year[4], a representative with authority to sign on behalf of the interruptible customer will represent and warrant that the customer:

i. Has and maintains a backup system capable of providing back-up service during an interruption, or otherwise is able to fully interrupt the interruptible portion of its gas service when required, and that the customer can and will interrupt when called upon to do so by the Company; and

ii. Understands and acknowledges the financial and other consequences associated with a failure to interrupt when properly called upon to do so.

Interruptible Gas Supply Call Option

11. The Parties agree, for purposes of settlement, that the language Section 5.04 of the Company's Utah Natural Gas Tariff PSCU 400 (Tariff) that requires customers to offer to sell their gas supplies to the Company during periods of interruption will be modified as follows: The sentence in Section 5.04 of the Tariff that reads "Customers must, as a condition of interruptible transportation service by the Company, offer to sell their gas supplies to the Company for its use during periods of interruption in serving firm sales customers in accordance with the following conditions" will be modified to say that "Customers may offer to sell their gas supplies to the Company, and Company may agree to purchase such gas supplies, for its use during periods of interruption in serving firm sales customers. If a customer opts to sell its gas supply to Company, and Company agrees to buy it, such sale shall be made upon the following conditions:"

[4] For 2014, this deadline will be extended until April 30, 2014, consistent with Paragraph 16 of this Partial Settlement Agreement.

12. Subsection (5) of Section 5.07 of the Company's Tariff will be stricken, and replaced with the following: "The Customer may offer to sell, and the Company may agree to purchase, the Customer's interrupted volumes in accordance with the provisions of § 5.04."

FT-1 Qualifying Criteria

13. Subparagraph (8) in Section 5.05 of the Company's Tariff will be stricken and replaced with the following:

"Annual usage must be at least 350,000 Dth plus an additional 225,000 Dth for every mile away from the nearest interstate pipeline. Distance from the interstate pipeline will be measured as the most feasible route that would be determined by a reasonable and prudent natural gas utility operator. A customer with another bona fide, lawful bypass option may be included in the FT-1 rate class, upon approval by the Commission."

Rate Spread

14. The Parties agree for purposes of settlement that for rate spread purposes, the rate spread will be calculated based on the Settlement Model. The Parties do not agree on whether the Settlement Model represents the proper way of calculating cost of service, and agree that any assumptions employed in that model should bear no precedential value in any other matter.

15. The Parties agree for the purpose of settlement that, beginning on March 1, 2014, the cost of service for the TS and IS classes will be 60% of the difference between the test-period revenue collected and the test period revenue that would be collected under the results of the Settlement Model. It is further agreed that in 2015, coincident with the effective date of the Company's first fall Infrastructure Rate-Adjustment Mechanism filing, the TS and IS classes will receive an adjustment so that their base rates collect 72% of the difference between the test-period revenue collected and the test period revenue that would be collected under the results of

the Settlement Model. It is also agreed that once the overall percentage increase to the TS class has been determined, the FT-1 class will increase by the same overall percentage increase as the TS class. The remaining revenue increase will be allocated to the GS, FS, and NGV rate classes as calculated in the "Settlement" tab in the Settlement Model. Settlement Stipulation Exhibit 3 shows an example of the calculation using the revenue requirement numbers discussed earlier at each proposed return on equity (10.35%, 9.45% and 9.3%), as shown in the above-referenced tab in the Settlement Model.

Rate Schedule Adjustments

16. The Parties agree that in 2014 only, the Company will extend the timeframes set forth in the Company's Tariff, as follows:

a. Section 2.01 of the Tariff shall be modified to indicate that in 2014 Customers shall have until March 30, 2014 to submit a request for firm sales service from an existing transportation service or interruptible sales service.

b. Section 4.01 of the Tariff shall be modified to indicate that in 2014 Customers shall have until March 30, 2014 to request to move to interruptible sales service from an existing transportation or firm sales service rate schedule.

c. Section 5.01 of its Tariff shall be modified to indicate that in 2014 customers shall have until March 30, 2014 to submit a written request to move from an existing firm or interruptible sales service to transportation service, and customers will have until April 30, 2014 to provide a fully executed contract and meet with the Company's telemetry technician.

Infrastructure Rate-Adjustment Mechanism Pilot Program

17. The Parties agree for purposes of settlement that the Company may continue its Infrastructure Rate-Adjustment Mechanism as a pilot program. The Parties agree for purposes of

settlement that the Infrastructure Rate-Adjustment Mechanism will be modified as more fully set forth below.

18. The Parties agree for purposes of settlement that the costs associated with the replacement of certain Intermediate High Pressure (IHP) beltlines shall be included in the Infrastructure Rate-Adjustment Mechanism pilot program, as more specifically described below.

19. The Parties agree for purposes of settlement that in identifying high pressure (HP) pipelines for replacement, the Company shall utilize the evaluation criteria as set forth in Settlement Stipulation Exhibit 4; and in identifying IHP pipe for replacement, the Company shall utilize the evaluation criteria set forth in Settlement Stipulation Exhibit 5. The Parties further agree that these criteria are evolving and may be expanded and modified as new and additional information and/or technology becomes available. The Company shall inform the Commission, the Office and the Division of any changes in the criteria set forth in Settlement Stipulation Exhibits 4 or 5.

20. The Company has created a Master List of all HP Feederlines, attached as Confidential Settlement Stipulation Exhibit 6. The Company has also identified certain HP pipelines for replacement utilizing the criteria set forth in Settlement Stipulation Exhibit 4. Those pipelines, their location, associated footage, and the currently-anticipated schedule for replacement, is set forth in Confidential Settlement Stipulation Exhibit 7.

21. The Company has also identified 70 miles of IHP beltlines for replacement utilizing the criteria set forth in Settlement Stipulation Exhibit 5. The beltlines scheduled for replacement in 2014 are delineated in Confidential Settlement Stipulation Exhibit 8. The Parties agree that on or before April 30, 2014, the Company will provide additional information about

the beltlines to be replaced in a form similar to that shown on Confidential Settlement Stipulation Exhibit 7.

22. The Parties agree for purposes of settlement that the Company will provide reports related to the Infrastructure Rate-Adjustment Mechanism. Specifically, the Company will provide the following reports:

a. In November of each year, the Company will continue to file an annual budget for both HP and IHP replacements for the upcoming calendar year. Capital infrastructure investment may still be considered Construction Work In Progress (CWIP) at year end. Amounts recorded in CWIP at year end will not be included in the budget cap for the following year. The Company may request Commission approval to exceed the budget cap if there are exigent circumstances requiring immediate capital expenditures.

b. In April of each year, in the docket associated with that year's annual budget filing, the Company shall provide the following:

i. An updated Master List of all HP pipelines in its system, including new construction and replacement work. A current Master List is attached as Confidential Settlement Stipulation Exhibit 6.

ii. Updated HP and IHP project schedules (Confidential Settlement Stipulation Exhibits 7 and 8) explaining any material changes to the schedules set forth.

c. The Company will continue to file quarterly variance reports showing the actual expenditures in the program, as compared to the budget, and describing any material variances from the most-current replacement schedule.

23. The Parties agree for purposes of settlement that previously unscheduled pipeline replacements may be added to the HP replacement schedule set forth on Confidential Settlement

Stipulation Exhibit 7 or IHP replacement schedule that will be provided pursuant to paragraph 21 above, only with prior Commission approval. The Company may apply, at any time, for such approval.

24. The Parties agree for purposes of settlement that the Infrastructure Rate-Adjustment Mechanism shall be limited to a total of $65 million per year to cover the costs associated with replacing both high pressure and intermediate high pressure natural gas facilities. The annual budget shall be indexed each year for inflation using the most recent corresponding Global Insight inflation rate reported as the "GDP Deflator."[5] The budget cap will be re-set in each general rate case.

25. The Parties agree for purposes of settlement that tracking of infrastructure replacement costs will not commence until the level of infrastructure investment in rates has been reached. Based on the test period, that investment level is $84 million ($62 million for high pressure and intermediate high pressure investment in 2013 and $22 million for high pressure and intermediate high pressure investment in 2014). The Parties agree that the Division shall conduct its audit of the 2013 tracker investment and, in the event of any disallowance, those costs will be adjusted out of the next Infrastructure Rate-Adjustment Mechanism filing.

Timing of Filing of Next General Rate Case

26. The Parties agree for purposes of settlement that the Company will file its next general rate case no later than July 1, 2016.

[5] If the Global Insight inflation rate is discontinued or is otherwise unavailable, the Company, the Division and the Office shall agree upon a substitute index. If the Company, the Division and the Office cannot agree upon a substitute index, then the Company shall, as part of its budget filing, apply to the Commission for the determination of the proper index to employ.

Interim Studies

27. The Parties agree that in the Company's next general rate case, the Company will provide revenue neutral percentage changes for each rate schedule based upon the Company's cost-of-service study.

28. The Parties agree that on or before July 1, 2014, the Company will assemble a working group of interested stakeholders and the Company will study alternative IS and TS rate designs including, but not limited to: aggregation of meters, dividing the IS and TS classes, analysis related to customers with higher summer load, and analysis related to the FS load factor requirement.

Depreciation

29. As required by prior Commission Order in Docket No. 07-057-13, the Company performed a depreciation study based upon 2012 data. The Company provided the depreciation study to the Parties and other intervenors in this docket on October 11, 2013. The Parties agree for purposes of settlement that the Company will file, in a separate docket, the depreciation study and will seek approval of new depreciation rates to become effective as ordered by the Commission. The Parties agree that upon approval of the new depreciation rates, these rates and reserve variance will be applied to the rate base in this Partial Settlement Agreement and the rate spread consistent with the results of the Settlement Model, and the revenue requirement and rates in this docket will be adjusted accordingly.

Basic Service Fee

30. The Parties agree for purposes of settlement that the Basic Service Fee for each category of meter shall be as follows:

Category of Meter	Basic Service Fee
I	$6.75
II	$18.25
III	$63.50
IV	$420.25

Firm Sales Rate Design

31. For purposes of settlement the Parties agree that the volumetric rates in the GS and FS rate classes should be based on the cost curves set forth in the pre-filed direct testimony of Austin C. Summers. The rates shown in the tabs titled "Rate Design 60%" and "Rate Design 72%" of the Settlement Model have been designed to collect revenue using the Basic Service Fees shown in Paragraph 30, above. After applying the basic service fees, the remaining revenue requirement is spread among rate blocks using the cost curves to reduce intra-class subsidies. The summer block rates are calculated the same as the winter block rates, except that demand costs are only included in winter rates. For the GS class, the differential between block one and block two is set at $1.00 for both summer and winter. For the FS class, the differential between blocks one and two will be $0.38 and the differential between blocks two and three will be $0.40. The Parties agree that these differentials provide a reasonable alignment to the Company's calculated cost curves.

TS Rate Design

32. The Parties agree, for purposes of settlement, to the following TS rate design provisions:

a. Administrative Charge. The Administrative Charge will remain unchanged from current rates.

b. Rate structure. The TS rate schedule will incorporate the revised blocking structure proposed by the Company in its direct filing.

c. Basic Service Fee (BSF). The BSFs will be those shown in Paragraph 30.

d. Demand Charge. The demand charge will be determined by increasing current demand revenues and current volumetric revenues by an equal percentage sufficient to collect the balance of the TS test period revenue requirement pursuant to the results of the Settlement Model. The resulting percentage increase will be applied to the current demand charge of $20.59/Dth (inclusive of the current Infrastructure Rate Adjustment).

e. Volumetric Charges. The volumetric charges will be determined by reducing the charges proposed by the Company in its direct filing for each of the four (new) rate blocks by an equal percentage sufficient to achieve the targeted volumetric revenues described in (d) above.

FT-1 Rate Design

33. The parties agree for purposes of settlement to the following FT-1 rate design provisions:

a. The FT-1 demand charge will be set at 50% of the TS demand charge.

b. The FT-1 volumetric charges will be determined by reducing the charges proposed by the Company in its direct filing for each of the four rate blocks by an equal

percentage sufficient to achieve the targeted volumetric revenues pursuant to the results of the Settlement Model.

c. The FT-1 rate schedule will expressly permit customers to purchase interruptible transportation in excess of the firm demand amount to which they subscribe by paying the TS volumetric rates.

IS Rate Design

34. For purposes of settlement the Parties agree that the volumetric rates in the IS rate class should be apportioned as follows: 87.135% of the revenue requirement remaining after basic service fees have been removed will be paid through the first block, 12.797% will be paid through the second block, and .068% will be paid through the third block. These rates can be seen in tabs titled "Rate Design 60%" and "Rate Design 72%" of the Settlement Model.

General

35. The Parties agree that settlement of those issues identified above is in the public interest and that the results are just and reasonable.

36. The Parties have reached a full and final resolution of those issues identified above and that all other issues in this case should proceed upon the schedule set forth in the Order Modifying Scheduling Order and Notices of Hearing and Public Witness Day Hearing dated December 4, 2013 in this docket.

37. The Parties agree that no part of this Partial Settlement Stipulation, or the formulae or methods used in developing the same, or a Commission order approving the same, shall in any manner be argued or considered as precedential in any future case. This Partial Settlement Stipulation does not resolve, does not provide any inferences regarding, and the Parties are free to take any position with respect to, any issues not specifically identified and

settled herein. All negotiations related to this Partial Settlement Stipulation are privileged and confidential, and no Party shall be bound by any position asserted in negotiations. Neither the execution of this Partial Settlement Stipulation nor the order adopting it shall be deemed to constitute an admission or acknowledgment by any Party of the validity or invalidity of any principle or practice of ratemaking; nor shall they be construed to constitute the basis of an estoppel or waiver by any Party; nor shall they be introduced or used as evidence for any other purpose in a future proceeding by any Party except in a proceeding to enforce this Partial Settlement Stipulation.

38. Questar Gas, the Division, and the Office each will, and other Parties may, make one or more witnesses available to explain and support this Partial Settlement Stipulation to the Commission. Such witnesses will be available for examination. So that the record in this docket is complete, all testimony, exhibits, and attachments to the Verified Application that have been filed on the issues resolved by this Partial Settlement Stipulation shall be admitted as evidence. The Parties shall support the Commission's approval of the Partial Settlement Stipulation. As applied to the Division and the Office, the explanation and support shall be consistent with their statutory authority and responsibility.

39. The Parties agree that if any person challenges the approval of this Partial Settlement Stipulation or requests rehearing or reconsideration of any order of the Commission approving this Partial Settlement Stipulation, each Party will use its best efforts to support the terms and conditions of the Partial Settlement Stipulation. As applied to the Division and the Office, the phrase "use its best efforts" means that they shall do so in a manner consistent with their statutory authority and responsibility. In the event any person seeks judicial review of a

Commission order approving this Settlement Stipulation, no Party shall take a position in that judicial review opposed to the Partial Settlement Stipulation.

40. Except with regard to the obligations of the Parties under paragraphs 37, 38 and 39 of this Partial Settlement Stipulation, this Partial Settlement Stipulation shall not be final and binding on the Parties until it has been approved without material change or condition by the Commission. This Partial Settlement Stipulation is an integrated whole, and any Party may withdraw from it if it is not approved without material change or condition by the Commission or if the Commission's approval is rejected or materially conditioned by a reviewing court. If the Commission rejects any part of this Partial Settlement Stipulation or imposes any material change or condition on approval of this Partial Settlement Stipulation, or if the Commission's approval of this Partial Settlement Stipulation is rejected or materially conditioned by a reviewing court, the Parties agree to meet and discuss the applicable Commission or court order within five business days of its issuance and to attempt in good faith to determine if they are willing to modify the Partial Settlement Stipulation consistent with the order. No Party shall withdraw from the Partial Settlement Stipulation prior to complying with the foregoing sentence. If any Party withdraws from the Partial Settlement Stipulation, any Party retains the right to seek additional procedures before the Commission, including presentation of testimony and cross-examination of witnesses, with respect to issues resolved by the Partial Settlement Stipulation, and no Party shall be bound or prejudiced by the terms and conditions of the Partial Settlement Stipulation.

41. This Partial Settlement Stipulation may be executed by individual Parties through two or more separate, conformed copies, the aggregate of which will be considered as an integrated instrument.

42. The Parties are authorized to represent that the intervenors in this docket that have not entered into this Settlement Stipulation either do not oppose or take no position on this Settlement Stipulation.

RELIEF REQUESTED

Based on the foregoing, the Parties request that the Commission issue an order approving this Partial Settlement Stipulation and adopting its terms and conditions.

RESPECTFULLY SUBMITTED: December ______, 2013.

/s/ Barrie L. Mckay
Barrie L. McKay
Questar Gas Company

Vice President Regulatory Affairs

/s/ Chris Parker
Chris Parker
Division of Public Utilities

Director

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Chief, Utility Law Field Support Center

/s/ William J. Evans 12/18/13
William J. Evans
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Attorneys for IGU Intervention Group

Revenue Requirement Stipulation

		(A)	(B)	(C)
		QGC @10.35%	DPU @ 9.45%	OCS @ 9.3%
1	**Company's original proposed revenue requirement:**	$ 313,358,742	$ 313,358,742	$ 313,358,742
	Operating expense adjustments:			
2	2nd Qtr Global Insight Inflation adjustment	194,820	194,820	194,820
3	Pension and OPEB expense adjustment	(3,805,815)	(3,805,815)	(3,805,815)
4	Fines and penalties expense adjustment	(4,437)	(4,437)	(4,437)
5	Economic development adjustment	(260,242)	(260,242)	(260,242)
6	Telecom rent adjustment	(76,182)	(76,182)	(76,182)
7	Lobbying expense adjustment	(7,237)	(7,237)	(7,237)
8	O&M Adjustment	(167,491)	(167,491)	(167,491)
9	Distrigas allocation adjustment	(107,356)	(107,356)	(107,356)
10	Questar Gas employee adjustment	(255,394)	(255,394)	(255,394)
11	Questar Corporation employee adjustment	(406,416)	(406,416)	(406,416)
	Rate base adjustments:			
12	Change long term debt cost rate from 5.23% to 5.25%	97,036	97,036	97,036
13	Rate Base adjustment	(1,410,234)	(1,410,234)	(1,410,234)
14	Adjust Construction Not Classified, Account 106	(467,392)	(467,392)	(467,392)
15	Not Specified Adjustment to Rate Base	(500,000)	(500,000)	(500,000)
16	Intercompany Return Adjustment	-	(23,457)	(27,366)
17	**Total Adjustments**	(7,176,341)	(7,199,798)	(7,203,707)
18	ROE Adjustment		$ (7,485,714)	$ (8,733,333)
19	Adjusted Revenue Requirement (Line 1 + Line 17 + Line 18)	$ 306,182,401	$ 298,673,230	$ 297,421,702
20	Projected Volumetric Revenue	$ (294,396,591)	$ (294,396,591)	$ (294,396,591)
21	Proposed Deficiency	$ 11,785,809	$ 4,276,639	$ 3,025,110

Exhibit 2 is the electronic model entitled "13-057-05 Settlement Stipulation model.xls"

Rate Spread with Stepped Increases in Cost-of-Service at Different Returns

ROE @ 10.35%

		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
		Current DNG Revenues	Cost Based Increase	FT1 @ 50% COS Adj	Full COS Increase	Pct Increase	Step 1	60.00%	Step 2 Change	Step 2	72.00%
1	GS	270,948,319	5,593,432	1,717,144	7,310,576	2.7%	8,960,464	3.31%	(503,627)	8,456,837	3.12%
2	FS	3,578,143	(68,633)	57,075	(11,558)	-0.3%	114,851	3.21%	(6,455)	108,396	3.03%
3	IS	820,693	169,054	12,305	181,359	22.1%	108,816	13.26%	21,763	130,579	15.91%
4	TS	10,790,569	3,375,630	257,173	3,632,802	33.7%	2,179,681	20.20%	435,936	2,615,618	24.24%
5	FT-1	1,470,474	2,474,220	(2,049,666)	424,554	28.9%	297,034	20.20%	59,407	356,441	24.24%
6	FT-1L	3,155,877	0	0	0	0.0%	0	0.00%	-	0	0.00%
7	NGV	3,632,517	242,105	5,970	248,075	6.8%	124,962	3.44%	(7,024)	117,939	3.25%
8	Total	294,396,592	11,785,808	0	11,785,808	4.0%	11,785,808	4.00%	-	11,785,808	4.00%

ROE @ 9.45%

		Current DNG Revenues	Cost Based Increase	FT1 @ 50% COS Adj	Full COS Increase	Pct Increase	Step 1	60.00%	Step 2 Change	Step 2	72.00%
9	GS	270,948,319	(1,192,030)	1,672,299	480,269	0.2%	1,910,471	0.71%	(450,939)	1,459,532	0.54%
10	FS	3,578,143	(161,288)	55,584	(105,704)	-3.0%	24,487	0.68%	(5,780)	18,708	0.52%
11	IS	820,693	142,584	11,984	154,568	18.8%	92,741	11.30%	18,548	111,289	13.56%
12	TS	10,790,569	3,009,169	250,456	3,259,625	30.2%	1,955,775	18.12%	391,155	2,346,930	21.75%
13	FT-1	1,470,474	2,367,161	(1,996,137)	371,024	25.2%	266,521	18.12%	53,304	319,826	21.75%
14	FT-1L	3,155,877	0	0	0	0.0%	0	0.00%	-	0	0.00%
15	NGV	3,632,517	111,042	5,814	116,856	3.2%	26,643	0.73%	(6,289)	20,355	0.56%
16	Total	294,396,592	4,276,639	0	4,276,639	1.5%	4,276,639	1.45%	-	4,276,639	1.45%

ROE @ 9.3%

		Current DNG Revenues	Cost Based Increase	FT1 @ 50% COS Adj	Full COS Increase	Pct Increase	Step 1	60.00%	Step 2 Change	Step 2	72.00%
17	GS	270,948,319	(2,322,940)	1,664,825	(658,115)	-0.2%	735,472	0.27%	(442,157)	293,314	0.11%
18	FS	3,578,143	(176,730)	55,336	(121,395)	-3.4%	9,427	0.26%	(5,667)	3,760	0.11%
19	IS	820,693	138,172	11,930	150,103	18.3%	90,062	10.97%	18,012	108,074	13.17%
20	TS	10,790,569	2,948,092	249,337	3,197,429	29.6%	1,918,458	17.78%	383,692	2,302,149	21.33%
21	FT-1	1,470,474	2,349,318	(1,987,215)	362,103	24.6%	261,436	17.78%	52,287	313,723	21.33%
22	FT-1L	3,155,877	0	0	0	0.0%	0	0.00%	-	0	0.00%
23	NGV	3,632,517	89,198	5,788	94,986	2.6%	10,257	0.28%	(6,166)	4,091	0.11%
24	Total	294,396,592	3,025,110	0	3,025,110	1.0%	3,025,110	1.03%	-	3,025,110	1.03%

Settlement Stipulation
Docket No. 13-057-05
Exhibit 3

HP REPLACEMENT PROGRAM EVALUATION CRITERIA

Questar Gas utilizes many different tools, including Transmission Integrity Management Plan (TIMP) criteria, which became effective in 2002. On an ongoing basis, Questar Gas uses all available tools to continue to refine its replacement schedule. Questar Gas evaluates risk by considering threats to the pipeline integrity and the consequence of failure (Risk= Threat x Consequence).

I. Evaluation of Threats.

The Company's integrity and corrosion engineers and subject matter experts (SMEs) have evaluated (and continue to evaluate) threat criteria. The current threat criteria include, but are not limited to:

a. *Construction*.
   - i. Pre 1955—High Risk.
   - ii. 1955-11/1970 – Medium Risk.
   - iii. Post 11/1970 – Low Risk (49 CFR Part 192 went into effect in 1970)

b. *Manufacturing (Pipe).*
   - i. Low Frequency Electric Resistance Weld (LF-ERW)—High Risk.
   - ii. Electric Flash Weld (EFW) – High Risk.
   - iii. Longitudinal Seam Weld Factor < 1.0—High Risk.
   - iv. Pre 1960 – Medium Risk.
     1. Double Submerged Arc Weld (DSAW).
     2. Submerged Arc Weld (SAW).
   - v. Post 1960 – Low Risk.
   - vi. Reconditioned Pipe.
     3. Yes – High Risk.
     4. No – Low Risk.

c. *Pressure Test Records*.
   - i. Not found – High Risk.

d. *Pipe/Equipment Condition (SME evaluation).*

II. Evaluation of Consequence. Factors considered in evaluating the consequence of failure include but are not limited to:

a. *High Consequence Areas*.

b. *High Populations based on Census Data.*

III. Scheduling Replacements. The Company uses the results of this analysis to create a plan to replace aging infrastructure. The priority of replacement is based, in large part, upon the risk/consequence evaluation described above. However, other factors will influence the order in which facilities are replaced. Those factors include:

a. *Customer load growth/growth patterns.*
b. *Operating History (i.e. history of leaks).*
c. *Results of integrity assessments.*
d. *Regulatory compliance.*
e. *Permitting requirements*.
f. *Environmental requirements*.
g. *Local government requirements*.
h. *Efficiency considerations* (i.e. coordinating with road reconstruction projects).
i. *Real Property and Right-of-way acquisitions*.
j. *Other project-specific considerations*.

IHP REPLACEMENT PROGRAM EVALUATION CRITERIA

Questar Gas utilizes many different tools, including Distribution Integrity Management Plan (DIMP) criteria, which became effective in 2010. On an ongoing basis, Questar Gas uses all available tools to continue to refine its replacement schedule.

Questar Gas utilizes a GIS based risk model in conjunction with subject matter experts to prioritize replacements on the intermediate high pressure system. The Company evaluates risk by considering threats to the pipeline integrity and the consequence of failure (Risk = Threat x Consequence).

I. Evaluation of Threats.
Each year, the Region Engineer, the integrity and corrosion engineer, and subject matter experts (SMEs) evaluate threat criteria. The threat criteria, many of which are included in the Distribution Integrity Management Plan model, include but are not limited to the following:

a. *Age of pipe.* Risks associated with vintage pipe including concerns related to materials, construction methods, etc.
b. *Corrosion*. The risk of system failure of metallic assets due to oxidation of the metal.
c. *Equipment Failure.* The risk of system failure due to an improperly functioning, operable, gas system component.
d. *Excavation Damage*. Any impact which results in the need to repair or replace an underground facility due to a weakening or partial or complete destruction of the facility.
e. *Incorrect Operation*. The risk of system failure due to a human action resulting in a change in the standard state of operation.
f. *Material*. The risk of system failure caused by deterioration of the gas system component due to factors such as age, material type and coating type.
g. *Natural Forces*. The risk of system failure due to a natural external force, such as erosion, flooding, frost, earthquakes, or landslides.
h. *Outside Forces*. The risk of system failure due to a man-made external action.
i. *Weld & Joint Failure*. The risk of system failure due to a failure of a fitting responsible for connecting two or more gas system components.
j. *Other*. The "Other" category includes all other threats not specifically identified above.

II. Evaluation of Consequence. Factors considered in evaluating the consequence of failure include:

a. *Population density*. The population density surrounding a given facility.
b. *Business districts*. An area that has a high concentration of commercial customers.
c. *Critical facilities*. The structures that are critical to the community, serve as places of refuge, and/or pose challenges in the event of an evacuation (i.e. hospitals, schools, churches, nursing homes, retirement facilities etc.).
d. *Main diameters*. The size of the pipeline under consideration.

III. Scheduling Replacements. The Company uses the results of this analysis to create a plan to mitigate the risk associated with its facilities. Pipeline replacement is one of the mitigative measures. The priority of replacement is based, in large part, upon the risk/consequence evaluation described above. However, other factors will influence the order in which facilities are replaced. Those factors include:

a. *Remedial actions* (facilities about which there is heightened concern based on field conditions).
b. *Permitting requirements*.
c. *Environmental requirements*.
d. *Local government requirements*.
e. *Efficiency considerations* (i.e. coordinating with road reconstruction projects).
f. *Real Property and Right-of-way acquisitions*.
g. *Other project-specific considerations*.

APPENDIX B

PARTIAL SETTLEMENT STIPULATION
REGARDING TS TARIFF LANGUAGE

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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF QUESTAR GAS COMPANY TO INCREASE DISTRIBUTION RATES AND CHARGES AND MAKE TARIFF MODIFICATIONS	Docket No. 13-057-05 **PARTIAL SETTLEMENT STIPULATION REGARDING TS TARIFF LANGUAGE**

Pursuant to Utah Code Ann. § 54-7-1 and Utah Admin. Code R746-100-10.F.5, Questar Gas Company (Questar Gas or Company); the Division of Public Utilities (Division); the Office of Consumer Services (Office); the UAE Intervention Group (UAE); US Magnesium LLC; and Summit Energy LLC (collectively, the Settling Parties) submit this Partial Settlement Stipulation Regarding TS Tariff Language ("Stipulation") in resolution of one of the remaining issues raised in the Company's Verified Application in this docket.

BACKGROUND

1. The Company filed its Application in this docket on July 1, 2013.

2. On December 13, 2013, various parties submitted a Partial Settlement Stipulation that resolves most of the issues raised in the Company's Application.

3. One issue not resolved by the December 13, 2013 Partial Settlement Stipulation was the Company's request for two changes; one to the language of Section 5.01 of the Company's Transportation Service ("TS") tariff and another to the language of Section 5.07 of the Company's Transportation Service ("TS Rate Schedule"). (Questar Exhibit 3.37). Michael R. McGarvey of Summit Energy LLC filed direct testimony opposing the proposed tariff language changes. Roger Swenson of US Magnesium LLC and Jeff Fishman of UAE filed rebuttal testimony supporting Mr. McGarvey.

4. Tina Faust of the Company filed Rebuttal testimony responding to Mr. McGarvey. Among other things, Ms. Faust's testimony noted that, while the Company's proposed tariff changes would "certainly help" address the interruption/curtailment problems addressed in her testimony, "it is just one part of a multi-prong solution," that "additional Tariff changes may be necessary," and that the Company would work with customers, upstream pipelines and marketers to better understand potential solutions. (QGC Exhibit 5.0R, page 4, lines 67-71).

5. Based on further settlement discussions, the Settling Parties have agreed to pursue a more holistic approach as suggested in Ms. Faust's testimony to address issues and problems relating to interruption and tariff language changes.

TERMS AND CONDITIONS

6. In settlement of disputed TS tariff language changes proposed by the Company in this case, the Settling Parties agree that the Company will modify the language that the Company proposed in Section 5.01 of the Company's Tariff under the heading "Applicability" such that the entire paragraph will read as follows:

"This service applies to transportation of customer-acquired gas through the Company's distribution system from an approved interconnect point between the Company's distribution system and an upstream pipeline to a redelivery meter serving customer's premises. Each transportation service customer must identify in the contract the interconnect/delivery point(s) where it will deliver its natural gas supply into Questar Gas' system (approved point). Questar Gas reserves the right, as provided herein, to require each transportation customer to deliver its natural gas supplies to that approved point when, in Questar Gas' sole discretion, its operational needs support such a change from any alternate point that might currently be being used by the customer."

7. For purposes of settlement of this docket, the Company will also withdraw its proposed changes to the language of Section 5.01 of the Company tariff under the heading "Upstream Capacity". For purposes of settlement of this docket, the Company will also withdraw its proposed changes to the language in subsection 10 of Section 5.07 of the Company tariff.

8. The Settling Parties agree that on or before April 1, 2014, they will invite the Settling Parties and other interested entities to collaboratively explore additional changes to the language of Sections 5.01 and 5.07 of the Company's tariff to address interruption and related concerns and issues.

General

9. The Settling Parties agree that settlement of those issues identified above is in the public interest and that the results are just and reasonable.

10. The Settling Parties have reached a full and final resolution of those issues identified above and that all other issues in this case should proceed upon the schedule set forth

in the Order Modifying Scheduling Order and Notices of Hearing and Public Witness Day Hearing dated December 4, 2013 in this docket.

11. The Settling Parties agree that no part of this Stipulation or the formulae or methods used in developing the same, or a Commission order approving the same, shall in any manner be argued or considered as precedential in any future case. This Stipulation does not resolve, does not provide any inferences regarding, and the Settling Parties are free to take any position with respect to, any issues not specifically identified and settled herein. All negotiations related to this Stipulation are privileged and confidential, and no Settling Party shall be bound by any position asserted in negotiations. Neither the execution of this Stipulation nor the order adopting it shall be deemed to constitute an admission or acknowledgment by any Settling Party of the validity or invalidity of any principle or practice of ratemaking; nor shall they be construed to constitute the basis of an estoppel or waiver by any Settling Party; nor shall they be introduced or used as evidence for any other purpose in a future proceeding by any Settling Party except in a proceeding to enforce this Stipulation.

12. Questar Gas will, and other Settling Parties may, make one or more witnesses available to explain and support this Stipulation to the Commission. Such witnesses will be available for examination. So that the record in this docket is complete, all testimony and exhibits that have been filed on the issues resolved by this Stipulation shall be admitted as evidence. The Settling Parties shall support the Commission's approval of the Stipulation. As applied to the Division and the Office, the explanation and support shall be consistent with their statutory authority and responsibility.

13. The Settling Parties agree that if any person challenges the approval of this Stipulation or requests rehearing or reconsideration of any order of the Commission approving

this Stipulation, each Settling Party will use its best efforts to support the terms and conditions of the Stipulation. As applied to the Division and the Office, the phrase "use its best efforts" means that they shall do so in a manner consistent with their statutory authority and responsibility. In the event any person seeks judicial review of a Commission order approving this Settlement Stipulation, no Settling Party shall take a position in that judicial review opposed to the Stipulation.

14. Except with regard to the obligations of the Settling Parties under paragraphs 11, 12 and 13 of this Stipulation, this Stipulation shall not be final and binding on the Settling Parties until it has been approved without material change or condition by the Commission. This Stipulation is an integrated whole, and any Settling Party may withdraw from it if it is not approved without material change or condition by the Commission or if the Commission's approval is rejected or materially conditioned by a reviewing court. If the Commission rejects any part of this Stipulation or imposes any material change or condition on approval of this Stipulation, or if the Commission's approval of this Stipulation is rejected or materially conditioned by a reviewing court, the Settling Parties agree to meet and discuss the applicable Commission or court order within five business days of its issuance and to attempt in good faith to determine if they are willing to modify the Stipulation consistent with the order. No Settling Party shall withdraw from the Stipulation prior to complying with the foregoing sentence. If any Settling Party withdraws from the Stipulation, any Settling Party retains the right to seek additional procedures before the Commission, including presentation of testimony and cross-examination of witnesses, with respect to issues resolved by the Stipulation, and no Settling Party shall be bound or prejudiced by the terms and conditions of the Stipulation.

15. This Stipulation may be executed by individual Settling Parties through two or more separate, conformed copies, the aggregate of which will be considered as an integrated instrument.

16. To the Settling Parties understanding, none of the other intervenors in this docket has taken a position on the issues settled herein, nor oppose approval of this Settlement Stipulation.

17. The Settling Parties hereby request that the Commission suspend the surrebuttal testimony deadline on the issues resolved herein, and set a hearing for approval of this Stipulation on the same date as the hearing to approve the December 13, 2013 Partial Settlement Stipulation.

RELIEF REQUESTED

Based on the foregoing, the Settling Parties request that the Commission issue an order approving this Stipulation and adopting its terms and conditions.

RESPECTFULLY SUBMITTED: January 6, 2013.

/s/ Jenniffer Nelson Clark
Colleen Larkin Bell
Jenniffer Nelson Clark
Questar Gas Company

Attorneys for Questar Gas Company

/s/ Chris Parker
Chris Parker

Director, Division of Public Utilities

/s/ Gary A. Dodge
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/s/ Michele Beck
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Director, Office of Consumer Services

/s/ Gary A. Dodge
Gary A. Dodge
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Attorney for US Magnesium, LLC

/s/ Larry R. Williams
Larry R. Williams

Attorney for Summit Energy LLC

APPENDIX C

EFFECT ON TYPICAL GS CUSTOMER

EFFECT OF STEP 1 AND STEP 2 RATE CHANGES ON A TYPICAL GS CUSTOMER
80 DTHS - ANNUAL CONSUMPTION

Month	Usage In Dth	Billed at Rates Effective 12/1/2013	STEP 1 Billed at Rates Effective 3/1/2014	Dollar Change	Percent Change	STEP 2 Billed at Rates Effective 2015	Dollar Change	Percent Change
Jan	14.9	$130.62	$130.70	$0.08	0.06%	$130.63	($0.07)	-0.05%
Feb	12.5	$110.39	$110.74	$0.35	0.32%	$110.68	($0.06)	-0.05%
Mar	10.1	$90.15	$90.77	$0.62	0.69%	$90.72	($0.05)	-0.06%
Apr	8.3	$66.86	$65.66	($1.20)	-1.79%	$65.62	($0.04)	-0.06%
May	4.4	$37.79	$37.98	$0.19	0.50%	$37.96	($0.02)	-0.05%
Jun	3.1	$28.10	$28.75	$0.65	2.31%	$28.74	($0.01)	-0.03%
Jul	2.0	$19.91	$20.94	$1.03	5.17%	$20.94	$0.00	0.00%
Aug	1.8	$18.41	$19.53	$1.12	6.08%	$19.52	($0.01)	-0.05%
Sep	2.0	$19.91	$20.94	$1.03	5.17%	$20.94	$0.00	0.00%
Oct	3.1	$28.10	$28.75	$0.65	2.31%	$28.74	($0.01)	-0.03%
Nov	6.3	$58.12	$59.16	$1.04	1.79%	$59.13	($0.03)	-0.05%
Dec	11.5	$101.96	$102.42	$0.46	0.45%	$102.36	($0.06)	-0.06%
Total	80.0	$710.32	$716.34	**$6.02**	**0.85%**	$715.98	**($0.36)**	**-0.05%**