EXPLANATION OF

COST-OF-SERVICE TERMINOLOGY

There are two functional categories represented on Questar Gas' system into which costs are separated in the accounting records.

Production Function: The cost elements of a typical production function are the return, taxes and depreciation associated with production facilities or investment. Typical production facilities include wells, gathering lines, field compressors, measuring and regulation equipment, purification equipment and communication equipment related to production activities. These costs are allocated between the jurisdictions and further between firm sales classifications on a sales volume basis. Even though in many respects they represent fixed costs, the facilities were not developed to meet peak-day demand but were developed to meet annual supply needs of the Company.

Distribution Function: The cost elements of the distribution function are the expense items, return, taxes and depreciation associated with the distribution facilities. The costs of customer billing, meter reading, emergency calls, tear outs, and other customer-related activities are included.

EXPLANATION OF COST-OF-SERVICE ALLOCATION BASES

The ten allocation bases described below are used in the fully allocated class cost-of-service study.

Allocation Base #1--Peak Day Demand
The peak-day demand for all firm customer classes is established by load research. Allocation base #1 is used to allocate, to each of the customer classes. A portion of the distribution feeder main costs that are demand related.

Allocation Base #2--Volumetric Throughput
Allocation Base #2 is based on the total of all volumes sold or transported to each rate class. Allocation base #2 is used to derive allocation bases #3 and #4 and is used directly in the assignment of the distribution feeder main costs that are volume-related, and assigning back to each rate class the firm transportation revenue credits.

Allocation Base #3--Firm Sales Volumes

Allocation Base #3 removes the transportation and interruptible sales volumes from the volumetric throughput data in allocation base #2. The remaining volumes associated with each firm sales customer class in Utah are used to develop the factor. It is used to allocate commodity-related costs and credits.

Allocation base #3 is also used to allocate:

1. All production costs;
2. NGV credits.

Allocation Base #4--Network Throughput

Allocation base #4 accounts for customers within each customer classification that are served directly from transmission lines and distribution feeder lines. The proportionate volumes of gas delivered to these customers is determined and excluded from the volumes of allocation base #2, resulting in allocation base #4. Allocation base #4 is then used to allocate the Utah distribution costs related to large-diameter mains.

Allocation Base #5--All Utah GS-1

Allocates all 487 and 488 accounts and Colorado I-C revenue credits to the GS-1 class.

Allocation Base #6--Distribution Plant

Allocation base #6 establishes the level of plant investment assignable to each of the Utah customer classes in order to allocate the distribution plant-related costs. This is accomplished through a random sample of approximately 600 customers. The amount of plant on each customer's premises, and the average cost of that plant, is determined. Also, the average cost of main within 1000 feet of the customer's premises was determined. All such costs are then categorized according to the meter size at that customer's premises. Finally, the average cost per meter is utilized to determine distribution costs per customer class based on the number of meters of each size in a particular class.

Allocation Base #7--On-Premises Service

"On-premises service" is used to allocate costs associated with service performed on customers' premises. On-premises service costs are shown separately on the books and records of the Company. These costs are allocated to the various rate classes based on the number of service call hours by class for a 12-month period.

Allocation Base #8--Meter Reading Expense

Meter reading costs are accounted for primarily in the 901, 902, 903, and 905 series of accounts. These accounts are not maintained by class. However, the costs to read, process, and bill industrial or charted meters can be determined and subtracted from the total of the above accounts. In this manner, costs can be segregated into costs to read dial meters (positive displacement meters, primarily residential) and charted meters. The unit cost for dial and charted meters is then obtained by dividing the total cost in each category by the number of meters in that category. The number of both types of meter in each customer class is known and is multiplied by the appropriate unit cost to obtain meter reading expense by class. To this is added distribution's portion of bad-debt cost, which is maintained by class.

Allocation Base #9--Total Distribution Except A & G Expenses

Administration and general expenses are allocated to the various rate classes according to the way all other distribution expenses get allocated to the classes. In the cost of service, all distribution expenses excluding A & G expenses are totaled and this then is the allocation base #9 which spreads the remaining distribution expenses (A & G expenses) to the rate classes.

Allocation Base #10-- CO2 Allocation

CO2 removal costs are allocated to the various rate classes using the allocation method stipulated to in the 99-057-20 case.