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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Questar Gas Company for a General Increase in Rates and Charges	DOCKET NO. 02-057-02 POST-HEARING BRIEF OF THE UAE INTERVENTION GROUP

The Utah Association of Energy Users Intervention Group ("UAE") hereby submits its Post-Hearing Brief in this matter.

INTRODUCTION

Most of the parties to this case have either joined or not opposed four stipulations that, if approved by the Commission, will resolve nearly all of the contested issues in this case. UAE submits this brief in order to state its position on the two remaining contested issues, cost of equity and capital structure, and to explain its position with respect to the stipulations.

UAE supports an allowed return on equity for Questar of between 10.5% and 11%, depending, in part, on the Commission's resolution of the capital structure issue. With respect to capital structure, the UAE is persuaded that some level of short-term debt should be assumed in Questar's capital structure.

The UAE somewhat reluctantly agreed to support the Rate Design Stipulation and not to oppose the other stipulations. On balance, and under all relevant circumstances, UAE has concluded that the stipulations will produce a just and reasonable result for purposes of this case. Nevertheless, UAE has continuing concerns relative to the stipulations, some of which will be discussed below.

Contested Issues

Return on Equity. Questar has, quite understandably, embarked on a long-term strategy to request policies and mechanisms to reduce the Company's earnings risk. All other things being equal, lower earnings risk should translate into a lower allowed return on equity. As explained in the Prefiled Testimony of Kevin C. Higgins (UEA/USEA Exhibit 1, page 6 line 13 - page 7, line 12), as well as the testimony and exhibits of Committee witness Parcell (CCS Exhibits 4, page 16, line 21 - page 17, line 9; page 19, line 9 - page 20, line 18; 4SR, page 9, line 21 - page 11, line 8) and Division Witness Powell (DPU Exhibit 6, page 10, lines 10 - 16; Exhibit 6.15), the following are among the more significant factors designed to reduce Questar's risk from traditional levels or from levels faced by certain other Utah utilities:

- Gas balancing accounts, which reduce the Company's exposure to fluctuations in commodity prices;
- Weather normalization adjustments, to help stabilize the Company's revenues in response to weather variations;
- Adjusted test year results utilized by certain parties for purposes of settlement in this case, which transfer significant risk and cost to customers relative to traditional test-year conventions;
- End-of-period rate base, customer count and customer usage data utilized by certain parties for purposes of settlement in this case, which also shift risk and cost to

customers relative to traditional conventions;

- Reduction in the risk of uncollectible accounts; and
- Significant decreases in interest rates.

These factors, all of which tend to reduce Questar's risk relative to historic risks and/or risks faced by some other Utah utilities, should be reflected in Questar's allowed return on equity. The introduction of risk reduction policies should weight the Commission's determination of the allowed return toward the lower end of the reasonable range. It is simply not reasonable for significant risks to be passed from Questar to its customers without an equalizing adjustment to the Company's allowed return.

Remarkably, Questar requests a return on equity that is significantly higher than the return authorized by the Commission for Questar two years ago, despite the risk-mitigation factors discussed above, many of which are of recent vintage, and despite the fact that interest rates have declined significantly. Questar also seeks a return that is significantly higher than the rate recently approved by the Commission for PacifiCorp, despite the fact that PacifiCorp faces far greater risk than Questar with respect to exposure to fluctuating commodity rates.

Given the risk mitigation factors summarized above, the UAE believes that the appropriate allowed return for Questar should be somewhat lower than the current levels for Questar and PacifiCorp, assuming no offsetting increases in risk (such as including short-term debt in the assumed capital structure).[1] Otherwise, the risk mitigation factors, many of which

[1] Questar's stated concern over an adverse reaction of rating agencies and industry analysts to anything but a significant increase in its allowed return is simply not persuasive. The evidence on the record from independent sources confirms that Questar is perceived as receiving strong support from its regulators, and the only stated concerns involve Questar Corporation's unregulated activities. [E.g., CCS Exhibit 4, page 16, line 5 - page 19, line 7].

result in a shift of risk and cost from the utility to its customer, will not be properly credited to Questar's customers.

The Commission in this case has been presented with a range of possible returns, specifically 10%, 10.5% and 11.75%. The average (mean) of the three proposed returns is 10.75% and the median is 10.5%. UAE submits that the allowed return on equity (at least absent an offsetting factor like the inclusion of short term debt in the capital structure) should be in this range (10.5% - 10.75%).[2]

Capital Structure. The UAE is persuaded that the Committee has identified a very important issue with respect to the proper role of short-term debt in the Company's assumed capital structure. It seems reasonable that any company should diversify its capital structure to include reasonable proportions of equity, long-term debt and short-term debt. As confirmed by company witnesses on the stand, over time, short-term debt rates should be lower than long-term debt rates. Given that assumption, and accepting the increased volatility (and thus risk) of short-term debt, it seems reasonable that any utility should utilize at least some short-term debt to finance its operations, including the carrying cost of capital assets.

In addition to the natural appeal of assuming a diversified portfolio of equity, long-term debt and short-term debt, Committee witness -- provided clear and unrebutted evidence that the Company regularly utilizes short-term debt to finance a percentage of its obligations. [CCS Exhibit -- at --] Given that the Company actually utilizes short-term debt on a regular basis, the argument is even more compelling that at least some level of short-term debt should be assumed in Questar's capital structure for ratemaking purposes.

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[2] The Company's return on equity calculations are artificially inflated because they ignore dividend growth rate projections. Nevertheless, averaging the company's proposed return with those proposed by the Division and Committee produces a reasonable range. As suggested by Company witness Williamson, with a small subset of

The UAE recognizes that use of short term debt in Questar's assumed capital structure in this case may, in Questar's view, unfairly penalize it without advance warning. That concern is mitigated by the fact that it has received the benefit of short-term debt for years without reflection of the same in the capital structure assumed for ratemaking purposes. Moreover, given that the issue has now been raised, there is also a risk if the Commission does not address it in this docket. Utilities may be inclined to avoid short-term debt, even when it might otherwise be attractive, for fear of it influencing the capital structure assumed by the Commission in a future rate case. By determining in this case that some reasonable percentage of short-term debt will typically be considered by the Commission to be a prudent and routine part of a utility's capital structure, utilities will be free to utilize short-term debt, as in the past, but with the knowledge that the precise level of short-term debt to be utilized for ratemaking purposes will be subject to analysis and determination based on the relevant circumstances in each case.

Consistent with the argument that decreased risk should reduce the allowed equity return, increased volatility (and thus risk) of short term debt could perhaps support a slight increase in allowed return. If a small percentage of Questar's capital structure were assumed to be short-term debt for purposes of this case (for example, 5%, significantly less than the amount actually utilized by Questar at the time its proposed capital structure was measured, CCS Exhibit 4SR, page 3, line 12 - page 6, line 2), notwithstanding the other rate mitigation factors summarized above, perhaps Questar's allowed return on equity could be left at approximately 11%.

Stipulations

UAE does not oppose the Revenue Requirement Stipulation and Settlement executed by Questar, the Division or the Committee. UAE did not join the stipulation, in part because it did

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numbers, perhaps the median is the more appropriate measurement.

not take specific positions on most of the contested revenue requirement issues resolved by that stipulation. UAE has some continuing concerns over the stipulation, some of which will be discussed below. UAE also does not oppose the Demand-Side Management Stipulation and Settlement or the Service Standards Stipulation and Settlement.

UAE signed the Allocation and Rate-Design Stipulation and Settlement ("Rate Design Stipulation") executed by most parties. UAE supports the Rate Design Stipulation as a reasonable step, and temporary resolution, of many of the contested issues, but wishes to emphasize that many of the issues dealt with in the stipulation or assigned to the task force will need to be resolved in the near future. Some of the primary areas of ongoing concern are discussed below.

Test Year. UAE does not believe that the Commission should abandon its traditional use of an historic test year. Projections of future data are fraught with uncertainty and speculation, and are subject to the control and manipulation of the utility. The UAE resists projections of future data as a sound basis for ratemaking on a typical basis. On the other hand, the UAE supported, under the specific facts and circumstances of this case, some relaxation of the Commission's traditional test year practices. UAE supported making "known and measurable" changes to historic test year data, but only upon a strong and persuasive showing that the adjustments are both known and measurable, under traditional standards, and that the adjustments, in combination with all other relevant factors, produce a more reasonable prediction of conditions in the rate-effective period. [UAE/USEA Exhibit 1, page 7, line 13 - page 9, line 19]

The stipulations in this matter do not require the Commission to expressly adopt or approve the use of a projected or future test year, or even the standards for known and measurable changes. The UAE encourages the Commission not to address these issues in this docket as a matter of ongoing applicability, given the record before it. These weighty issues should be resolved following contested hearings and based on a careful analysis of testimony and cross-examination of witnesses.

End-Of-Period vs. Average. Although various parties agreed to analyze end-of-period data for settlement purposes in this case, UAE also believes that, as a general rule, the Commission should use average rate base, customer count and customer usage data. The use of averages captures data over a reasonable period of time and is less susceptible to influence by anomalous occurrences or manipulation. As with test period issues, the stipulations do not require the Commission to choose between average or end-of-period data and, again, UAE encourages the Commission not to resolve these issues in this docket as a matter of ongoing applicability.

Peaking Gas Supplies. For years, interruptible transportation customers have been required to offer their gas supplies for purchase by Questar during periods of interruption. While Questar pays an index-based price for the commodity, it has never paid nor credited interruptible transportation customers with the capacity value of this peaking supply. Virtually all of the witnesses who addressed this issue acknowledged that there is value in this peaking gas supply, and have agreed that this value is not currently credited to interruptible transportation customers. The primary areas of disagreement are around how best to value and credit these customers for the service they provide. Under the Rate Design Stipulation, a task force is directed to evaluate this issue. Interruptible transportation customers believe that fairness dictates a reasonable valuation of the peaking services that they offer and a credit for that value in cost-of-service analyses.

Administrative Charge. Transportation customers have long resisted tariff provisions that serve primarily as barriers to transportation service. The large fixed administrative charge imposed only on transportation customers is the primary example of such a barrier.[3] The Rate Design Stipulation in this case takes one step towards reducing this barrier, but additional steps are necessary. Moreover, the stipulation adds a new (temporary) barrier to sales customers switching to transportation service. This new barrier is of significant concern to UAE, and it supports a prompt analysis and timely removal of this barrier. UAE believes that the task force should be directed to analyze and recommend effective steps to eliminate all uneconomic barriers to the ability of Questar customers to elect the kind of services that best meet their needs.

CO_2 Removal Costs. As with the stipulation in Docket 99-057-20, the UAE has reluctantly accepted a small allocation of CO_2 removal costs to transportation rates in the Rate Design Stipulation. However, there is no principled basis for allocating to transportation customers any CO_2 removal costs (other than perhaps on a per-customer basis), because those costs are intended to address safety concerns applicable almost exclusively to residential and commercial customers. Almost no transportation customers are adversely impacted by pipeline-quality gas, and they should not be required to help pay to reduce CO_2 levels for other customers who are adversely impacted. Moreover, the UAE has consistently resisted the inclusion of CO_2 removal costs in any of Questar's rates, believing that such costs properly belong with gas producers. Given the overall reasonableness of the results, UAE supports the Rate Design Stipulation, but it does not support continued allocation of CO_2 removal costs to transportation customers after the currently-effective CO_2 stipulations terminate.

CONCLUSION

For the reasons expressed above, UAE supports an allowed return on equity for Questar

[3] Unnecessary load factor requirements for transportation customers similarly serve solely to discourage customers

of between 10.5% and 11%, depending, in part, on whether short-term debt is included in Questar's capital structure. UAE believes that at least some level of short-term debt should be assumed in the capital structure of utilities.

The UAE supports the Rate Design Stipulation and does not oppose the other stipulations. On balance, and under all relevant circumstances, the stipulations produce just and reasonable results. Critical issues such as test year conventions and the use of average vs. end-of-period data should be left for resolution in future proceedings. Moreover, a number of extremely important issues have been deferred to a task force or for future resolution, including the value of the peaking resource provided by interruptible customers, elimination of uneconomic barriers to transportation service, and the treatment of CO_2 removal costs beginning in mid-2004. UAE looks forward to addressing and resolving these issues with the Commission and all interested parties in the near future.

DATED this __ day of November, 2002.

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by electronic service on Questar and mailed, postage prepaid, this ___ day of November 2002, to the following:

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