

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

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

REPORT AND ORDER

ISSUED: June 24, 2004

By The Commission:

On April 21, 2004, Questar Gas Company (“Questar Gas” or the “Company”) filed with the Commission an Application for a deferred accounting order authorizing it to establish an account for costs the Company will incur in order to remain in compliance with the new federal requirements of the Pipeline Safety Improvement Act of 2002, 49 USC §§ 60101 et. Seq. enacted December 17, 2002, (the “Act”) and the Final Rule regarding “Pipeline Integrity Management in High Consequence Areas (Gas Transmission Pipelines)”, 49 CFR Part 192 effective January 14, 2004 (“Final Rule”). The Act and Final Rule apply to gas transmission pipelines for both interstate pipelines and local distribution companies.

The new federal requirements under the Act and the Final Rule require gas transmission pipeline operators to perform ongoing assessments of pipeline integrity, to improve data collection, integration, and analysis, to repair and remediate transmission pipelines as necessary and to implement preventative and mitigative actions. The Company states that the initial pipeline integrity management program framework and subsequent program must, at a minimum, include the following requirements: (a) an identification of all High Consequence Areas (“HCA”) (areas in part determined by population density, by proximity to schools or hospitals and by numbers of nearby occupied buildings); (b) a baseline assessment plan; (c) an identification of threats to applicable pipeline segments, which must include data integration and a risk assessment; (d) a direct assessment plan; (e) a remediation plan; (f) a process for continual

evaluation and assessment; (g) a preventive and mitigation plan; (h) a performance plan that includes record keeping; (i) a quality assurance process; and (j) a communications plan. Fifty percent of the riskiest lines in HCAs must be assessed by December, 2007. Transmission pipelines in HCAs must be reassessed every 7 years.

To comply with the new federal requirements, the Company states that it will incur significant costs, estimated to be in the range of \$2 million to \$5 million annually, for initial program development, staffing, technology, data management, pipeline integrity assessments, remedial repair work, and additional preventive maintenance and mitigative measures. The Company anticipates that there will be shared operating expenses between it and Questar Pipeline.

The Company requests that a regulatory asset be established so that compliance costs may be deferred until January 1, 2007 or until the next general rate case, whichever is sooner. If a rate case is not filed before January 1, 2007, the Company proposes to begin amortizing these costs over a five-year period beginning January 1, 2007. The Company proposes that incremental expenses incurred to comply with the Act and Final Rule be charged to Account 182.313 - Other Regulatory Assets - Pipeline Integrity. The Company also proposes that costs to comply with the Act and Final Rule that are not directly assignable to Questar Gas and Questar Pipeline be allocated based on pipeline mileage in each company that is located in the HCAs.

On May 26, 2004, the Division of Public Utilities (“Division”) filed a memorandum recommending approval of Questar Gas’s application. The Division states its recommendation is based on the fact that these federal requirements were unforeseen and extraordinary in that incremental costs will be incurred that are not part of normal operations. The Division further states 1) an annual expense impact of \$2 million to \$5 million is significant to Questar Gas, 2) approval of the requested accounting treatment will not impact current rates, nor will it determine future rate making treatment, 3) resolution of appropriate cost recovery will be decided in the Company’s next general rate case, 4) the regulatory asset will be subject to a thorough examination in terms of the costs, allocations, and amortization period in the next rate case, and 5) the new federal requirements are expected to provide benefits, such as, safety, reliability,

and public confidence in gas transmission.

On June 9, 2004, the Committee of Consumer Services (“Committee”) filed comments stating it does not oppose the Company’s proposal to defer only the incremental costs that would otherwise be charged to operation and maintenance expense that are directly related to compliance with the Act and Final Rule. The Committee further recommends that the Commission require the Company to keep adequate and complete records to clearly demonstrate that the costs it defers are incremental and would not otherwise have been incurred absent the Act and the Final Rule. The Committee reiterates the Division’s position that rate making treatment of the deferred incremental transmission line safety compliance costs will be determined in the next rate case.

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED, that:

1. Questar Gas Company’s application is hereby approved and Questar Gas is authorized to defer the incremental gas transmission line safety compliance costs incurred on or after January 1, 2004 and to account for such costs in the manner described in its application.
2. The approval of Questar Gas’s application does not determine the rate making treatment of the deferred costs. Any determination of that rate making treatment will be made in Questar Gas’s next general rate case.
3. Questar Gas Company shall maintain sufficient records of any deferred costs resulting from this order to allow for any audits necessary for the future determination of rate making treatment.

DATED at Salt Lake City, Utah, this 24th day of June, 2004.

/s / Ric Campbell, Chairman

/s / Constance B. White, Commissioner

/s / Ted Boyer, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary

G#38991