APPLICATION OF QUESTAR GAS	)	
COMPANY FOR A CONTINUATION	)	Docket No. 04-057-13
OF PREVIOUSLY AUTHORIZED	)	
RATES AND CHARGES	)	
PURSUANT TO ITS PURCHASED	)	APPLICATION
GAS ADJUSTMENT CLAUSE	)	

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Draft #1	12-1-04	BLM
Draft #2	12-7-04	CLB
Draft #3	12-7-04	GLR
Draft #4	12-8-04	JEK
Draft #5	12-8-04	CLB

APPLICATION
AND
EXHIBITS
December 9, 2004

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

APPLICATION OF QUESTAR GAS COMPANY	)	
FOR A CONTINUATION OF PREVIOUSLY	)	Docket No. 04-057-13
AUTHORIZED RATES AND CHARGES	)	
PURSUANT TO ITS PURCHASED GAS	)	APPLICATION
ADJUSTMENT CLAUSE	)	

Questar Gas Company (Questar Gas or the Company) respectfully submits for Utah Public Service Commission (Commission) approval of this application. Due to the fact that the changes in gas costs and 191 Account amortization reflected in this filing result in a small change, the Company is seeking a continuation of the current commodity and supplier non-gas cost portions of its Utah natural gas rates that were effective October 1, 2004.

The Company's Tariff No. 400, Section 2.10, provides for pass-through applications to be filed "no less frequently than semi-annually." In compliance with Section 2.10, Questar Gas is filing this application.

This pass-through application reflects Utah gas costs of $548,278,875. The calculated adjustments are an $11,566,000 increase in the commodity portion, and a $6,118,000 decrease in the supplier non-gas portion of rates. The net effect of these adjustments would be a $5,448,000 increase in revenues. Since the adjustment in rates resulting from this application is less than 1%, the Company is proposing to leave current rates in effect.

If the Commission grants this application, the typical residential customer will not see a change in their average monthly bill. The Company proposes to continue to charge the rates that were made effective October 1, 2004.

In support of this application, Questar Gas states:

1. Questar Gas' Operations. Questar Gas, a Utah corporation, is a public utility engaged in the distribution of natural gas primarily to customers in the states of Utah and Wyoming. Its Utah public utility activities are regulated by the Commission, and the Company's present rates, charges, and general conditions for natural gas service in Utah are set forth in Questar Gas' PSC Utah Tariff No. 400. Copies of the Company's Articles of Incorporation are on file with the Commission. In addition, the Company serves customers in the Preston, Idaho area. Under the terms of agreement between the Commission and the Idaho Public Utilities Commission, the rates for these Idaho customers are determined by the Utah Commission. Volumes for these customers have been included in the Utah volumes.

2. Applicable Statutes. The Commission may grant relief requested in this case pursuant to Utah Code Ann. § 54-4-1 (2000) and to the extent applicable § 54-7-12 (2004).

3. Tariff Provision. The Commission has authorized Questar Gas to implement Account No. 191 of the Uniform System of Accounts to balance its gas costs with revenues. This filing is made under §2.10 of Questar Gas' PSC Utah Tariff No. 400, pages 2-11 thru 2-17, which sets forth procedures for recovering gas costs shown in Account No. 191 by means of periodic and special adjustments to rates and an annual amortization of the year-end balance in that account.

4. Test-Year. The test-year for this application is based on expected sales, purchases, transportation, gathering, storage and royalties for the 12 months ending December 31, 2005.

5. Cost of Questar Gas Production. Exhibit 1.1 shows the expected test-year costs for gas produced for Questar Gas by Wexpro Company (Wexpro) under Articles II and III of the Wexpro Agreement. System-wide, total costs for Questar Gas'

production are expected to be $178,438,305, as shown in Exhibit 1.1, page 13. These costs are composed of the following elements:

(a) Royalty Payments. During the test-year, Questar Gas will make system-wide royalty payments of $47,140,297 on Company-owned gas produced by Wexpro as shown on Exhibit 1.1, page 13. These royalty payments are based on Integrated Resource Plan (IRP) volumes for the 12-month period ending December 2005 and the Global Insight (formerly DRI-WEFA) November 2004 price forecast for the test period.

(b) Operator Service Fee. Questar Gas is obligated to pay Wexpro an operator service fee for operating Questar Gas wells. The operator service fee for gas produced from productive gas wells for Questar Gas by Wexpro and the costs of gas purchased from Wexpro oil wells is expected to be $131,298,008 system-wide as shown on Exhibit 1.1, page 13.

6. Purchased Gas Costs. Questar Gas' total purchased gas costs are calculated to total $325,541,338 as shown in Exhibit 1.2, line 6. For this test-year, purchased gas costs are projected to average $5.66252/Dth. These costs are based on projected gas purchase volumes, existing contract terms, projected contracts and amendments to cap prices for price stability, and Global Insight's November 2004 price forecast for the test year. These costs are comprised of the following elements:

(a) Questar Gas currently expects to purchase 27,227,500 Dths under existing contracts at a total cost of $166,217,637 shown in Exhibit 1.2, line 3. Included in these costs, in accordance with the Stipulation the Commission approved in Docket Nos. 00-057-08 and 00-057-10, is $2,000,000 associated with projected amendments to establish capped prices in the upcoming test year. For this year's heating season, the Company has entered into contracts or amendments to fix prices for about 50% of the gas purchased for the October 2004 – March 2005 period. Gas contracts for about 50% of the October 2004 - March 2005 period will remain priced at first-of-month index prices along with all of the gas purchased for the remaining test period. The Company continues to consider entering into purchase contracts or contract amendments with a fixed price cap for gas purchased in the December 2004 – March 2005 period.

(b) In addition to current contracts, Questar Gas anticipates buying 16,168,093 Dths on the spot market at a total estimated cost of $82,472,286. (Exhibit 1.2, line 4)

(c) Also, to fulfill total purchased gas requirements of 57,490,499 Dths, Questar Gas expects to contract for an additional 14,094,906 Dths at a total estimated cost of $76,851,415 as shown on Exhibit 1.2, line 5.

7. Transportation, Gathering and Processing Charges. Questar Gas incurs system-wide charges for transportation and gathering services for delivery of gas to its system. These costs are calculated to be $67,736,224, as shown in Exhibit 1.3, page 1, line 20. The transportation (as well as storage) costs are based on upstream pipelines' rates. These costs are comprised of the following elements:

(a) Questar Pipeline and Kern River Demand Rates. Annual transportation demand charges to transport produced and purchased gas are calculated to be $62,970,097 system-wide. (Exhibit 1.3, page 1, line 9).

Also included is a projected capacity release credit of $1,682,406. (Exhibit 1.3, page 1, line 4)

(b) Questar Pipeline and Kern River Commodity Rates. The transportation volumes in this case reflect the level of Company-owned production and purchased contract gas transported during the test period. Transportation commodity charges are calculated to be $1,009,889. (Exhibit 1.3, page 1, line 16)

(c) Other Gathering, Processing and Transportation Charges. Questar Gas uses expected production and gathering volumes for the test period to compute gathering charges. The recovery of the majority of gathering costs under the system-wide agreement with Questar Gas Management Company (QGM) was moved from the gas cost portion of rates to the distribution non-gas cost portion of rates as provided for in Docket Nos. 95-057-30, 96-057-12, and 97-057-11. Other gathering and processing charges and transportation charges are $2,105,570 and $1,650,668 respectively. (Exhibit 1.3, page 1, lines 17-18)

(d) <u>Costs to manage the heat content of gas</u>. Costs to manage the heat content of gas supplies reaching the Price, Payson, and Indianola city gates are estimated to be $7,500,000 during the test period. With this application and its applications in Docket Nos. 03-057-10, 03-057-14 and 04-057-04, the Company continues to seek recovery of these costs from and after December 30, 2002. The Commission's Order issued August 30, 2004, in Docket Nos. 03-057-05, 01-057-14, 99-057-20 and 98-057-12, denied recovery of CO_2 removal costs based on the Stipulation between the Company and the Division of Public Utilities in Docket No. 99-057-20. The Company sought clarification of this order on September 30, 2004, and specifically requested that the Commission clarify the time period that their denial of CO_2 removal costs covered. On October 20, 2004, the Commission issued an order clarifying the point by stating:

> The Order addressed only Questar's failure to substantiate approval of the CO_2 Stipulation in these proceedings and our necessary rejection of the Stipulation, which would have permitted recovery of some processing costs through May of 2004. Our reference to the May, 2004, end date was dictated by the Stipulation's terms and was not intended to have any other preclusive effect on recovery by Questar. In regards to Questar's requests for clarification and reconsideration, we state that our Order does not preclude Questar from seeking recovery of CO_2 processing costs in other dockets.

Recognizing that the Order rejected the Stipulation and was not intended to define May 2004 (which was the ending date of the Stipulation), as the date that gas management costs could begin to be collected, (assuming those costs were found to be prudently incurred), the Company respectfully requests recovery of costs associated with managing the heat content of its gas supplies from December 30, 2002, forward. This is the date that these types of costs were moved from the general portion of rates to the commodity portion (191 Account) of rates. (See the Allocation and Rate Design Stipulation and Settlement that was approved by this Commission in Docket No. 02-057-02 on December 30, 2002.)

The Commission has initiated Docket No. 04-057-09 to determine a long-term solution "consistent with Questar's obligation to provide safe commodity and service to its customers." Pending completion of that docket, the Company seeks by this Application and its applications in Docket Nos. 03-057-10, 03-057-14 and 04-057-04 recovery of its costs to manage the heat content of its gas supplies commencing December 30, 2002. Pursuant to the August 30, 2004 Order, the Company filed revised tariffs on August 31, 2004, removing the interim charge associated with CO_2 removal costs from the commodity cost component of rates for GS-1, GSS, F-1, F-3, F-4, Natural Gas Vehicle, I-2, IS-2, T-1, Firm Transportation Service (FT-2), IT and IT-S rate schedules. However, as clarified by the Commission, that Order did not specify the time period that the disallowance of costs to manage the heat content of its gas supplies covered. Accordingly, the Company continues to request recovery of these costs but has not included these costs in the proposed rates.

(e) <u>Summary of Other Costs</u>. For the test-year, other gathering, processing and transportation costs are calculated to be $3,756,238 system wide. (Exhibit 1.3, page 1, line 19.)

8. Storage Gas Charges. Questar Gas also incurs system-wide storage and working gas charges for gas to be delivered during the winter heating season. These costs are $17,882,683 as shown in Exhibit 1.3, page 2, line 25. The components of these costs are the following:

(a) Storage Demand. The demand component of storage is calculated to be $14,025,058. (Exhibit 1.3, page 2, line 4)

(b) Storage Commodity. The charges during the test-year for injections to and withdrawals from peaking storage and Clay Basin storage fields are calculated to be $508,783. (Exhibit 1.3, page 2, line 9)

(c) Working Storage Gas. The return on working storage gas cost for the most recent 13 months is $3,348,842. (Exhibit 1.3, page 2, line 24)

9. Summary of Questar Gas-Related Gas Costs. Exhibit 1.4, page 1, shows Questar Gas' gas costs by component and page 2 reflects the annualized unit cost of storage gas as well as the withdrawal and injection adjustment. Exhibit 1.4, page 3, shows other revenues that are treated as direct credits to gas costs, as required by the Commission in Docket No. 80-057-10 and as revised in Docket No. 01-057-14. Other revenues of $19,176,450 are the actual amounts for the most recent 12 months as shown in Exhibit 1.4, page 3, line 8. Exhibit 1.5 allocates system-wide costs to Utah and Wyoming jurisdictions on the basis of either peak-day demand or commodity sales as appropriate. The result of these allocations is $548,278,875 in gas costs for Utah. (Exhibit 1.5, line 13)

10. Unit Gas Commodity Cost in Rates. Exhibit 1.6, page 1, shows the derivation of gas commodity unit costs to be reflected in Questar Gas' Utah rate schedules, excluding supplier non-gas costs. Total Utah estimated test-year costs to be collected through the Account No. 191 procedures are $548,278,875 which is then adjusted by F-3, I-2, I-4, IS-2, and IS-4 commodity credits for a total of $534,508,058.

(Exhibit 1.6, page 1, line 5.) The portion of expected test-year gas costs to be recovered on a commodity basis is $455,254,075. (Exhibit 1.6, page 1, line 10.) The corresponding unit cost of gas applicable to Utah rates is $4.60606/Dth. (Exhibit 1.6, page 1, line 11.)

11. Amortization of Account No. 191 Balance. Currently included in Questar Gas' gas cost rate is a commodity amortization debit of $0.28541/Dth approved by the Commission in Docket No. 04-057-11. The December 2004 debit 191 Account balance is expected to be $24,469,176. The Company proposes to amortize the balance with a $0.24917/Dth debit amortization. (Exhibit 1.6, page 1, line 12.) The treatment of the supplier non-gas cost portion of Account No. 191 is described in paragraph 13.

12. Net Unit Commodity Cost. The net result of the changes in gas costs summarized in paragraph 10 and the Account No. 191 amortization discussed in paragraph 11 yields a unit commodity cost of $4.85523/Dth for firm customers, an increase of $0.10928/Dth. (Exhibit 1.6, page 1, line 13).

13. Supplier Non-Gas Costs. Since mid-1984, Questar Gas' rate structure has incorporated a supplier non-gas component that reflects Questar Pipeline's and other suppliers' non-gas cost billings to Questar Gas. The Company has been tracking this supplier non-gas component of its Account No. 191 pursuant to the terms of its tariff. The test-year supplier non-gas costs of $79,253,983 (Exhibit 1.6, page 2, line 1) are adjusted by subtracting $157,983, which is the forecasted year-end credit (over-collected) balance in the supplier non-gas portion of Account No. 191. The result is a total of $79,096,000 of supplier non-gas costs. (Exhibit 1.6, page 2, line 3.) Current rates are estimated to recover $85,214,555 in supplier non-gas costs. (Exhibit 1.6, page 2, line 4.) This information would justify applying a uniform percentage decrease of about 7.2% to the supplier non-gas cost component of firm sales rates. (Exhibit 1.6, page 2, line 7.) Questar Gas, however, is proposing in this case to leave rates unchanged at this time.

14. Change in Typical Customer's Bill. The annualized consolidated change in rates calculated in this application would be a 0.61% increase, or, an average monthly increase of $0.46 per month for a typical Utah GS-1 residential customer using 115 decatherms per year. The projected month-by-month changes in rates are shown in Exhibit 1.7. However, Questar Gas is proposing in this case to leave rates unchanged at this time, which means that there is no proposed change to the typical customer's bill.

15. Proposed Rate Schedules. Questar Gas proposes that the Utah rates approved in Docket No. 04-057-11 (effective October 1, 2004) remain effective. No new rate schedules are included in Exhibit 1.8.

16. Effect on Earnings. Because Questar Gas is proposing a continuation of current rates, there will be no change in the Company's net profits or rate of return.

17. Exhibits. Questar Gas submits the following exhibits in support of its application by continuing to charge the rates that were made effective October 1, 2004:

Exhibit 1.1	Test-Year Cost of Questar Gas' Production
Exhibit 1.2	Test-Year Purchased Gas Cost
Exhibit 1.3	Test-Year Transportation, Gathering, and Storage Charges
Exhibit 1.4	Summary of Test-Year Questar Gas Costs and Other Revenues Credits
Exhibit 1.5	Test-Year Gas Cost Allocation
Exhibit 1.6	Test-Year Gas-Cost Change
Exhibit 1.7	Effect on Typical GS-1 Customer
Exhibit 1.8	Proposed Statement of Rates
Exhibit 1.9	Questar Pipeline FERC Tariff Schedules

WHEREFORE, Questar Gas respectfully requests that the Commission, in accordance with Utah statutes and the Commission's rules and procedures:

1. Authorize Questar Gas to continue to charge the rates that were made effective October 1, 2004, with no change in charges to its Utah customers; and

2. Fully adjudicate the matter of Questar Gas' actual costs to manage the heat content of its gas supplies from December 30, 2002 forward as requested in this Application and others, in conjunction with Docket No. 04-057-09.

DATED this 9th day of December 2004.

Respectfully submitted,

QUESTAR GAS COMPANY

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STATE OF UTAH)
:
COUNTY OF SALT LAKE)

Alan K. Allred, being first duly sworn upon oath, deposes and states: He is the President and Chief Executive Officer of Questar Gas Company; he has read the foregoing application; and the statements made in the application are true to the best of his knowledge and belief.

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Alan K. Allred

Subscribed and sworn to before me this 9th day of December 2004.

Notary Public
Residing in Salt Lake City, Utah

EXISTING TARIFF SHEETS WILL

CONTINUE TO BE EFFECTIVE