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**BEFORE THE
PUBLIC SERVICE COMMISSION OF UTAH**

Application of Questar Gas Company)	Docket No. 04-057-04
to Adjust Rates for Natural Gas Service)	
in Utah)	
)	
and)	
)	
Application of Questar Gas Company)	Docket No. 04-057-11
to Adjust Rates for Natural Gas Service)	
in Utah)	
)	
and)	
)	
Application of Questar Gas Company)	Docket No. 04-057-13
for a Continuation of Previously)	
Authorized Rates and Charges Pursuant to its)	
Purchased Gas Adjustment Clause)	
)	
and)	
)	
In the Matter of the Investigation)	Docket No. 04-057-09
of Questar Gas Company's Gas Quality)	
)	
and)	
)	
Application of Questar Gas Company for)	Docket No. 05-057-01
Recovery of Gas Management Costs in its)	
191 Gas Cost Balancing Account)	

Questar Gas Company (Questar Gas or Company) requests the inclusion of costs to manage the heat content of gas required to assure safe gas supplies for its customers in its 191 Gas Cost Balancing Account (191 Account) on a going-forward basis. In addition, the Company requests that Utah's portion of these costs, in the amount of \$5.7 million annually, be reflected in rates. In this application, Questar Gas is seeking an immediate rate change that would provide cost recovery on a going-forward basis only. However, Questar Gas continues to reserve its right to seek cost recovery for its gas heat-content management costs back to the earliest date permitted by law. In support of its application, the Company states as follows:

GENERAL BACKGROUND

1. The Commission has general jurisdiction to decide this matter pursuant to Utah Code Ann. § 54-4-1 (2000) and § 54-7-12 (Supp. 2004).

2. Questar Gas is a Utah corporation doing business as a public utility engaged in the distribution of natural gas to customers in the states of Utah, Wyoming, and Idaho. Its Utah and Idaho public utility activities are regulated by the Commission and conducted in accordance with its Utah Tariff. A copy of the Company's Articles of Incorporation is on file with the Commission.

3. On August 30, 2004, the Commission issued its Report and Order in Docket Nos. 98-057-12, 99-057-20, 01-057-14, and 03-057-05 rejecting a Stipulation that provided Questar Gas some recovery of CO₂-removal costs incurred in managing the heat content of its gas supply for the 1998 to 2004 period. On September 16, 2004, Questar Gas filed a petition for reconsideration or clarification of certain issues related to the Commission's Order including clarification of the time period over which Questar Gas could pursue recovery of gas heat-

content management costs in other or future proceedings. The Commission clarified in its Order on Request for Reconsideration and Clarification that:

The Order addressed only Questar's failure to substantiate approval of the CO₂ 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 CO₂ processing costs in other dockets. ... We will need to wait for Questar to make whatever arguments and present whatever evidence it deems appropriate in seeking recovery of these costs, whether incurred pre- or post-May 2004, in whatever dockets Questar may raise the issue.

Order on Request for Reconsideration and Clarification, Docket Nos. 98-057-12, 99-057-20, 01-057-14 and 03-057-05 (October 20, 2004) at 9.

4. Questar Gas filed applications in Docket Nos. 04-057-04, 04-057-11 and 04-057-13 dealing with adjustments to the commodity portion of the Company's rates (191 Account). Each of these applications incorporated a test period including portions of 2005. Accordingly, this application is made in these dockets as well as in Docket No. 04-057-09 and in a new docket. The fact that this application is made in these dockets does not affect the Company's reservation or rights, made previously, to seek cost recovery for its gas heat-content management costs back to the earliest date permitted by law.

TECHNICAL CONFERENCES

5. On September 8, 2004, the Commission opened Docket No. 04-057-09, *In the Matter of the Investigation of Questar Gas Company's Gas Quality*. A scheduling conference was held on September 16, 2004, wherein interested parties agreed to a schedule and topics for technical conferences and has requested that all parties state their positions on the issues. The

Commission has also sought to narrow the issues. Following is a summary of each technical conference, their topics, and presentations.

First Technical Conference: October 13, 2004.

6. The topic for the first technical conference was the changing heat content of gas on the Questar Gas system. The agenda included the following discussion items: 1) evolution of the changing heat content of gas on the Questar Gas system; 2) demonstration of unsafe appliance operation when non-interchangeable gas is burned; 3) set point; 4) safety standards; 5) changing FERC regulations (Orders 436, 636, 2004); 6) cost recovery for management of heat content; and 7) parties' positions on the issues.

7. Larry Conti (General Manager, Operations and Gas Control) presented the first discussion entitled "Gas Quality: How It Impacts Questar Gas." Mr. Conti reviewed combustion theory; the impact on appliance performance of burning non-interchangeable gas; the approximate interchangeability ranges; the evolution of the interstate pipeline grid in the Rocky Mountain region and its ties to a national market; national pipeline heat-content specifications; Questar Pipeline efforts to deliver gas that meets the specifications of interconnecting pipelines and Questar Gas; natural gas producing basins and their respective gas composition; historical basin heating values; Price, Utah area coal-bed production; the Btu ranges of various types of natural gas; an explanation of the Wobbe Index and how it is used to determine gas interchangeability; a comparison of the components of coal-seam gas; Uinta Basin gas and Northern Gates gas composition; the interchangeable range for Questar Gas' transition from pre-1998 to post-1998 appliance set points; Btu ranges for producing basins serving Questar Pipeline; the historical Btu trends for Salt Lake City; the Btu delivery ranges for Questar Gas from 1995 to the present; the heat content of Kern River gas delivered to Questar Gas from

1999 to September 2004; and a comparison of Questar Gas' Btu set points to 26 urban areas showing that Questar Gas' new set points were well within the national LDC set-point range, but the old set point was significantly higher. A copy of Mr. Conti's presentation is attached as Exhibit 1.

8. Michael Jaynes (Supervisor, Operations) presented a demonstration of natural gas appliance safety in Questar Gas' lab. Mr. Jaynes demonstrated the unsafe results of burning non-interchangeable natural gas in appliances. The demonstration showed dangerously elevated levels of carbon monoxide and unstable flame conditions resulting from appliance settings that are incompatible with the gas stream.

9. Mr. Conti concluded the discussion of gas quality and Mr. Jaynes' demonstration regarding appliance safety by summarizing Questar Gas' position points as follows: 1) an improperly adjusted appliance creates a safety hazard; 2) Questar Gas and Questar Pipeline constantly manage the heat content and gas composition of their natural gas supplies to provide safe, reliable gas supplies that meet the interchangeability requirement of the overlap between Questar Gas' old and new set points;¹ 3) post-1985 FERC regulations, Rocky Mountain pipelines have adopted national interstate grid natural gas-quality specifications; 4) Questar Gas' two major pipeline suppliers, Questar Pipeline and Kern River, both deliver supplies of natural gas with a heat content that is aligned with the national market; and 5) natural gas markets, beyond

¹ Following a series of meetings and discussions beginning in January 1998 with the Commission, the Division of Public Utilities (Division), and the Committee of Consumer Services (Committee) to notify the Commission of an imminent safety problem associated with heat-content levels in the natural gas supplies it was receiving from Questar Pipeline and to notify the Commission about the incompatibility of that gas with current appliance set points, Questar Gas filed Advice Letter 98-02 on April 21, 1998 requesting authorization to reduce its heat-content operating range in its tariff from 1020 to 1320 Btu per cubic foot to 980 to 1170 Btu per cubic foot. The Division filed a memorandum on April 30, 1998, supporting the change, and no party objected to it. The change to the heat-content operating range became effective on May 1, 1998. Questar Gas is providing customers at least a 10-year transition period to allow them to have their appliances checked and adjusted in an orderly and achievable manner.

the Rocky Mountains, have a major influence on natural gas composition and the physical flows of Rocky Mountain production.

10. Scott Brown (General Counsel) presented a discussion entitled “Evolution of FERC Regulation in the Natural Gas Marketplace.” Mr. Brown presented FERC’s policy favoring competition that prohibits discrimination by a pipeline in favor of any customer, including affiliates; an overview of the FERC orders that over time have led to a more competitive open-access environment on interstate pipelines; pipeline regulation pre-1985 when pipelines were not common carriers and typically provided bundled transportation and sales service; and a discussion of FERC Order 2004 that reiterated pipelines could not wield market power over gas markets and give undue preference to any customer, including the pipeline’s affiliated local distribution company. Questar Gas made available Order 2004 training to regulators and any interested parties. Mr. Brown concluded by quoting from FERC Docket No. RM04-4-000, Creditworthiness Standards for Interstate Natural Gas Pipelines, Notice of Proposed Rulemaking, FERC Stats. and Regs. Preambles ¶ 32,573 at p. 32,023 (February 12, 2004) that “[t]he goal of the Commission in Order Nos. 436 and 636 was to create a seamless and integrated pipeline grid that promotes competition by enabling shippers to move gas from the most competitive supply areas, across multiple pipelines, to the burner tip.” A copy of Mr. Brown’s presentation is attached as Exhibit 2.

Second Technical Conference: October 21, 2004.

11. At the second technical conference, the topics for discussion included possible FERC resolution of issues related to Questar Pipeline’s tariff and gas quality specifications. Chuck Greenhawt (Manager, Government Affairs) presented a discussion on “FERC Proceedings on Gas Quality/Potential Action at the FERC.” A copy of Mr. Greenhawt’s

presentation is attached as Exhibit 3. Mr. Greenhawt summarized FERC's natural gas interchangeability docket and the Natural Gas Council's proposal to study gas quality and interchangeability. Specifically, he addressed the Council's concern with how Liquefied Natural Gas (LNG), coal-seam gas, and traditional sources of gas can be interchangeable.

12. The second major issue Mr. Greenhawt addressed was whether a proceeding at FERC should be initiated to address natural gas heat-content issues on Questar Pipeline and if so, by whom.² Mr. Greenhawt summarized the Company's position by submitting Questar Gas' position points: 1) there is little likelihood of a favorable outcome at the FERC; 2) there is a substantial risk of unintended adverse results, *e.g.* company-owned production that may not meet Questar Pipeline's tariff specifications may be restricted unless processed at great expense to customers; 3) any FERC action should be pursued against both Kern River and Questar Pipeline and the requested relief should be an assurance that gas delivered to Questar Gas meets its interim and prospective interchangeability ranges; and 4) a party other than Questar Gas should bring a FERC action, if any, to avoid affiliate-interest issues.

13. Mr. Conti presented a review of gas heat-content specifications, which built on his presentation on gas quality at the first technical conference. A copy of his presentation entitled "Gas Quality Specifications" is attached as Exhibit 4. He discussed the interchangeability ranges of natural gas for Questar Gas pre-1998 and post-1998 stressing the transition range where the pre- and post-ranges overlap; the gas Btu ranges delivered to Questar Gas from 1995 to 2004 from both Questar Pipeline and Kern River; the pipeline tariff specifications for gas on Questar

² In its Order in Docket Nos. 98-057-12, 99-057-20, 01-057-14 and 03-057-05, the Commission questioned whether Questar Gas should have pursued an answer from FERC regarding whether it could compel its affiliate, Questar Pipeline, to modify its tariff so that gas with levels exceeding 1% carbon dioxide would not be allowed on its system. Former Commissioner Mechem criticized the Company for not pursuing a FERC proceeding in his dissent from the Commission's Order in Docket No. 99-057-20 issued August 11, 2000. The Utah Supreme Court noted this dissent in its decision reversing the Commission's Order in its decision in *Committee of Consumer Services v. Public Service Comm'n*, 75 P.3d 481, 483-84 (Utah 2003).

Pipeline and Kern River; the concept of hydrocarbon dewpoint and phase envelopes for different gas sources; the new development and active producers within the producing basins connected to Questar Pipeline that impact the heat content of gas reaching the Questar Gas system; and the hydrocarbon dew point phase envelopes for typical Uinta Basin and coal seam production.

14. Barrie McKay (Manager, State Regulatory Affairs) described the process the Company proposed to determine the best alternative for managing the heat content of its gas supplies. This process was based on the Commission's Order in Docket Nos. 98-057-12, 99-057-20, 01-057-14, and 03-057-05, where the Commission stated:

One would expect a prudent gas distribution company faced with the risk of a safety issue of the magnitude faced by Questar's distribution customers to clearly *identify its objective*; to *identify alternatives* to meet the objective, to *define the method and criteria* by which it would *evaluate the alternatives* and to record or document the process in support of the ultimate decision.

Order, Docket Nos. 98-057-12, 99-057-20, 1-057-14, and 03-057-05 (August 30, 2004) at 23 (footnote deleted, emphasis added).

Furthermore, when a utility decision involves an affiliate the Commission stated:

We anticipate that where such conflicts can arise and a utility seeks recovery of costs affected with such potential conflicts, the utility understands its burdens of proof and persuasion and takes steps (which enable it to present evidence of its actions) showing how these *conflicts were recognized, were minimized* and how the *utility prioritized its customers' interests* and was not *unduly influenced* by its affiliate interests in the actions it took."

Order on Request for Reconsideration or Clarification, Docket Nos. 98-057-12, 99-057-20, 01-057-14 and 03-057-05 (October 20, 2004) at 3 (emphasis added).

Mr. McKay presented the Decision Making Matrix that the Company proposed to use in determining the best alternative for managing the heat content of its gas supplies. A copy of this proposed Decision Making Matrix is attached as Exhibit 5.

15. Mr. McKay identified that the Company's objective was to manage gas supplies for safe and reliable gas service for customers at the most reasonable cost. He explained that the Company would provide an analysis of the alternatives that had been identified by the Company, Division and other parties at the next technical conference. He explained that the criteria used in evaluating the alternatives included: 1) safety, defined as ensuring that gas supplies delivered to customers will burn safely and efficiently; 2) reliability, defined as ensuring sufficient supplies and transport capacity are available to meet customer demand; 3) implementation, defined as factors that impact the ability to successfully implement the alternative; and 4) cost. Additionally, if an affiliate is involved, then the Company must recognize the potential affiliate conflict, minimize the conflict, prioritize customers' interests first, and demonstrate that there has been no undue influence.

Third Technical Conference: November 12, 2004.

16. At the third technical conference, the topic of discussion was possible alternatives to address the changing heat content of natural gas. The possible alternatives included: 1) taking no action at all; 2) FERC action; 3) shutting in city gates; 4) appliance adjustment; 5) paying producers to shut in their gas supplies; 6) gross blending; 7) precision blending; 8) propane injection; 9) CO₂ removal using the existing CO₂ plant; 10) four Kern River alternatives; and 11) other (which was an invitation for any other alternatives--none were suggested). Mr. Conti presented the Company's analysis of each of these alternatives. Each alternative was evaluated based on risk criteria that were assigned to each alternative to determine the combined alternative risk. Included for each alternative was a physical and business description, a list of pros and cons, a risk matrix, capital-cost estimates, and first-year cost-of-service. Mr. Conti's presentation entitled "Interchangeability Management Options" is attached as Exhibit 6.

17. The Company provided all participants a “Summary of Alternatives” handout that analyzed each alternative against the safety, reliability, implementation, and cost criteria that had been outlined in the second technical conference (See Exhibit 5). Additionally, the Company included the first step in the affiliate-conflict analysis for each alternative and explained that once the alternatives were narrowed, a complete affiliate analysis would be conducted. The Company invited the input of any party on these alternatives or any other alternatives. A copy of this summary is attached as Exhibit 7.

Fourth Technical Conference: November 23, 2004.

18. The fourth technical conference topic was the Green Sticker Program. Ron Jibson (Vice President, Operations) presented an overview of the Green Sticker program and specifically addressed Questar Gas’ roles to maintain the heat value of gas within the Commission-approved range (*see* Utah Admin. Code R746-320-2.B); to educate customers about the approved range; and to encourage customers to periodically have appliances inspected. Mr. Jibson also described the role of others including heating contractors, building inspectors, natural gas appliance manufacturers, regulators and customers. Questar Gas’ position points regarding the Green Sticker program are: 1) Questar Gas is acting within its role to manage gas supplies and to educate customers; 2) Questar Gas’ role should not be expanded; and 3) the Green Sticker Program is an effective education campaign that should be continued with the support of all parties. A copy of the “Green Sticker Program” presentation is attached as Exhibit 8.

19. John P. Hill (Executive Director Rocky Mountain Gas Association) handed out a position statement that explained the mission of Rocky Mountain Gas Association, its position on safety of natural gas appliances and the role of heating contractors. A copy of this statement is attached as Exhibit 9.

Fifth Technical Conference: December 3, 2004.

20. At the fifth technical conference, the topics for discussion included the positions of parties on alternatives outlined by Questar Gas in the November 23, 2004, technical conference, any other alternatives, the narrowing of alternatives, the process for refining the remaining alternatives and a timeline for decision. The Commission asked all parties to provide input on narrowing the alternatives. The Division distributed three handouts, attached as Exhibit 10, entitled “Precision Blending Issues”, “Need for CO₂ Removal Plant”, and “Deliveries at Indianola, Payson and Goshen”. The Company presented its three preferred alternatives. With some slight variation, the three alternatives that most of the parties agreed needed further analysis were: 1) precision blending with the CO₂ plant as a back-up (alternative no. 7 in Exhibit 6); 2) the CO₂-removal plant (alternative no. 9 in Exhibit 6); and 3) precision blending with the Kern River backup using Feeder Line 85 (alternative no. 10(c) in Exhibit 6). A copy of the Company’s presentation “Discussion of Alternatives” is attached as Exhibit 11.

Sixth Technical Conference: January 19, 2005.

21. The sixth technical conference was held to provide a more thorough analysis of the three preferred alternatives for managing heat content. Mr. Conti presented the three alternatives in greater detail, comparing them against the safety, reliability and implementation criteria. A copy of the “Analysis of Preferred Alternatives” is attached as Exhibit 12. Mr. Conti stated that the Company would not support the precision blending with Kern River backup alternative because of the unavailability of intraday transportation service and gas supplies, as well as the cost risk of very high demand charges associated with securing gas supplies if they were available. In short, this is not a feasible backup to precision blending.

22. Questar Gas presented an analysis of the cost criteria for the three preferred alternatives. Dave Curtis (Vice President and Controller) presented Questar Gas' expanded cost analysis for various time frames ranging from four to 15 years. Mr. Curtis showed that the costs of the CO₂-removal plant alternative or the precision blending with the CO₂-removal plant as a backup alternative were approximately of equal cost in the near term, but that precision blending with CO₂ removal as a backup had slightly lower costs over longer time periods. He also discussed the sensitivity of this outcome to future gas prices. Mr. Curtis showed that the costs of the precision blending with Kern River gas supplies as a backup were significantly more expensive. A copy of the cost analysis of the preferred alternatives is attached as Exhibit 13.

23. The parties discussed and, those expressing an opinion, generally favored the precision blending with the CO₂-removal plant as a backup alternative for two reasons: 1) it provides a greater opportunity to reduce total costs during the transition period and 2) it reduces the risk of increased fuel costs.

24. Mr. McKay also presented a detailed affiliate analysis of the three preferred alternatives. Mr. McKay's analysis recognized the affiliate conflict, explained how the conflict could be minimized, showed how customers' interests would be prioritized first, and showed there would be no undue influence.

SUMMARY

25. Questar Gas continues to seek recovery for the costs of managing the heat-content of its natural gas supplies back to the earliest date permitted by law, but for the purposes of this filing, and based on the evidence and analysis provided in the technical conferences, Questar Gas is seeking inclusion of its current costs to manage the heat content of gas in its 191 Account.

Utah's share of the current costs of either of the two preferred alternatives is at least \$5.7 million annually.

26. Questar Gas has shown that customers are benefiting from the removal of CO₂ from natural gas supplies being delivered to Questar Gas' system. CO₂ removal makes natural gas supplies interchangeable for appliances set at Questar Gas' old Btu set point.

27. The Company has determined that the best alternative for delivering interchangeable gas to its customers, until such time as customers' appliances can be inspected, and if necessary, adjusted for the new heat-content range, is to either provide precision blending using the CO₂ plant on a reduced basis of seven months of the year, or to use the CO₂ plant to remove CO₂ from the coal-bed methane gas supplies year round. For 2005, Utah's share of costs for both of these alternatives is at least \$5.7 million.

28. Questar Gas has shown in these technical conferences, in lab demonstrations, in responses to numerous data requests, and with testimony in prior proceedings that the changing heat content of natural gas supplies poses a safety risk for customers whose space- and water-heating appliances are not properly adjusted.

29. Questar Gas has addressed the pros and cons of whether it, or another party, should initiate an action at FERC to change Questar Pipeline's natural gas tariff standards and has shown that if FERC were to impose certain gas-quality standards on Questar Pipeline, that it is likely that the costs related to complying with such new gas quality standards would ultimately be borne by Questar Gas' customers and that Questar Gas' company-owned production might also be impacted. Questar Gas has shown that such action will likely cost its customers more than the preferred alternative of precision blending with the CO₂ plant as backup. In the

technical conferences no party advocated or supported the initiation by Questar Gas, or any other party, of an action at FERC to address Questar Gas' interchangeability issues.

30. Questar Gas has presented and thoroughly analyzed more than 11 different alternatives that were either requested by other parties or proposed by Questar Gas. Each alternative was analyzed using safety, reliability, implementation, and cost criteria and, if applicable, affiliate-conflict recognition. Each alternative was discussed and questioned during the course of the technical conferences. Questar Gas has answered questions of the parties at the technical conferences, and also answered numerous data requests from the Division and Committee to help them evaluate alternatives. While agreement has not been reached on all issues, no party has provided a plan or alternative that would provide safe and reliable management of heat content of natural gas supplies on Questar Gas' system. Questar Gas has taken action and incurred costs, and continues to take action and incur costs, to manage the heat content of the gas it provides for customers. In its August 30, 2004, Order, the commission stated "[w]e believe that ratepayers are best served by reserving wide latitude to utilities' managerial experience and technical expertise." Order at 24. It is time for that latitude to be applied to the Company's approach to managing heat content. Cost coverage for the expenses of this activity should be approved.

PROPOSED RATE ADJUSTMENTS

31. The Commission is authorized to include gas-processing costs the 191 Account as indicated both by the Utah Supreme Court Decision in *Questar Gas Co. v. Utah Public Service Commission*, 34 P.3d 218 (Utah 2001), and by the procedures outlined in Section 2.10 of Questar Gas' Utah Tariff No. 400, pages 2-11 through 2-17. Tariff Section 2.10 sets forth procedures for

recovering gas costs shown in the 191 Account by means of periodic and special adjustments to rates and an annual amortization of the year-end balance in that account.

32. Utah's share of the costs to manage the heat content of gas supplies reaching Questar Gas' Price, Payson and Indianola city gates is at least \$5.7 million annually.

33. Questar Gas is proposing rate schedules that reflect adjustments to firm sales service customers to recover the costs of \$5.7 million. A copy of proposed rate schedules for GS-1, GSS, F-1, F-3, F-4 and NGV customers is attached as Exhibit 14.

Prayer for Relief

WHEREFORE, Questar Gas Company requests that the Commission:

1. Enter an Order, effective February 1, 2005, allowing the Company to recover \$5.7 million annually in costs to manage the heat content of its natural gas supplies on a forward-going basis in the 191 Account and approve the proposed rate schedules.

2. Notice a scheduling conference to address issues such as past costs incurred in the management of heat-content of natural gas supplies, Green Sticker program issues, and other issues as may be necessary.

DATED this 31st day of January, 2005.

Respectfully submitted,

QUESTAR GAS COMPANY

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VERIFICATION

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.

Alan K. Allred

Subscribed and sworn to before me this 31st day of January, 2005.

Notary Public
Residing in Salt Lake City, Utah

