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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

Application of Questar Gas Company to)
Adjust Rates for Natural Gas Service in Utah)

Docket No. 04-057-04

Application of Questar Gas Company)
to Adjust Rates for Natural Gas Service)
in Utah)

Docket No. 04-057-11

Application of Questar Gas Company)
for a Continuation of Previously)
Authorized Rates and Charges Pursuant to its)
Purchased Gas Adjustment Clause)

Docket No. 04-057-13

In the Matter of the Investigation)
of Questar Gas Company's Gas Quality)

Docket No. 04-057-09

Application of Questar Gas Company for)
Recovery of Gas Management Costs in its)
191 Gas Cost Balancing Account)
)

Docket No. 05-057-01

**GAS MANAGEMENT
COST STIPULATION**

Pursuant to Utah Code Ann. § 54-7-1 (2000) and Utah Administrative Code R746-100-10.F.5 (2005), Questar Gas Company (Questar Gas), the Division of Public Utilities (Division), and the Committee of Consumer Services (Committee) (collectively, Parties) submit this Stipulation in final resolution and settlement of Questar Gas' application for rate recovery of certain costs incurred in managing the heat content of its gas supplies.

PROCEDURAL HISTORY AND BACKGROUND

1. On August 30, 2004, the Commission issued its Order in Docket Nos. 98-057-12, 99-057-20, 01-057-14, and 03-057-05 implementing a Utah Supreme Court decision that reversed a Commission order approving a prior stipulation between Questar Gas and the Division that provided Questar Gas a portion of the recovery of CO₂-removal costs incurred in managing the heat content of its gas supplies from June 1998 to May 31, 2004.¹ 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 or 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,

¹ *Committee of Consumer Services v. Public Service Comm'n*, 2003 UT 29, 75 P.3d 481, reversing in part, Report and Order, *In the Matter of the Application of Questar Gas Company for a General Increase in Rates and Charges*, Docket No. 99-057-20 (Utah PSC Aug. 11, 2000).

whether incurred pre- or post-May 2004, in whatever docket Questar may raise the issue.²

2. 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*, "to set dates for technical conferences to discuss the long-term solution to Questar Gas Company's gas quality."³ A series of six formal technical conferences were subsequently held during the months of October 2004 through January 2005 that were attended by the Commission and Commission staff and representatives from the Company, the Division, the Committee, and other interested parties. The topics of these conferences included: (1) the changing heat content of gas on the Questar Gas system; (2) the potential for Federal Energy Regulatory Commission (FERC) resolution of issues related to Questar Pipeline's tariff and gas quality specifications; (3) possible alternatives to address the changing heat content of natural gas; (4) the Green Sticker Program; (5) parties' positions on possible alternatives; and (6) an in-depth overview of the three preferred alternatives for managing heat content.

3. On January 31, 2005, Questar Gas applied to the Commission for inclusion of its costs to manage the heat content of gas required to assure safe gas supplies for its customers in its 191 Gas Balancing Account (191 Account) on a going-forward basis. However, Questar Gas reserved the right to seek cost recovery for its gas heat-content management costs back to the earliest date permitted by law. This application was assigned Docket No. 05-057-01.

4. On March 1, 2005, the Commission conducted a scheduling conference at which Questar Gas, the Division, the Committee, intervenors and interested persons discussed

² Order on Request for Reconsideration or Clarification, Docket Nos. 98-057-12, 99-057-20, 01-057-14 and 03-057-05 (Oct. 20, 2004) at 4-5.

³ See Notice of Scheduling Conference, *In the Matter of Investigation of Questar Gas Company's Gas Quality*, Docket No. 04-057-09 (Sept. 8, 2004).

scheduling issues in the above dockets, and determined filing and hearing dates for Commission consideration of the issues. The Commission subsequently issued a Scheduling Order in these dockets.

5. Pursuant to the Scheduling Order, Questar Gas filed its direct testimony on April 15, 2005. The testimony filed by the Company to support its request for cost recovery included testimony from: (1) Charles Benson, a mechanical engineer specializing in combustion theory, and Larry Conti, Questar Gas, General Manager of Operations and Gas Control, who explained that there is a safety concern with the change in the gas supplies; (2) Mr. Conti and Barrie McKay, Questar Gas, Manager, State Regulatory Affairs, who explained the various alternatives to manage Questar Gas' gas supply and the rationale for selecting various alternatives to address gas quality needs; (3) Mr. Conti and Bob Lamarre, a petroleum and exploration geologist, who explained that the evolution and changes in gas supplies were beyond both the Company's and its affiliates' control and that coal-bed methane supplies were a proven new source of available natural gas; (4) Mr. Conti and Mr. McKay, who explained that going to the FERC to prevent coal-bed methane from coming on Questar Gas' system is an action that all parties agree is not viable; and (5) Al J. Walker, Questar Gas, Manager Gas Supply, and Robert Reid, Ph.D, an economist, who explained that the development of large quantities of coal-bed methane geographically near Questar Gas' system has, in fact, saved customers millions of dollars.⁴

6. In response to Questar Gas' January 31, 2005 application, the Division and the Committee began the process of inquiry and clarification to determine whether they would support or oppose Questar Gas' renewed effort to obtain rate recovery of costs related to the

⁴ The Parties request that the Commission take administrative notice of the information presented in the technical conferences in Docket No. 04-057-09 and admit and incorporate the facts asserted in Questar Gas' application and written testimony filed in these dockets into the record in support of this Stipulation.

Company's management of its gas supplies. To that end, the Division and Committee retained separate outside consultants to review the Company's claims that the decisions resulting in the costs at issue were prudent and incurred in response to a safety risk to customers.

7. Subsequent to the filing of the Company's direct testimony, numerous technical meetings were held with Company, Division and Committee representatives and their consultants to further review and discuss concerns raised by the Committee and Division regarding, among other things, recent changes to the configuration of Questar Pipeline's southern system, additional alternatives, conflicting affiliate interests, and the prudence and timeliness of Company management decisions. As those discussions progressed into settlement negotiations between the Company, the Division and the Committee, the Company advised the Division and Committee it had determined that, with physical modifications to the CO₂ Removal Plant and operational cooperation from third parties, the CO₂ Removal Plant could provide processing to third parties on an increased basis over what had occurred in the past. The potential for increased third party processing results in the possibility of lower processing costs to Questar Gas' customers. Operating the plant year round and providing processing service to third parties, accordingly, became the preferred alternative because of potential benefits to the utility's customers stemming from revenue sharing and fuel cost savings.

TERMS AND CONDITIONS OF STIPULATION

8. The Parties agree that Questar Gas is legally obligated to provide safe and reliable gas service to its customers and to: "maintain the heating value established in [its] ... tariffs and [to] ... regulate the chemical composition and specific gravity of the gas so as to maintain satisfactory combustion in customers' appliances without repeated adjustment of the burners."⁵

⁵ Utah Administrative Code R746-320-2.B.2 (2005)

The Parties further agree that Questar Gas must currently manage its gas supply within a narrower range than provided in its Utah Tariff to allow customers a transition period in which their appliances can be inspected and, if necessary adjusted for the different composition of gas that Questar Gas will manage once that transition period is over. Following the extensive analysis, review and discussions that were described above, and without waiver or acceptance of the claims, testimony or objections of any Party, the Company, Division, and Committee have agreed to compromise and settle their differences with respect to the Company's application for rate recovery in these proceedings and enter into this Stipulation. The Parties agree that the entry of this Stipulation is in the public interest, is consistent with just and reasonable rates, and will help ensure customer safety. The Parties further agree that the continued operation of the CO₂ Removal Plant, with cost recovery as set forth below, is a reasonable means of accomplishing the necessary heat-content management.

9. The Parties agree that Questar Gas should be granted cost recovery as provided below:

(a) Past Costs. If this Stipulation is approved in a final order and Questar Gas actually receives the recovery contemplated in paragraph 9(b), Questar Gas will not seek recovery of approximately \$15 million of past gas-management costs incurred from January 1, 2003 through January 31, 2005.⁶

(b) Cost Recovery beginning February 1, 2005. Rate recovery shall be allowed for costs incurred after January 31, 2005, pursuant to the terms of this Stipulation. The Parties agree that non-fuel costs incurred by Questar Gas to manage the heat content of gas supplies using the CO₂ Removal Plant, with available blending by Questar Pipeline, are approximately \$4 million

⁶ See n.2 *supra*.

annually. Non-fuel costs are defined as all costs billed to Questar Gas from Questar Transportation Services (i.e., labor, overheads, materials, supplies, taxes other than income, power, return, depreciation, etc.), the owner and operator of the CO₂ Removal Plant, except fuel gas costs. Questar Gas shall recover in rates, 90% of the actual non-fuel costs as defined in this Stipulation. The fuel needed to operate the CO₂ Removal Plant for Questar Gas will be provided in-kind by Questar Gas and will be passed through to customers on a dollar for dollar basis in the 191 Account. Cost recovery will be for the longer of three (3) years or the date in 2008 when Questar Gas' original 10-year transition period is scheduled to end as described in earlier proceedings, but in no event longer than operation of the CO₂ Removal Plant is necessary to accomplish the purpose of the transition period. Any extension of recovery would be contingent upon a Commission Order to extend the deadline for the 10-year transition period. The Parties agree to work together to present recommendations to the Commission about the ultimate duration of the transition period. The Parties agree that any extension of the transition period shall be presented to the Commission upon the same terms and conditions as provided in this Stipulation.

(c) Fuel Gas Charges.

(i) Questar Gas Fuel. Questar Gas' rate recovery for any fuel charges at the CO₂ Removal Plant for gas processing services performed for Questar Gas will be for the lesser of 360,000 Dth/year or the actual fuel gas used.

(ii) Third Party Fuel. All fuel provided by third parties for processing at the CO₂ Removal Plant will be used to help keep fuel charges in the 191 Account at or below 360,000 Dths/year. Limiting 191 Account rate recovery for fuel charges at the CO₂ Removal Plant to the

lesser of 360,000Dth/year or the actual fuel gas used results in an estimated fuel cost savings benefit to the utility's customers of about \$1 million per year.

(d) Third-Party Revenues. The Parties agree that if Questar Transportation Services should contract with a third-party to process gas at the CO₂ Removal Plant, Questar Transportation Services will be allowed to keep 100% of the revenues credited to its account from such third-party processing up to \$400,000 annually. Revenue received by Questar Transportation Services for third-party processing at the CO₂ Removal Plant that exceeds \$400,000 annually will be credited 50% to Questar Transportation Services and 50% to Questar Gas; and any such credit to Questar Gas will be recorded in the 191 Account as an offset to costs recoverable from customers.

(e) Additional Plant Facilities. The Parties agree that the costs of any additional CO₂ Removal Plant facilities or pipeline facilities required by Questar Gas or third parties to remove CO₂ from the gas supplies will not be borne by Questar Gas' customers.

(f) HEAT Customers. The Parties agree that Questar Gas will take all commercially reasonable measures to inform low-income customers who qualify for Home Energy Assistance Target (HEAT) of the necessity to have their appliances inspected and, if necessary, adjusted for the change in gas supply. Questar Gas agrees to provide free furnace inspection and adjustment services, and to waive additional rate recovery of its costs to provide such services, for up to 2000 HEAT or other qualifying customers per year, in addition to the approximately 1000 customers whose appliances are inspected and/or adjusted by Weatherization of Utah annually, for each full year this Stipulation is in effect.

(g) Allocation of Gas Management Costs. The Parties agree that the costs associated with the CO₂ Removal Plant as provided for in this Stipulation will be allocated between sales

and transportation customer classes using the non-gas revenue requirement as identified in Questar Gas Company's Barrie L. McKay – Rate Design – Exhibit 1, lines 1 and 2, in Docket No. 02-057-02. If the Commission, in a general rate case, changes the allocation of the final revenue requirement between the sales and transportation classes as provided in this Stipulation, then the new class allocation will be used.

10. All negotiations related to this Stipulation are privileged and confidential and no party shall be bound by any position asserted in negotiations. Neither the execution of this Stipulation nor the order adopting this Stipulation shall be deemed to constitute an acknowledgment by any party of the validity or invalidity of any principle or practice of ratemaking, or the basis of an estoppel or waiver by any party other than with respect to issues explicitly resolved by this Stipulation; nor shall they be introduced or used as evidence for any other purpose in a future proceeding by any Party to this Stipulation except a proceeding to enforce the approval or terms of this Stipulation. The Parties believe that this Stipulation is in the public interest and that the rates, terms and conditions it provides for are just and reasonable.

11. The Parties each agree to present testimony of one or more witnesses to explain and support this Stipulation. Such witnesses will be available for examination. No Party to this Stipulation may present testimony in opposition to this Stipulation.

12. This Stipulation shall remain in effect from the date of the Commission's order approving the Stipulation until the date of a superseding Commission order.

13. The Parties agree that if any other party, entity or individual challenges the approval of this Stipulation, requests rehearing of any approval of the Stipulation or appeals the approval of this Stipulation, each Party will use its best efforts to support the terms and conditions of the Stipulation at the Commission and/or at the applicable appellate court.

14. In the event the Commission rejects any or all of this Stipulation, or imposes any additional material conditions on approval of this Stipulation, or in the event the Commission's approval of this Stipulation is rejected or conditioned in whole or in part by an appellate court, each Party reserves the right, upon written notice to the Commission and the other Parties to this proceeding delivered no later than five (5) business days after the issuance date of the applicable Commission or court order, to withdraw from this Stipulation. Prior to that election, the Parties agree to meet and discuss the Commission's order or court's decision. In the event that no new agreement is reached, no Party shall be bound or prejudiced by the terms of this Stipulation, and each Party shall be entitled to undertake any steps it deems appropriate.

DATED: October __, 2005.

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