

Claire Geddes
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November 4, 2005

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of
Questar Gas Company to Adjust Rates
for Natural Gas Service in Utah

Docket No. 04-057-04

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

Docket No. 04-057-09

In the Matter of the Application of
Questar Gas Company to Adjust Rates
for Natural Gas Service in Utah

Docket No. 04-057-11

In the Matter of the 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

and

In the Matter of the Application of
Questar Gas Company for Recovery
of Gas Management Costs in its
191 Gas Cost Balancing Account

Docket No. 05-057-01

AFFIDAVIT AND
PUBLIC TESTIMONY
OF CLAIRE GEDDES

AFFIDAVIT

STATE OF UTAH)
 : ss
COUNTY OF SALT LAKE)

On the 4th day of November, 2005, CLAIRE GEDDES appeared before me, a Notary Public, and, being duly sworn, affirmed that she is the Affiant herein and the author of the testimony which follows, that it is true and correct, and that it is her intent, by submitting this Affidavit to the Public Service Commission of Utah, for this testimony to be deemed sworn testimony as though it had been offered in person before the Commission and under oath, and that by her signature, affixed hereto at the end of his testimony, she so swears.

Notary Public

On June 2, 2000, Questar Gas and the Division of Public Utilities filed a stipulation (the Stipulation) that resolved the issue of cost recovery of and ratemaking treatment of gas processing costs. . On August 11, 2000, the Utah Public Service Commission issued its final report and order approving the CO₂ Stipulation.

On October 7, 2000, the Committee of Consumer Services filed an appeal with the Utah Supreme Court on the Commission decision in Docket No. 99-057-20 approving the Processing Agreement.

On August 1, 2003, the Utah Supreme Court reversed the Commission's Order in Docket No. 99-057-20 which approved the Stipulation allowing for recovery of \$5 million a year for 5 years for recovery of gas processing costs.

The Utah Supreme Court stated, *"the record clearly indicates that the Commission did not make a determination that the plant contract between Questar Gas and Questar Pipeline was prudent. Indeed, the commission stated that there were insufficient facts in the record for it to make such a determination, nor could a sufficient record be developed. We note further that the Commission does not contest Consumer Service's claim that the utility is generally obligated to establish that its transaction with an affiliate is prudent before receiving commission approval for the transaction, and that this prudence determination is a prerequisite to the determination of whether a consequent rate increase is just and reasonable. . . . Thus, the real issue in this case is whether the Commission may rely on a 'safety exception' that relieves Questar Gas of its burden to demonstrate the prudence of its contract with Questar Pipeline to construct and operate the plant under the terms that caused Questar Gas to incur the costs it now seeks to pass on to ratepayers. . . . While safety concerns may have necessitated the construction and operation of a plant, they do not establish who should bear the cost of these measures. If the record has permitted, the Commission could have carried out its initial obligation to review the prudence of the plant contract and its terms, holding Questar Gas to its burden of establishing that its decision to enter into the contract and the costs it agreed to were prudent and not unduly influenced by its affiliate relationship with Questar Pipeline. Since the Commission found that no such record was or could be made available, it should have refused to grant a rate increase that included plant costs. We therefore overturn the Commission's decision to accept the Stipulation and to grant the rate increase proposed therein. . . . "By accepting the Stipulation with no consideration of the prudence of the underlying source of the new costs (i.e., the contract between Questar Gas and its affiliate Questar Pipeline), the Commission abdicated its responsibility to proposed rate increase in the record its responsibility to find the necessary substantial evidence in support of the proposed rate increase in the record. We are far from certain, moreover, that the Commission could conceivably determine whether a rate increase is just and reasonable without examining whether the underlying cost-*

incurring activity was reasonable, which in turn seems to require some attention to the utility's decision making process, most particularly where negotiations with an affiliate are involved. Questar Gas's decision did not to seek cost allocation determination from FERC, given the possibility that FERC might have imposed the entire cost on producers rather than on ratepayers, raises further questions regarding the utility's fidelity to its obligations to its customers."

On August 1, 2003, The Utah Supreme reversed the Commission's Order in Docket No. 99-057-20 approving the Stipulation

On May 27, 2004 the parties presented evidence and again argued for recovery of costs. On August 30, 2004, the Commission stated,

"After reviewing and hearing arguments from all interested parties, the Commission determined that Questar Gas Company did not prove its actions constituted a prudent response to the introduction of coal-seam gas into the Questar Gas distribution system.

Following this decision Questar Gas, the Division of Public Utilities and the Committee of Consumer Services entered into a series of technical conferences on the matter starting on October 21, 2004, culminating in a new stipulation issued on October 12, 2005. Questar Gas and the Division entered into a stipulation. The Committee of Consumer Services is a party to this stipulation, contradicting its previous position and the appeal to the Utah Supreme Court approving Questar's cost recovery of CO₂ gas processing costs for its affiliate from Questar Gas's captive customers. This stipulation calls for Questar Gas customers to pay 4 million a year (90% of the fixed costs of Questar Pipeline's plant) from January 31, 2005 until 2008. Yet the prudence of this facility remains unproven. To sweeten the deal, Questar Gas customers will be allowed 50% of the profits after the first \$400,000 profits in third party contracts. The record indicates that this was the tipping point with the Division and the Committee in accepting this proposal.

I question how this arbitrary amount \$400,000 was determined. Questar's captive customers are being asked to pay \$4 Million dollars which is 90% of the fixed cost to run the Co₂ plant for a year plus the first \$400,000 in profits Questar Pipeline receives from third-party contracts which is 10% of \$4 million. It appears then, that Questar Gas Customers will be paying 100% of the fixed costs.

Another deciding factor for this plan appears to be the third-party contracts to be negotiated by Questar Pipeline. Basically what you have is Questar Gas customers paying 100% of the fixed costs (if the \$400,000 is taken into account) and receiving only 50% of profits from third party contracts. I can not see how anyone could possibly consider this just or reasonable.

This is certainly very beneficial to Questar Pipeline. Questar Pipeline will be able to collect 90% of the CO₂ plant's fixed cost from Questar Gas customers while receiving 50% of profits from third-party contracts. This will make Questar Pipeline whole, giving it a competitive advantage in the market place and provide a great incentive to continue seeking third-party contracts and asking to keep this cost in rates even after the 2008 time period.

The parties are asking the Commission to approve a stipulation asking Questar Gas customers to pay 90% of the fixed costs of a facility (4 million dollars) that the Commission has never determined was prudent in the first place. The Utah Supreme Court has ruled that prudence is necessary to determine that rates are just and reasonable. But the Commission has not made this determination, nor can it, because the original decision to build the CO₂ plant and the process that went into that decision has not changed. Questar could not prove the decision was prudent then, and it cannot prove it now. Possibly as a substitute for proof of prudence, both the Committee and Questar Gas have presented evidence that the coal seam gas caused a safety issue. Yet this fact was never in dispute in the Supreme Court case. The Supreme Court stated, *"While safety concerns may have necessitated the construction and operation of a plant, they do not establish who should bear the cost of these measures. If the record had permitted, the Commission could have carried out its initial obligation to review the prudence of the plant contract and its terms, holding Questar Gas to its burden the costs it agreed to were prudent and not unduly influenced by its affiliate relationship with Questar Pipeline. Since the Commission found that no such record was or could be made available, it should have refused to grant a rate increase that included plant costs. We therefore overturn the Commission's decision to accept the Stipulation and to grant the rate increase proposed therein."*

The other change that has taken place, according to Questar Gas, is that between 25% and 40% of the gas Questar is purchasing for its Utah customers is coal seam gas which needs to be treated. However, once the CO₂ plant was built by Questar Pipeline the need for recovery of costs of the facility seems to have driven its purchasing decisions.

It is difficult to impossible to say this decision was not made due to the influence of an affiliate. Therefore, I would urge you to reject this stipulation.

Claire Geddes