

DOCKET NO. 05-057-T01

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This docket arises from the December 16, 2005, Joint Application (Joint Application) of Questar, the Division and Utah Clean Energy (Joint Applicants). The Joint Application requests Commission action on a number of matters, some of which are relevant to the May 17th Hearing and the decision we reach in this order. The Joint Application requests approval of what the Joint Applicants call a Conservation Enabling Tariff (CET), which is described as a procedural process by which Questar may address the issue of declining usage per customer while removing disincentives to implement demand-side management programs (DSM); the Joint Applicants request the Commission approve a three year pilot plan for the CET. The Joint Application also requests Commission approval of changes in service quality standards; consolidation of various, existing rate schedules; and the creation and use of regulatory-asset type of accounting and recovery of costs associated with DSM expenditures described in the Joint Application. In addition, the Joint Application asks the Commission issue a number of accounting orders to address the accounting for and recovery of: the CET; the DSM program expenditures; amortization of implementation costs arising from the Pipeline Safety Improvement Act (for which a deferred accounting order had already been issued by the Commission in PSC Docket No. 04-057-03); and possible changes in depreciation expenses and accounting, arising from recommendations made in a depreciation study conducted by Questar as required in our order issued in Questar's 2002 rate case proceeding. Finally, the Joint Application requests that the Commission approve a \$10.2 million reduction in Questar's rates. The Joint Application is clear that the Joint Applicants' support for approval of the Joint Application, and

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its numerous requests, is conditioned upon approval of the entire Joint Application. Hearing to consider the Joint Application was originally set for February 3, 2006.

In response to the Joint Application, the Committee's January 2006 Response asked the Commission to stay further proceedings in this docket, "except for subject implementation of an interim rate reduction of \$10.2 million as described in the Joint Application . . ." and modify (at the February 3, 2006, hearing) the docket's schedule for greater time and opportunity to evaluate the Joint Application. The Ball Request asks, in relevant part, that the "Commission stay further proceedings in this Docket [as requested by the Committee], implement the \$10.2M reduction, which both Questar and the Division appear to otherwise consider reasonable, on an interim basis, and convert the 3 February hearing to a scheduling conference for a general rate case . . ." On February 2, 2006, the Joint Applicants responded to the Committee's January 2006 Response. They objected to the interim rate relief request, but otherwise agreed that the February 3, 2006, evidentiary hearing could be converted to a scheduling conference, in order to set a new schedule for the proceedings for interested persons to respond to the Joint Application. From the February 3, 2006, hearing, the Commission issued its March 2, 2006, Scheduling Order wherein we set, inter alia, a March 31, 2006, filing date for testimony and legal argument in support of an interim rate reduction; an April 21, 2006, filing date for rebuttal testimony and legal argument in response to the March 31, 2006, filings; a May 5, 2006, filing date for surrebuttal testimony and legal argument to the April 21 rebuttal filings; and a May 17, 2006 hearing date on the issue of interim rate relief. The March 2, 2006,

Scheduling Order also set filing and hearing dates to address the Joint Application and issues raised thereby.

On March 31, 2006, the Committee filed its Request to Amend [its January 2006 Response] and Memorandum in Support of Rate Decrease. On the same day, Mr. Ball filed his Argument Of Roger Ball In Support Of His Request For An Interim Rate Decrease (Ball March 2006 Argument). Beyond the arguments made in these filings, these two parties made no separate filing, i.e., pre-filed testimony, as anticipated by the March 2, 2006, Scheduling Order. Indeed, the only pre-filed testimony submitted on March 31, 2006, was that of Elizabeth Wolf, on behalf of the Salt Lake Community Action Program, which did not file any accompanying legal argument and which, as of that date, had not petitioned to intervene. On April 20, 2006, Assistant Attorney General Paul Proctor submitted a letter to the Commission in which he noted parties had conducted some negotiations relative to rate change issues arising in this docket, had reached agreement (in principal), and would have the assistance of their experts to conclude settlement negotiations by April 26, 2006. Effectively, Mr. Proctor's letter informed the Commission that there would be no submissions made on the April 21, 2006, filing date (but, perhaps some filing could be made April 24, 2006). Further, the letter noted that the "parties also agree that under these circumstances, the parties need not file legal memorandum for the May 17 Hearing as called for by the scheduling order." No filing, addressing any rate reduction, was made on April 21, 2006, by any party.

On April 26, 2006, Mr. Ball filed a reply to Mr. Proctor's April 20, 2006, letter. Mr. Ball essentially noted that he, for one, had not reached any agreement relative to any rate

change, nor to any changes in the filing schedule. On April 28, 2006, the Division filed its Response to the Ball March 2006 Argument and to Ms. Wolf's March 31, 2006, pre-filed testimony. On April 28, 2006, Questar also filed a Response to the Ball March 2006 Argument. On May 3, 2006, Mr. Ball filed a Request for Extension of Time, noting that the Commission had not altered the schedule set by the March 2, 2006, Scheduling Order, that the responses to the March 31, 2006, filings had been filed late (on April 28 rather than April 21) and asking that he be allowed the full two weeks, as contemplated in the pleading schedule, to reply to the responses filed April 28, 2006. By Order issued May 3, 2006, the Commission granted Mr. Ball the two weeks reply time and extended his reply filing date to May 12, 2006. Mr. Ball filed his Surrebuttal Argument Of Roger Ball In Support Of His Request For An Interim Rate Decrease. Mr. Ball did not file any other documents, i.e., testimony, beyond the document containing his argument.

On May 10, 2006, Questar, the Division, the Committee, the UAE, the Utah Industrial Gas Users, US Magnesium, the Salt Lake Community Action Program and Crossroads Urban Center (Stipulation Parties) filed their Rate Reduction Stipulation (Stipulation). In the Stipulation, the Stipulation Parties agree to a permanent, \$9.7 million reduction in Questar's rates, to be effective June 1, 2006, and that the Commission should continue to follow the procedural schedule set to consider the merits of the CET and the DSM program. By notice issued May 10, 2006, the Commission gave notice that the Stipulation had been filed and that the Commission would hear evidence and argument to approve or reject the Stipulation at the May 17th Hearing, in addition to the interim rate reduction issue previously set for that hearing date.

Discussion of the Rate Reduction Stipulation

We address approval or rejection of the Stipulation, whereby a permanent rate reduction or decrease of \$9.7 million is proposed in Questar's rates by the Stipulation Parties. Various statute provisions address rate decreases. Utah Code 54-7-12(3) contemplates that the Commission will conduct a hearing on a proposed rate increase or decrease and thereafter issue an order rejecting or granting and implementing the rate change. However, Utah Code 54-7-12(4) and (5) both provide that a change which does not result in a rate increase (which a rate decrease necessarily does) shall take effect 30 days after the date of filing or within a shorter time as determined by the Commission, subject, after hearing, to later Commission suspension, alteration or modification. Additionally, Utah Code 54-7-12(2)(b) provides: "If a rate decrease is proposed by a public utility, the commission may waive a hearing unless it seeks to suspend, alter, or modify the rate decrease." Statutory construction requires that all provisions be harmonized and given effect, if possible. We deduce from these statutes that rate decreases may be treated differently than rate increases. A rate decrease may be implemented quickly and may be supported by a different quantum of evidence than that needed for a rate increase. A decrease proposed by a utility may even be implemented without evidence, as a hearing is not required (unless the Commission contemplates suspending, altering or modifying the rate decrease). This less-involved process to implement a rate decrease is understandable. A rate decrease may easily be presumed to be in the interests of and supported by customers. If the rate decrease is proposed (or supported) by the utility, it is also easily presumed that the utility believes the rate decrease is in its interest; otherwise, the utility would not propose the rate decrease. The utility has the

greatest interest to ensure that the rates resulting from a rate decrease are just and reasonable, to provide sufficient revenues to allow recovery of expenses, and are sufficient for the utility to earn a reasonable return. Utility proposal of a rate decrease evidences that the utility concludes that the proposed rates are just and reasonable and in the public interest.

Through the Stipulation, Questar does propose a \$9.7 million rate decrease, and pursuant to notice, the Commission held an evidentiary hearing on whether to approve or reject the Stipulation. No pleading has been filed arguing that the Stipulation is to be rejected or modified. No person appeared at the hearing to argue that the Stipulation, with its rate reduction, should be rejected by the Commission, nor that the rate decrease should be suspended, altered or modified. In colloquy during cross-examination of witnesses giving testimony relative to the Stipulation, Mr. Ball, at one time, noted that he was apparently the only person who had some concerns about the Stipulation. However, Mr. Ball never articulated what those concerns may have been, nor may they be deduced from his cross-examination of witnesses. Mr. Ball did not attend the entire hearing. He did not return at the resumption of the hearing after the lunch break. While he was at the hearing, Mr. Ball gave no clear statement or argument that the Commission should reject the Stipulation.

We conclude that the Stipulation may be approved. The testimony that was presented and admitted provides adequate evidence to support approval of all terms of the Stipulation. The evidence supports our conclusion that the Stipulation results are just and reasonable and in the public interest. We conclude that the depreciation lives, net salvage value and resulting depreciation rates, given in Appendix 1 to the Stipulation, may be adopted effective

June 1, 2006, and the excess accumulated depreciation may be amortized over a ten-year period. We conclude that the Stipulation terms regarding pipeline integrity costs are reasonable. We will approve the proposed treatment for past and future pipeline integrity costs. We also agree that a task force should be created to discuss the best course of action to address GSS expansion area rate premiums and Expansion Area Charges (EACs) and to develop new tariff language to address future system expansion requests. We will direct the Division to head the task force (which should be open to all interested persons), conduct its meetings and prepare a final report with recommendations within 90 days.

Interim Rate Reduction Discussion

As noted, the prospect of an interim rate reduction arises from the Committee's January 2006 Response, as amended by the Committee's March 31, 2006, filing, and the Ball Request. Although numerous parties have submitted briefs or legal argument, both in support of and in opposition to an interim rate reduction, no one has introduced any evidence in support of their arguments. At the May 17th Hearing, neither Mr. Ball nor the Committee (assuming, despite being a Stipulation party, it still advocated for an interim rate reduction) offered any evidence in support of an interim rate reduction. Understandably, the Division and Questar, who filed legal written arguments opposing interim rate relief, or any other opposing party, then had no need to give opposing evidence. Mr. Ball's argument makes reference to portions of individuals' statements that were filed with the Joint Application, however, Mr. Ball never proffered or introduced these statements, in whole or in part, nor requested their admission as record evidence

at the May 17th Hearing. Our procedural schedule set the May 17th Hearing as the time for the parties to address the interim rate relief issue.

Even if the statements had been admitted into evidence, we doubt that they would have been sufficient, alone, to support an interim rate reduction. The interim rate reduction is opposed by Questar, as such, an adequate evidentiary basis must be made to support a rate change. While the evidence necessary for an interim rate reduction is not the same as that needed for an interim rate increase, still some modicum of evidence relating to the reasonableness of the utility's rates and the reasonableness of the utility's earnings is necessary. Further, a statement or testimony of another individual, which has been conditionally given or is limited to support a particular proposition (as here, where the referenced statements were made in support of the Joint Application, conditioned upon acceptance of the entire Joint Application), could be used by an advocate for another purpose if accompanied by sufficient additional evidence which supports reliance upon the statement beyond its limited or conditional intent and which identifies its relevance and weight to the alternative, new purpose (here, in support of an interim rate reduction). Mr. Ball provided no additional evidence for how the statements may be used beyond their original intent, nor, importantly, what conclusions may be derived therefrom regarding the reasonableness of the utility's earnings or rate of return with and without the requested interim rate reduction. As there is no admitted record evidence to support any interim rate change, we conclude that we must deny the request.

Wherefore, we enter this ORDER, whereby we:

1. Approve the Stipulation submitted May 10, 2006.

2. Adopt the depreciation lives, net salvage value and resulting depreciation rates, set forth in Appendix 1 to the Stipulation, and direct their use by the company, effective June 1, 2006. Excess accumulated depreciation arising therefrom may be amortized over a ten-year period as described in the Stipulation. The company is required to complete and file its next depreciation study no later than December 31, 2008, using 2007 year-end data.

3. Authorize Questar Gas to include \$2 million per year of pipeline integrity costs in rates. This amount consists of a \$600,000 amortization of previously deferred pipeline integrity expenses and \$1.4 million of on-going expenses. Questar Gas will be limited on a going-forward basis to deferring only those actual annual on-going expenses that are greater than \$1.4 million. To the extent that actual annual on-going expenses are less than \$1.4 million per year, the difference should be credited to the deferred account. Questar Gas may accrue interest on any new debit or credit balance in the deferred account at the rate currently approved by the Commission for Account 191 and described in the Company's Utah Tariff, Section 2.10.

4. Approve and direct implementation of the rate decrease described in the Stipulation through a uniform percentage change to each rate class. The rate decrease is to be effective June 1, 2006, and the company is directed to submitted revised tariff provisions reflecting the rate decrease. The Division of Public Utilities is directed to review the tariff revisions to ensure that they comply with the terms of the Stipulation and this order.

5. Create a task force to address GSS expansion area rate premiums and EACs in the company's tariffs and develop new tariff language to address future system expansion requests. The task force is to be headed by the Division of Public Utilities, which will be responsible to

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schedule, notice and conduct task force meetings and activities and to prepare a final report containing the task force's recommendations. The task force should commence immediately and the final report should be filed with the Commission within 90 days after issuance of this order.

6. Deny the requests for interim rate relief.

Pursuant to Utah Code 63-46b-12 and 54-7-15, agency review or rehearing of this order may be obtained by filing a request for review or rehearing with the Commission within 30 days after the issuance of the order. Responses to a request for agency review or rehearing must be filed within 15 days of the filing of the request for review or rehearing. If the Commission fails to grant a request for review or rehearing within 20 days after the filing of a request for review or rehearing, it is deemed denied. Judicial review of the Commission's final agency action may be obtained by filing a Petition for Review with the Utah Supreme Court within 30 days after final agency action. Any Petition for Review must comply with the requirements of Utah Code 63-46b-14, 63-46b-16 and the Utah Rules of Appellate Procedure.

DATED at Salt Lake City, Utah, this 26th day of May, 2006.

/s/ Ric Campbell, Chairman

/s/ Ted Boyer, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary
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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Joint Application of Questar Gas Company, the Division of Public Utilities, and Utah Clean Energy for the Approval of the Conservation Enabling Tariff Adjustment Option and Accounting Orders	Docket No. 05-057-T01
	RATE REDUCTION STIPULATION

Pursuant to Utah Code Ann. § 54-7-1 (Supp. 2005) and Utah Administrative Code R746-100-10.F.5 (2005), Questar Gas Company (Questar Gas or the Company) and the Utah Division of Public Utilities (Division) (collectively Joint Applicants), and the Utah Committee of Consumer Services (Committee), Utah Association of Energy Users (UAE), Utah Industrial Gas Users (IGU), US Magnesium, LLC (US Magnesium) Salt Lake Community Action Program, and Crossroads Urban Center (collectively Utah Ratepayers Alliance), (all of the foregoing

collectively Parties), submit this Stipulation to agree to a \$9.7 million rate reduction effective June 1, 2006 and to agree that the Commission should hear the Conservation Enabling Tariff and Demand-Side Management, as proposed in the Joint Application (Pilot Program) or as proposed by other parties, on its merits at the hearings scheduled to commence June 26, 2006.

PROCEDURAL BACKGROUND

1. The Joint Application was filed in this docket on December 16, 2005. The Joint Application requested approval of the Pilot Program and an associated \$10.2 million rate reduction and issuance of related accounting orders. The Joint Application relied upon work by two task forces established in Docket No. 02-057-02. The Joint Applicants and Utah Clean Energy, which is a joint applicant on the Joint Application, stated that the primary purposes of the Joint Application were to align the interests of the Company, its customers, regulators and other interested persons in promoting effective energy efficiency programs to save energy and reduce customer costs and to allow customers to realize a modest rate decrease.

2. On January 3, 2006, pursuant to notice, a scheduling conference was held at which a technical conference and testimony filing were scheduled for January 13 and a hearing was scheduled for January 18.

3. On January 12, 2006, in response to questions from the Committee and other interested persons, a workshop on the matters addressed in the Joint Application was held. Based on that workshop, the Joint Applicants determined that an additional technical conference would be of assistance in increasing the understanding of the Joint Application by parties and interested persons. Accordingly, on January 13, 2006, the Joint Applicants requested and the Commission ordered a change in the schedule to permit an additional technical conference on

January 20 and to set testimony filing dates for January 23 and January 31 and a hearing for February 3.

4. Technical conferences were held on January 13, 2006 on Demand-Side Management and on January 20 on the Conservation Enabling Tariff, the proposed rate reduction and other aspects of the Joint Application. Joint Applicants filed testimony on January 23.

5. On January 31, the Committee filed a memorandum requesting that further proceedings in the matter be stayed and that the hearing on February 3 be changed from an evidentiary hearing on the Joint Application to a scheduling conference to provide additional time for the Committee to study the issues presented by the Joint Application. The Committee memorandum also suggested that the \$10.2 million rate reduction proposed as part of the Joint Application be implemented on an interim basis without approval of the other aspects of the Application. On the same day, UAE petitioned to intervene in the docket.

6. On February 2, 2006, Joint Applicants filed a response to the January 31 memorandum of the Committee and the petition of UAE to intervene. Joint Applicants did not oppose the request of the Committee that the hearing on February 3 be changed from an evidentiary hearing to a scheduling conference, but opposed the suggestion of the Committee that an interim rate reduction be imposed. Joint Applicants did not oppose the intervention of UAE.

7. Also on February 2, 2006, the Committee filed a response to the Application (Committee Response), IGU filed comments and Roger Ball filed a "Request to Intervene" and "Request for a Stay of Proceedings, an Interim Rate Decrease, Conversion to a General Rate Case, and a Disclosure Order" (Ball Request). The Committee Response (1) reasserted the Committee's request for an interim rate reduction, but noted that it was limited to the portion of

the rate change that would result from adoption of the new depreciation methodology proposed in the Joint Application, (2) requested that the Commission order that the parties design and implement a three-year pilot program adopting utility-sponsored demand-side management and conservation programs and (3) requested that the Commission order further examination of mechanisms for removing the link between the Company's retail sales and its non-gas distribution expenses and revenues.

8. The Ball Request commented on various aspects of the Joint Application and technical conferences and supported what it characterized as the Committee's request that the Commission stay further proceedings, implement a \$10.2 million rate reduction on an interim basis and convert the February 3 hearing to a scheduling conference for a general rate case. The Ball Request also requested "that the Commission order Questar [Gas] to provide all parties to [the docket] with all the actual and projected data they will require to conduct a comprehensive review of the Company's expenses, investments and revenues, and access to all of its books and records" (Disclosure Order).

9. At the scheduling conference on February 3, 2006, the parties agreed on a schedule and procedures to govern proceedings in this matter. The schedule and procedures were memorialized in the Second Amended Scheduling Order (Scheduling Order). With respect to the requests for interim rate relief, the Scheduling Order provided that testimony and argument in support of interim rate relief would be filed by March 31, 2006, rebuttal testimony and argument would be filed by April 21, surrebuttal testimony and argument would be filed by May 5, and a hearing would be held on May 17. With respect to the Joint Application, the Scheduling Order provided that rebuttal testimony would be filed by May 15, surrebuttal testimony would be filed by June 16 and hearings would be held on June 26-28.

10. On March 31, 2006, the Committee filed a motion to amend the Committee Response in which it urged that a permanent rate reduction of \$7.9 to \$9.8 million be implemented based on a change in depreciation rates proposed in the Testimony of Jacob Pous filed concurrently. On March 31, Mr. Ball filed a further memorandum arguing that a \$10.2 million rate reduction should be implemented on an interim basis. On March 31, Salt Lake Community Action Program (SLCAP) filed the Testimony of Elizabeth Wolf, which stated that because of high gas prices customers needed rate relief either on a permanent or interim basis.

11. On April 6, 2006, Questar Gas filed its Results of Operations Report for 2005. The Report indicates that the Company's rate of return on equity for 2005, adjusted based on regulatory adjustments ordered by the Commission in the Company's last general rate case, was 10.68 percent.

12. Petitions for intervention were also filed by US Magnesium, the Utah Ratepayers Alliance and IGU, and were subsequently granted by the Commission.

13. As a result of settlement discussions between the parties, including Mr. Ball, an agreement was reached to delay the deadline for filing responses to the March 31, 2006 filings of the Committee, Mr. Ball and SLCAP. On April 20, the Committee sent a letter to the Commission, on behalf of the parties, requesting that the April 21 filing deadline be delayed through April 28, the technical conference scheduled on April 26 be converted to a settlement conference and stating that the settlement negotiations had reached a point where there was an agreement in principle that would resolve issues scheduled for hearing May 17. All parties were notified that an additional settlement conference would be held on April 24.

14. On April 26, 2006, Mr. Ball made a filing notifying the Commission that he had not consented to any change set forth in the Committee's April 20 letter to the Commission.

15. On April 27, 2006, the Division filed the Testimony of Charles King, offering his position on depreciation rates and resulting depreciation expenses. Based on Mr. King's testimony, the Division believes an adjustment in depreciation rates and expenses alone justify a rate reduction in the range of \$4.8 million to \$10.1 million.

16. On May 3, 2006, Mr. Ball filed a "Request for an Extension of Time to File Surrebuttal Testimony and Legal Argument." He requested an extension of time to May 12, 2006. On May 3, 2006, the Commission issued a scheduling order granting Mr. Ball's request.

17. The Parties have had further settlement discussions, with the participation of depreciation experts retained by Questar Gas, the Division and the Committee, and the Parties have reached agreement that a \$9.7 million permanent (not interim) rate reduction should be implemented effective June 1, 2006, and the Pilot Program should be heard and decided on its merits in accordance with the schedule established for testimony filing and hearing on the Joint Application in accordance with the terms and conditions of this Stipulation.

TERMS AND CONDITIONS

18. Rate Reduction. The Parties agree that a permanent (not interim) rate reduction of \$9.7 million should be implemented effective June 1, 2006. This rate reduction includes the following components:

a. Depreciation. The Parties have agreed that the depreciation lives, net salvage value and resulting depreciation rates as set forth in Appendix 1, a copy of which is attached, be adopted effective June 1, 2006, and that the excess accumulated depreciation resulting from implementation of these depreciation rates be amortized over a ten-year period. The Parties request that an accounting order approving the lives, net salvage values, depreciation rates and amortization of the excess accumulated depreciation, reflected in Appendix 1, be

entered and that the resulting decrease in depreciation expense in the Utah jurisdiction of \$8.5 million be passed on to customers through lower rates. The Company agrees it will complete and file with the Commission its next depreciation study no later than December 31, 2008, using 2007 year-end data.

b. Financing. On December 15, 2005, Questar Gas completed a financing transaction that increased its long-term debt by \$50 million. This resulted in a higher percentage of debt and lower percentage of equity in the Company's capital structure. This reduces the Company's overall cost of capital. The parties have agreed to pass on the \$3.2 million reduction to customers.

c. Pipeline Integrity Costs. In Docket No. 04-047-03, Questar Gas applied for an accounting order authorizing the Company to establish a deferred account or regulatory asset for incremental expenses that the Company would incur in the future to meet the requirements of the Pipeline Safety Improvement Act. The application also requested that the Company be allowed to amortize the deferred costs beginning the earlier of 2007 or the next general rate case. This request was granted. Rather than waiting until 2007 to begin amortizing the balance as directed in the Order in Docket No. 04-047-03, the Parties have agreed that the Commission should allow the Company to begin amortizing the balance on June 1, 2006. The Parties agree that \$2 million per year of pipeline integrity costs consisting of \$600,000 amortization of the previous balance in the deferred account and \$1.4 million of on-going expenses should be included in rates. To the extent that actual on-going expenses are greater than \$1.4 million, the difference should be debited to the deferred account. To the extent that actual on-going expenses are less than \$1.4 million per year, the difference should be credited to the deferred account. The Parties agree that interest will be accrued on any new debit or credit

balance in the deferred account at the rate currently approved by the Commission for Account 191 and described in the Company's Utah Tariff, Section 2.10. The Parties request that the Commission enter an accounting order to implement the treatment of pipeline integrity costs as set forth in this subsection.

d. Rate Change. The \$9.7 million rate reduction resulting from these agreed upon elements will be implemented by a uniform percentage change to each rate class. This change will be reflected in the Distribution Non-Gas (DNG) block rates of each rate schedule.

19. GSS and Expansion Area Charges. The status and continuation of the expansion area rate premiums (GSS) and Expansion Area Charges (EAC) have been the subject of discussions and meetings among the Company, the Division, the Committee, the Commission Staff, representatives of the expansion area communities and other interested parties over the past several months. On December 6, 2005, the Commission held a technical conference for all interested parties to address this issue. The Parties recommend that the Commission appoint a task force to further discuss the best course of action in regard to the existing GSS and EAC and to develop new tariff language to address future requests by communities for expansion of the system. The Parties propose that this task force begin meeting immediately following the Commission's final order in this docket and issue a final report with a recommended course of action to the Commission within 90 days.

20. Pilot Program and Other Aspects of Joint Application. All other matters addressed in the Joint Application not otherwise resolved by this Stipulation, including the Pilot Program, are reserved to be heard on their merits during the hearing scheduled for June 26 through June 28, 2006.

21. General Terms.

a. Following the extensive analysis, review and arms-length negotiations described above, and without waiver or acceptance of the claims, testimony or objections of any party, the Parties have agreed to compromise and settle their differences with respect to the proposed rate decrease in these proceedings and enter into this Stipulation. The Parties agree that approval of this Stipulation is in the public interest, is consistent with just and reasonable rates, and will benefit customers by allowing a rate reduction to become effective June 1, 2006, and by allowing the Pilot Program to be heard on its merits separate from the rate reduction.

b. 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 and conditions 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.

c. The Company, Division and Committee each agree to present testimony of one or more witnesses to explain and support this Stipulation. Such witnesses will be available for examination.

d. 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.

e. 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 at the applicable appellate court.

f. In the event the Commission rejects any or all of this Stipulation, or imposes any additional material condition 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 to withdraw from this Stipulation. If such a decision of the Commission or an appellate court is issued, any Party contemplating withdrawing from this Stipulation shall notify the other Parties to this Stipulation that it is contemplating withdrawing within five business days of the date such decision is issued. Upon receipt of such a notice, the Parties agree to meet promptly and discuss the Commission or court decision and to attempt in good faith to reach a modified stipulation. If the Parties reach impasse in their discussions, any Party may withdraw from the Stipulation by providing written notice of withdrawal to the Commission and the parties to this proceeding within ten days of reaching impasse. In the event any Party withdraws from this Stipulation, 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.

RESPECTFULLY SUBMITTED: May ____, 2006.

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing **RATE REDUCTION**

STIPULATION was served upon the following by electronic mail, on May ____, 2006:

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