

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application of Questar)
Gas Company to file a General Rate Case) DOCKET NO. 07-057-13
) REPORT AND ORDER ON
) REVENUE REQUIREMENT
)

ISSUED: June 27, 2008

SHORT TITLE

Questar 2007 General Rate Case Order on Revenue Requirement

SYNOPSIS

The Commission approves the revenue requirement stipulation and increases Questar Gas Company's annual distribution non-gas revenue requirement by \$11,966,500, effective August 15, 2008. The revenue requirement is based on an allowed rate of return on equity of 10 percent. This completes Phase I of this proceeding.

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APPEARANCES:

Colleen Larkin Bell, Esq. Questar Gas Company Gregory B. Monson, Esq. Attorneys at Law Stoel Rives, LLP	For	Questar Gas Company
Michael L. Ginsberg, Esq. Patricia Schmid, Esq. Assistant Attorney General	"	Division of Public Utilities
Paul H. Proctor, Esq. Assistant Attorney General	"	Committee of Consumer Services
Gary A. Dodge, Esq. Attorneys at Law Hatch, James & Dodge	"	UAE Intervention Group
William J. Evans, Esq. Attorneys at Law Parsons Behle & Latimer	"	Utah Industrial Gas Users Intervention Group
Roger J. Ball	"	Pro Se

I. PROCEDURAL HISTORY

On November 8, 2007, Questar Gas Company (“Company”) filed a Non-Binding Notice of Intent to file a General Rate Case on or after December 10, 2007. On December 4, 2007, the Company filed a Notice of Intent to file a General Rate Case on or after December 14, 2007, and an associated Motion for Protective Order. In response to this filing, the Commission issued a Protective Order on December 17, 2007. On December 13, 2007, the Commission issued a Notice of Scheduling Conference to be held on December 20, 2007.

On December 19, 2007, the Company filed an Application for an increase in its distribution non-gas (“DNG”) rates of \$26,966,000 million per year, based on a future test period beginning July 1, 2008, and ending June 30, 2009, and a return on equity of 11.25 percent. The application includes direct testimony on test year, capital structure and capital costs, load and retail sales forecast, revenue requirement, cost of service, revenue spread to rate schedules, rate design, and modifications to the Company’s Utah Natural Gas Tariff PSCU 400.

On December 21, 2007, the Utah Association of Energy Users Intervention Group (“UAE”) filed a Petition to Intervene of UAE Intervention Group. On December 24, 2007, Roger Ball filed a Request for Publication of Notice of Application to Increase Rates and of Hearings; to Subdivide Intervention; to Expedite Test Period Intervention and the Exchange of Data; and to Intervene. Pursuant to the December 20, 2007 scheduling conference, the Commission issued a scheduling order in this proceeding on December 27, 2007. On December 31, 2007, the Company filed an Amended Certificate of Service.

On January 2, 2008, US Magnesium LLC (“US Mag”) filed a Motion to Intervene in this proceeding. On January 8, 2008, the Company filed a Response of Questar Gas to

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Request of Roger J. Ball and Kroger Co. (“Kroger”) filed a Petition to Intervene of the Kroger Co. On January 9, 2008, the Commission issued an Amendment to and Modification of December 27, 2007 Scheduling Order.

On January 11, 2008, Central Valley Water Reclamation Facility (“Central Valley”) filed a Request to Intervene, Nucor Steel, a Division of Nucor Corporation (“Nucor”), filed a Petition to Intervene of Nucor Steel, a Division of Nucor Corporation, and the Industrial Gas Users (“IGU”) consisting of Fairchild Semiconductor, Holcim, Inc., Kennecott Utah Copper Corporation, Tesoro Refining and Marketing Co. and Westinghouse Electric Company/Western Zirconium filed a Petition to Intervene of the Industrial Gas Users. In addition, on January 11, 2008, the Division filed a Notice and Statement of the Utah Division of Public Utilities Regarding Test Year and UAE filed a Request for Hearing on Test Period.

On January 14, 2008, Roger Ball filed a Reply to Response of Questar Gas to Request of Roger J. Ball for Publication of Notice of Application to Increase Rates and of Hearings; to Subdivide Intervention; to Expedite Test Period Intervention and the Exchange of Data; and to Intervene. On January 16, 2008, the Commission issued an Order Granting Intervention applicable to UAE. On January 25, 2008, the Company filed a Motion for Modification of Scheduling Order.

On January 28, 2008, the Commission issued orders granting intervention to Roger Ball and US Mag. In addition, the Division, the Committee and its Consultant, Larkin & Associates, PLLC, UAE, and Roger Ball each filed direct testimony on test year and Roger Ball filed a Request for Review and Clarification of Scheduling Order. On January 29, 2008, the Commission issued orders granting intervention to Kroger and Central Valley. On January 30,

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2008, the Commission issued a Notice of Hearing on Test Year Selection. On January 31, 2008, Salt Lake Community Action Program and Crossroads Urban Center, collectively referred to as the Utah Ratepayers Alliance (“URA”), filed a Petition for Leave to Intervene and AARP filed a Petition to Intervene of AARP.

On February 5, 2008, the Company, the Division, and Roger Ball each filed test year rebuttal testimony and IGU filed its Response to Roger Ball’s Request for Review and Clarification of Scheduling Order. After due notice, a hearing was held on February 8, 2008, to take evidence and hear argument by parties regarding the appropriate test period to be used in this matter. On February 13, 2008, the Commission issued a Modification and Clarification of Part 6 of the December 27, 2007, Scheduling Order. On February 14, 2008, the Commission issued an Order on Test Period, approving the use of a projected 2008 calendar-year test period.

On February 19, 2008, the Commission issued an Order Granting Intervention to URA and AARP. On February 27, 2008, the Commission issued an Amended Scheduling Order Changing Hearing Dates. Pursuant to the Commission’s Order on Test Period, on February 28, 2008, the Company filed Updated Direct Testimony updating its rate case filing using a projected 2008 calendar-year test period. The Company requested a \$22,157,542, or 9.5 percent, increase in DNG revenue requirement.

On March 31, 2008, Charles Peterson and Dr. William Powell on behalf of the Division, Dr. J. Randall Woolridge on behalf of the Committee, Kevin C. Higgins and Robert H. McKenna on behalf of UAE, and Roger Ball filed testimony on rate of return in this proceeding. In accordance with the Commission’s February 14, 2008 Order on Test Period, on April 1, 2008, the Company filed the updated Direct Testimony of Gary L. Robinson and Steven Bateson. On

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April 2, 2008, the Division filed a Motion by the Division of Public Utilities to Modify the Procedural Schedule to which the Commission responded on April 7, 2008 by issuing a Second Amended Scheduling Order Changing Revenue Requirement Testimony Filing Dates. On April 4, 2008, Rocky Mountain Power filed a Motion to Intervene. On April 21, 2008, direct testimony on revenue requirement was filed by Marlin Barrow and Bryant Norman on behalf of the Division, by Eric Orton, Donna DeRonne, Thomas Norris, and Helmuth Schultz on behalf of the Committee, by Kevin Higgins on behalf of UAE, and by Roger Ball. On April 28, 2008, the Company filed a Motion of Questar Gas to Strike Rate of Return Direct Testimony of Roger J. Ball and the Company, the Division, and Roger Ball each filed Rate of Return Rebuttal Testimony. On April 30, 2008, the Division filed a memorandum requesting the scheduling of a technical conference to discuss the Company's cost of service and rate design proposals.

On May 1, 2008, the Division filed Erratum Testimony and Exhibits of Charles E. Peterson. On May 2, 2008, the Company filed a Motion of Questar Gas to Strike Rate of Return Rebuttal Testimony of Roger J. Ball. On May 5, 2008, the Commission issued a Notice of Technical Conference to discuss the Company's cost of service and rate design proposals. On May 6, 2008, pursuant to the Scheduling Order, a settlement conference on revenue requirement issues was held. On May 8, 2008, the Mayor of New Harmony filed comments on the interest rate used in the payoff analysis for the extension area charges associated with the Company's revenue requirement. On May 12, 2008, the Division, the Committee, UAE, and Roger Ball filed surrebuttal testimony addressing rate of return and Roger Ball filed his Response to Questar Gas Company's Motion to Strike His Rate of Return Direct Testimony. On May 15, 2008, the

Company filed a Motion of Questar Gas to Strike Rate of Return Surrebuttal Testimony of Roger J. Ball.

On May 16, 2008, the Company, the Division, the Committee, UAE, and Central Valley filed a Revenue Requirement Stipulation, and the Commission issued both an Order on Motion to Strike Testimony and a Rate of Return Witness Order Letter. Given the terms and conditions of the Revenue Requirement Stipulation, the Company reduced its revenue increase request to \$19,574,193, an 8.4 percent increase in DNG revenue requirement. On May 19, 2008, Roger Ball filed an e-mail memorandum regarding the order of witnesses for rate of return hearings. On May 21, 2008, a hearing was conducted to receive testimony and hear cross examination on rate of return and capital structure issues. Consistent with a commitment made at hearing, on May 23, 2008, the Company filed copies of portions of a Lehman Brothers research report presented as QGC Cross 8 for the Commission's files. On May 29, 2008, the Commission issued a Second Amended Scheduling Order Changing Hearing and Public Witness Dates. On June 12, 2008, a hearing was held to receive testimony and cross examination from parties and public witnesses on the Revenue Requirement Stipulation.

II. BACKGROUND

In our December 27, 2007, Scheduling Order, we bifurcated this proceeding into two phases to better manage resources and accommodate the statutory 240-day requirements for the setting of rates in two simultaneous general rate cases. This Scheduling Order established four separate hearings on: (1) the choice of test period, (2) the allowed rate of return, (3) all other revenue requirement issues, and finally (4) cost of service and rate design issues. This schedule represents a departure from our recent practice in which the issues considered in the last three of

these hearings are combined and heard in a single hearing, with a single order issued within 240 days of the filing by the Company of its application for a revenue increase.

The first hearing on selection of the appropriate test period was held on February 8, 2008. This was followed by our Order on Test Period issued February 14, 2008, wherein we approved use of a forecasted 2008 calendar year for the test period in this matter. The Company originally requested a \$26,966,000 revenue increase based on forecasted results of operations for the 12 months ending June 30, 2009. As a result of the test period decision, the Company filed updated direct testimony, reducing its requested revenue increase to \$22,157,542 based on the forecasted results of operations for the 12 months ending December 31, 2008.

The second hearing addressed allowed rate of return and was held on May 21, 2008. The third hearing, held June 12, 2008, addressed a settlement among parties on all other revenue requirement issues. This order responds to the issues raised in the second and third hearings, and decides the overall revenue change granted to the Company and the spread of this change to customers prior to conclusion of the fourth and final hearing. This order thereby completes what is termed in the December 27, 2007, Scheduling Order as Phase I of this proceeding.

The fourth and final hearing, on cost of service and rate design issues, is scheduled for October 14 through 20, 2008. The order to be issued as a consequence of this final hearing will address what is termed in our scheduling order as Phase II of this proceeding. The Phase II order will consider proposals regarding rate design and decide the spread of the overall revenue increase to the various rate schedules based on an analysis of cost of service issues.

III. PROJECTED 2008 TEST-PERIOD REVENUE REQUIREMENT

A. COST OF CAPITAL

Using a projected capital structure, with a long-term debt ratio of 48.62 percent, a common equity ratio of 51.38 percent, a cost of long-term debt of 6.72 percent and an allowed rate of return on common equity of 10 percent, we conclude that a rate of return on investment of 8.41 percent is fair and reasonable.

1. Capital Structure and Cost of Long-term Debt

Three parties, the Company, Division and Committee, provide testimony on capital structure and the cost of long-term debt. As parties to the May 16, 2008, Revenue Requirement Stipulation, the Company, Division and Committee agree upon and advocate use of a capital structure consisting of 48.62 percent long-term debt and 51.38 percent common equity, and a 6.72 percent cost of debt. This was derived from the projected 2008 capital structure including projections for net income and dividends for 2008, bonds issued in March, 2008, and a First Quarter 2008 equity infusion from Questar Corporation. No party proposes any alternative or change to the settled position on capital structure or cost of debt.

2. Cost of Common Equity

The authorized rate of return on common equity is that which will enable the Company to provide a reasonable return to its investors and to have reasonable access to capital, as needed, to meet the Company's future capital and operational needs. This determination is as much an art as it is a science. The authorized rate of return set in this case will help determine the level of just and reasonable prices charged for services and will provide the Company with the opportunity to earn a fair and reasonable return on its investment. There is no guarantee that

the Company will earn that return. Rather the intent is to give the Company a legitimate opportunity to earn this return, assuming competent management and normal market conditions. The authorized rate of return is not designed to insulate the Company from business and financial risks, but is set in recognition of the financial and business risks it faces.

a. Positions of the Parties

Numerous parties present testimony and recommendations for the Commission's use in setting a fair and reasonable rate of return for the Company. Some witnesses use financial models and data from a group of comparable companies to obtain a range of estimates from which a rate of return recommendation is made. Each witness uses his individual judgment to select inputs and assumptions for the models and to reach his recommendations. Other witnesses provide testimony which they believe should influence the Commission in making a specific rate of return determination from the range arising from the financial models and analysis made by the other witnesses. The parties acknowledge the Commission must use judgment and discretion to determine a fair and reasonable rate of return for the Company which balances the complementary but sometimes conflicting interests in setting a rate of return for a regulated utility.

Questar Questar presents a range of returns from 10.25 to 11.25 percent and recommends a point rate of return on equity selection of 11.25 percent. The Company's witness, Mr Hevert, uses Discounted Cash Flow ("DCF") model, Capital Asset Pricing Model ("CAPM"), as well as risk premium analyses to present a range of estimates for his recommendation for the return on common equity. In addition to the results of his financial modeling, he makes recommendations based upon his views of equity and debt holders'

considerations in providing capital to the Company, market conditions and specific factors pertaining to the Company.

Mr. Hevert applies DCF analysis to a group of comparable companies that have attributes similar to Questar Gas Company. He provides his opinions on the inputs which can be used in the DCF model-based analysis to develop estimates for the rate of return. He uses CAPM analysis in addition to the results of the DCF model analysis and concludes his rate of return range estimate is reasonable. Further, he performs a risk premium analysis which compares authorized returns for gas distribution companies with interest rates for Treasury bonds. The difference between the two is said to be the risk premium. Applying this to interest rates the Company uses in rebuttal testimony yields estimates for a rate of return on equity of 10.57 percent to 10.97 percent. He concludes this provides support to his recommendation.

Other Company witnesses raise additional points which they argue should influence the Commission's selection of a rate of return. Mr. Reed provides an evaluation, comparing the Company with a number of other companies, on a number of measures, upon which he concludes the Company performs better than average on the criteria he selected. He recommends the Commission reward the Company's better-than-average performance in setting a rate of return. Mr. Allred provides testimony conveying his concerns that the rates of return recommended by other parties are too low. He expresses concern that adoption of either of the rate of return point recommendations of the Division or the Committee could result in a rating downgrade of the Company's debt. This could ultimately result in an increase in the overall cost of capital. He is further concerned that too low a rate of return will constrain the Company's operations, particularly where it experiences continued customer growth, growing peak-day

demand, and replacement and expansion of its utility plant to serve its customers. He views the possibility of the Company being constrained to the point of lacking the needed capital to provide adequate, safe and reliable service.

The Division The Division presents a range of reasonable returns of 8.65 to 9.75 percent. The Division recommends a 9.25 percent allowed return on equity. The Division's recommendation is based upon the analyses and testimony of Mr. Peterson. As Mr. Hevert, Mr. Peterson provides his views of the reasonable dividend and growth rate estimates that could be used in DCF modeling. Mr. Peterson concludes his process of selecting comparable companies is not substantially different from that of the Company, a point agreed to in Mr. Hevert's rebuttal testimony. Mr. Peterson as well uses CAPM analysis, with the input or component values he believes appropriate, to cross-check the reasonableness of his DCF results. Also, Mr. Peterson's risk premium results provide a range from 9.0 to 10.4 percent, which he views is supportive of his results derived from the other models.

Mr. Peterson disagrees with the growth rate values and selection rationales used by Mr. Hevert. Mr. Peterson argues DCF analyses using historic growth rate measures, discounted by Mr. Hevert, continue to have application in informing the Commission on a reasonable rate of return. Mr. Peterson further argues his rationales for considering the growth rate values he used in his various DCF runs should be more persuasive than those of Mr. Hevert. They are consistent with the theoretical basis of the DCF model, consistent with the reasoning used by the Commission resolving the last contested rate of return dispute for the Company, and more reflective of growth rates to be experienced compared to other indices of growth, at least those which Mr. Peterson believes are relevant. Mr. Peterson also testifies he has no evidence

that the financial markets would be expecting cost of equity awards in the low 9 percent range and an award of 9.25 percent by the Commission might have ramifications for the Company's bond rating and its ability to attract capital.

Mr. Peterson argues the underlying basis of Mr. Reed's recommendation, essentially an incentive based regulation, should not be considered in making a rate of return determination in this case. Mr. Peterson notes that the concept has never been implemented by the Commission and the parameters upon which any rate of return adjustment could or should be made have not been explored and articulated by the Commission. Mr. Peterson provides other measurements, which he argues could be just as relevant as those suggested by Mr. Reed, which show the Company's performance is below average with regard to these other criteria.

The Division also presents the testimony of Mr. Powell regarding the possible impact of the revenue decoupling mechanism, referred to as the Company's Conservation Enabling Tariff (CET), on the rate of return determination. Mr. Powell argues his analysis indicates implementation of the CET has not had an effect on the Company's rate of return.

The Committee The Committee relies upon the testimony of Mr. Woolridge. He presents a recommendation for the return on equity of 9.0 percent. Using the input values he believes reasonable, Mr. Woolridge uses the same financial models as Mr. Hevert and Mr. Peterson. Like Mr. Peterson, Mr. Woolridge believes use of historical data is appropriate when making DCF model based analysis. Mr. Woolridge critiques Mr. Hevert's reliance upon sources for growth rate estimates which Mr. Woolridge characterizes as exhibiting a bias to overstate a growth rate. Mr. Woolridge presents testimony critical of the supporting information and explanations given to defend Mr. Hevert's selections in his DCF analysis.

Mr. Woolridge also criticizes Mr. Hevert's CAPM and risk premium analyses, arguing Mr. Hevert again used sources or methods which Mr. Woolridge views as tending to overstate the rate of return estimates. Mr. Woolridge has contrasting views to Mr. Hevert's of capital market and investor expectations. Mr. Woolridge argues more recent rulings of other regulatory agencies for authorized rates of return reflect this contrast to Mr. Hevert's views. Mr. Woolridge argues that recent manifestations of the capital market through the most recent interest rates and capital costs place a reasonable rate of return on equity lower than that suggested by Mr. Hevert. Finally, Mr. Woolridge argues the CET reduces business risk and should improve the results of the evaluation made of the Company's credit risk; which should reduce its needed return. Mr. Woolridge does not quantify a specific adjustment to be made in choosing a rate of return for this impact.

UAE UAE presents the testimony of Mr. Higgins and Mr. McKenna. Both argue an adjustment to the rate of return may be made due to the CET. Mr. Higgins supports Commission consideration of the work of Mr. McKenna. Mr. McKenna presents an analysis comparing a hedging strategy with his view of the effect of the CET on the Company's operations. His analysis leads him to conclude the effect of the CET lowers the rate of return needs of the Company by up to 37 basis points. Mr. McKenna criticizes Mr. Powell's analysis and critique as erroneous and based upon insufficient data. Mr. McKenna argues the Commission should discount claims the CET does not have an effect.

Mr. Ball Mr. Ball argues the Company operated in the recent past without requesting a change in its rate of return, so it should not seek a change in this case. He further argues the Company and its affiliates enjoy cross-benefitting relationships which he argues

should affect the rate of return determination. Although Motions to Strike Mr. Ball's testimony were submitted, we ruled that we would allow his testimony and give what was admissible the weight we felt appropriate.

3. Discussion, Findings and Conclusions

We find the Company's proposed capital structure reasonable. No objection to its use has been made by any party and it falls within the range established by comparable companies referenced by the Company, Division and the Committee. Similarly we find the Company's proposed cost of debt to be reasonable. No objection is made to the Company's calculation. We conclude that we will use the Company's proposed capital structure and cost of long-term debt. With respect to cost of equity, we are presented with testimony of capable witnesses which establishes a range of estimates for a rate of return on equity of 8.44 to 11.25 percent. A wide range of estimates for the Company's rate of return on equity is understandable in light of the various methods utilized by the witnesses and the inputs used to arrive at their return on equity estimates. We find and conclude the DCF, CAPM and risk premium models continue to provide useful information to assist us in setting a reasonable return for utilities operating in Utah. We will continue to use them to ascertain the bounds of a reasonable range of rate of return estimates within which we will set an authorized rate of return for the Company.

As evidenced by the testimony of Messrs. Hevert, Peterson and Woolridge, there is no single financial model which financial experts agree upon as unquestionably identifying a specific company's rate of return on equity. Nor is there consensus on the specific weighting to be accorded to results obtained from any DCF, CAPM and risk premium modeling permutations. Our identification of a specific rate of return for the Company, like the effort of the parties'

witnesses, requires us to make an assessment and weighting of the results that may be obtained from the various models. Highlighted as well by the testimony before us, application of any particular model also entails the exercise of judgment to explore and evaluate data and derive or select therefrom reasonable input values for use in a model.

We are unable to specify a single growth rate value for DCF model analysis. As the witnesses appearing herein, we consider a number of sources upon which varying growth rate values may be premised and make our own judgment in weighting the results. With regard to consideration of CAPM and risk premium modeling and analyses, we do the same. Informed by the testimony and evidence presented, we make our own evaluation and weighting of the alternative data or information from which different input or component values can be obtained. We also make our own assessment and weighting of the results obtainable from the iterations as these models are run.

Our determination of a specific rate of return on equity is influenced by some of the non-financial model based testimony in the record. We continue to believe the CET affects the Company's operations through a reduction of its business risk. Economic and financial concepts hold a reduction in the variability of a company's revenues affects a company's business risk. We appreciate the effort made by the witnesses to quantify the CET's impact on the Company's rate of return. We disagree with the conclusions of Messrs. Hevert and Powell. We discount their analyses as based on limited data and subjective opinion insufficient to unquestionably establish there is no effect. We conclude Mr. McKenna has presented one method to approximate the effect of the CET. However, we also agree with Mr. McKenna that the method does not necessarily provide the precise measurement.

We also recognize our determination of a specific rate of return will be analyzed and factored in the recommendations and ratings of credit rating agencies, stock analysts, and current and future shareholders. What we do will have an effect on the Company's ability to obtain capital in the future. It will also affect Company customers through the rates they will pay. Although equity and debt capital markets are always in flux, the current capital market has distinguishing characteristics. Many of the witnesses have given us their views and opinions on the current capital market and we as well make our determination weighing the long term interests of the Company, investors and ratepayers.

We take time to address the testimony of Mr. Ball. We do so to avoid any confusion on what influence it has had on our decision and what weight it had in our decision. Mr. Ball essentially advocates the Commission ignore the separate entities which exist within the Questar family of companies. Whether legally recognized as separate companies, Mr. Ball would have them all viewed and treated as one, would impute revenues from one company to another, and set a rate of return based on considerations of the amalgamated whole. Mr. Ball suggests his approach "to impute the added benefits realised [sic] by Questar Corporation back to the LDC [local distribution company or the Company] before finally determining the ROE in this proceeding" is akin to the Commission's past telephone directory imputation when the Commission conducted general rate cases involving Qwest Corporation/US West Communications ("Qwest"). We find there is a significant distinction between the two.

Qwest's transfer of its directory unit out of the regulated utility, after decades of its inclusion as part of the regulated utility operations, was never reviewed and approved by the Commission. The transfer did not occur with Commission approval or determination that a

previous utility asset was transferred with adequate compensation for any ratepayer interest. Therefore, imputation of operations in ratemaking settings was an appropriate remedy for a transfer to an unregulated entity. *US West Communications v. Utah Public Service Commission*, 998 P.2d 247, 252 (Utah 2000). The circumstances with the Questar companies are different.

Reorganization of the Questar companies and operations occurred with Commission knowledge and review by the Commission. Commission resolution was made of the changes and conclusion was made that regulatory authority over utility activities was adequate or under federal agency jurisdiction. The Legislature has defined what is and what is not a public utility. It has conferred to us only authority over public utility operations. Even where a company has mixed utility and non-utility operations, we have jurisdiction and authority over only the utility aspects. We decline Mr. Ball's invitation to overreach our jurisdiction. Our jurisdiction and authority extend only to matters and activities of an intrastate nature. Interstate matter regulation is conferred to federal agencies, not this Commission.

Additionally, transfer of utility assets for which a ratepayer interest was claimed occurred with Commission review and approval in proceedings involving the Company. Indeed, the terms and conditions upon which utility properties were transferred to Wexpro provided ratepayers fair-market compensation for the assets. In addition to compensation of the past, customers of the Company continue to receive compensation as royalties continue to be paid. *See, Committee of Consumer Services v. Utah Public Service Commission*, 595 P2d 871 (Utah 1979)(Wexpro I), and *Utah Department of Administrative Services v. Utah Public Service Commission*, 658 P2d 601 (Utah 1983) (Wexpro II). Mr. Ball presents no information that the operations or relationships between the Company, Wexpro or any other affiliate violate the 'no-

profits-to-affiliates' rule referenced in Wexpro I. At least, he provides no evidence for any expense or revenue adjustments in this ratemaking case which would be the direct remedial tool if such were to exist. Rather, he argues that the Commission should include, apparently, some other profits which a Company affiliate may be making and impute these profits directly as Company profits or as "additional value" which affects the rate of return determination for the Company. We are unable to conclude that such an imputation does not amount to additional compensation beyond the fair-market compensation already received and being received by customers through the Wexpro Agreement approved by the Commission and sustained by the Utah Supreme Court in Wexpro II. Mr. Ball fails to provide a convincing rationale upon which such adjustment could be based and comply with the law.

While Mr. Ball insinuates Wexpro has not fulfilled its responsibilities, the Company has failed to obtain appropriate and adequate services from Wexpro or gas production from the Wexpro Agreement properties, and that other Company affiliates have exploited or appropriated Wexpro assets, we would need some factual source or evidence, beyond chimerical allusions, to make an adjustment in a ratemaking setting, particularly the rate of return consideration and adjustment along the lines Mr. Ball advocates.

In conclusion, by applying the financial models as we deem appropriate, with the inputs or components and weighting we believe reasonable, and weighing all of the expert financial testimony and non-financial testimony received, we find and conclude that a rate of return on common equity of 10 percent is reasonable. Based upon our conclusions regarding the cost of debt, return on common equity and capital structure, this results in an overall return on ratebase of 8.41 percent.

B. REVENUE REQUIREMENT STIPULATION

1. Overview

The Revenue Requirement Stipulation (“Stipulation”) is signed by the Company, the Division, the Committee, UAE and Central Valley, (collectively, “Parties”) and resolves revenue requirement issues, other than return on equity. The Parties represent that the intervenors in this docket who have not entered into this Stipulation either do not oppose or take no position on this Stipulation.

The Stipulation provides the Parties’ agreement on adjustments to the Company’s request for a revenue requirement increase, the manner of spreading the rate increase to customers prior to the conclusion of the cost-of-service phase of this case, and future studies and reporting requirements. The Stipulation is attached to this Order for reference. Without modifying its terms in any way, the following is a partial summary of the Stipulation.

Appendix 1 to the Stipulation shows the stipulated revenue requirement adjustments to the Company’s February 28, 2008, request for an annual increase in revenues of \$22,157,542. The Stipulation provides the basis for the Parties’ agreement on the 30 issues shown on Appendix 1. The Parties support adjustments to the Company’s position on rate base and expenses for labor, advertising, reserve accrual, outside services, software, donations and memberships, and miscellaneous items. Parties also agree to the cost of debt and percent of equity in capital structure based on the Company’s issuance of \$150 million of notes in March 2008 (discussed earlier in this Order). Coupled with each Party’s own position regarding return on equity, approval of the Stipulation supports a revenue increase of \$5.9 million, \$7.4 million, or \$19.6 million by the Committee, Division and Company, respectively. Coupled with our

decision on return on equity noted earlier, approval of the Stipulation requires a revenue increase of \$11,966,500.

The Parties stipulate that the rate increase resulting from the Commission's final order on return on equity and approving this Stipulation shall become effective through a percentage increase applied equally to DNG revenue for all customer classes. The increase is to be collected through changes to the DNG block rates until the Commission issues its order in this docket on cost of service and rate design, at which time rates will be adjusted consistent with that order, on a going-forward basis.

The Stipulation also provides agreement regarding future studies and reporting requirements. The Company agrees to: perform a depreciation study by the end of 2008, and to perform a new depreciation study every five years on a going-forward basis; use a lead-lag study in which the end date of the period used for the study is not more than three years old at the time of the filing of a general rate case; provide a two year forecast of its results of operations filing made in the spring of each year, beginning in 2009; provide variance reports comparing the forecast to actual results with each semi-annual report; provide responses to Master Data Request A with the application in its next general rate case filing and provide responses to Master Data Request B within 30 days of filing the application consistent with the filing in this case, unless exceptions are agreed to or as otherwise ordered by the Commission.

2. Positions of the Parties

The Company, Division and Committee testify in support of the Stipulation. The Company describes key components of the Stipulation, the settlement process, and testifies the resolution of issues is reasonable and in the public interest.

The Division testifies the Stipulation is the result, in part, of its desire to trace through the resolution of the issues raised in this case and to avoid a “black box” settlement. The Stipulation accomplishes this goal as Parties document agreement on each issue and the basis for such agreement. The Division states its initial testimony on issues other than return on equity supported a reduction of \$4.2 million to the Company’s requested increase in revenues. Based upon further information and analysis, the Division states the stipulated \$2.6 million decrease to the Company’s requested rate increase is just and reasonable and in the public interest.

The Committee testifies that it carefully analyzed the Company’s rate increase request and data responses, and produced a large body of responsive testimony. Based on its analysis, the Committee states the Stipulation is just and reasonable for the customers it represents. The Committee states it updated its position, as reflected in the Stipulation, based upon updated information it received, for example, regarding the feeder line program and advertising expenses related to promoting energy conservation. The Committee also testifies the policy and reporting requirements agreed to in the Stipulation will aid in the future analysis of Company DNG general rate case filings and bring value to the customers the Committee represents.

Both the Company and Division testify that, to the best of their knowledge, the Stipulation provides no departure from prior Commission policies or precedents. The Company qualifies this statement by noting the reserve accrual adjustment maintains the Commission policy of using a five-year average but includes the Committee’s recommendation to use actual payments, which had not been the Company’s previous practice.

3. Discussions, Findings and Conclusions

The Company testifies an increase in DNG revenues is necessary to provide the Company with sufficient revenue to supply natural gas utility service in Utah. The Company maintains that rising costs associated with serving a steadily increasing number of customers and replacing aging infrastructure with high pressure feeder lines have resulted in existing DNG rates that are no longer just and reasonable.

Five parties, the Company, the Division, the Committee, UAE, and Central Valley, representing a diversity of Utah customer interests, signed the Stipulation. These parties agree that settlement of the issues in the Stipulation is in the public interest and results in rates that are just and reasonable. The Company, the Division and the Committee provide testimony recommending the Commission approve the Stipulation. Prior to execution of the Stipulation, eight witnesses provided direct testimony examining the Company's filing and thereafter a settlement conference for all interested parties was held. No party of record provides testimony opposing approval of the Stipulation.

Our consideration of the Stipulation is directed by Utah statutory provisions in Utah Code § 54-7-1 that encourages informal resolution of matters brought before the Commission. This Stipulation provides the Parties' agreement and bases for such agreement on the disputed issues raised in written testimony. The Commission concludes that its terms are just and reasonable and it is just and reasonable in result and in the public interest. We conclude the Stipulation provides revenues sufficient to cover all prudent costs of DNG service including those associated with new facilities to provide safe, reliable and reasonably-priced service to Utah customers. Based upon the foregoing, the Commission approves the Stipulation. The

Commission's approval of the Stipulation, as in similar cases, is not intended to alter any existing Commission policy nor to establish any precedent by the Commission.

IV. ORDER

Wherefore, pursuant to our discussion, findings and conclusions made herein, we order:

1. The allowed return on equity is 10 percent.
2. The Revenue Requirement Stipulation is approved.
3. The Company shall file appropriate tariff revisions increasing Utah jurisdictional DNG revenues by \$11,966,500.
4. The increase shall become effective through a percentage increase applied equally to DNG revenue for all customer classes. The increase is to be collected through changes to the DNG block rates until the Commission issues its order in this docket on cost of service and rate design, at which time rates will be adjusted consistent with that order, on a going-forward basis. The Division shall review the tariff revisions for compliance with the terms of the approved Stipulation and this Order. The tariff revisions are effective August 15, 2008, absent any objection.

This Report and Order constitutes final agency action on Questar Gas Company's December 19, 2008, Application. Pursuant to Utah Code § 63-46b-12, an aggrieved party may file, within 30 days after the date of this Report and Order, a written request for rehearing/reconsideration by the Commission. Pursuant to Utah Code § 54-7-15, failure to file such a request precludes judicial review of the Report and Order. If the Commission fails to

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issue an order within 20 days after the filing of such request, the request shall be considered denied. Judicial review of this Report and Order may be sought pursuant to the Utah Administrative Procedures Act (Utah Code § 63-46b-1 et seq.).

DATED at Salt Lake City, Utah, this 27th day of June, 2008.

/s/ Ted Boyer, Chairman

/s/ Ric Campbell, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary
G#57974

ATTACHMENT: Revenue Requirement Stipulation

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF QUESTAR GAS COMPANY TO INCREASE DISTRIBUTION NON-GAS RATES AND CHARGES AND MAKE TARIFF MODIFICATIONS	Docket No. 07-057-13 REVENUE REQUIREMENT STIPULATION
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Pursuant to Utah Code Ann. § 54-7-1 and Utah Administrative Code R746-100-10.F.5, Questar Gas Company (“Company”), the Division of Public Utilities (“Division”), Committee of Consumer Services (“Committee”), Utah Association of Energy Users Intervention Group (“UAE”) and Central Valley Water Reclamation Facility (“Central Valley”) (collectively, “Parties”) submit this Stipulation in resolution of the revenue-requirement issues except return on equity (“ROE”) in this proceeding.

I. PROCEDURAL HISTORY

1. On December 19, 2007, Questar Gas Company (“Questar Gas” or “Company”) filed an application and direct testimony with the Commission seeking an increase in its Utah rates in the annual amount of \$26,966,000 based on a proposed July 1, 2008 through June 30, 2009 test year. This application contained Questar Gas’ recommendations regarding allocation of Questar Gas’ revenue requirement among rate classes and recommended rate design for all customer classes.

2. On December 27, 2007, the Commission issued its Scheduling Order, dividing the case into phases and issues and setting dates for filing testimony, technical conferences, settlement conferences and hearings on various issues.

3. On February 8, 2008, the Commission conducted an evidentiary hearing on the test year to be used in this case. On February 14, 2008, the Commission issued its Order on Test Period, directing the Company and the parties to use a calendar year 2008 test period and requiring the Company to file updated testimony consistent with the ordered test period.

4. On February 28, 2008, the Company filed updated testimony revising its rate-increase request to \$22,157,542 based on the 2008 test year.

5. On March 31, 2008, the Division, Committee, UAE, and Roger J. Ball ("Ball") filed their direct testimony on rate of return issues in response to the Company's testimony filed on December 19, 2007 and updated on February 28, 2008. On April 21, 2008, the Division, Committee, UAE and Ball filed their direct testimony on other revenue requirement issues in response to the Company's testimony filed on December 19, 2007 and updated on February 28, 2008. As a result of these filings, the Division recommended a rate increase of \$5,405,409, and the Committee recommended a rate increase of \$97,637. The UAE recommended specific adjustments in the amount of \$994,889 to the Company's proposed rate increase and also recommended that the Commission consider the analysis presented in their rate of return testimony in determining "where within the range of reasonable returns QGC's return on equity should be set." The UAE did not propose a specific level of overall rate increase in this case.

6. On April 28, 2008, the Company, Division and Ball filed rebuttal testimony on rate of return issues.

7. On May 12, 2008, the Division, Committee, UAE and Ball filed surrebuttal testimony on rate of return issues.

8. On May 6, 2008, the Parties held a settlement conference in accordance with the Commission's Scheduling Order. Subsequently, the Parties have continued to engage in confidential settlement discussions and have reached agreement on all revenue requirement issues other than ROE.

TERMS AND CONDITIONS

Revenue Requirement in this Docket

In settlement of the revenue-requirement issues in this case other than ROE, the Parties submit this Stipulation for the Commission's approval and adoption. Appendix 1, which shows the stipulated revenue requirement adjustments and which is incorporated in this Stipulation, begins from the Company's updated request for an annual increase in revenues of \$22,157,542, titled "Questar Gas Updated Position." The agreed adjustments to the Company's position are shown for the Company, Division, Committee and UAE on lines 1 through 30 on Appendix 1. The proposed adjustments to the Company's position on ROE are shown on line 31 of Appendix 1. The Parties agree that the ROE phase of this case will continue as set forth in the Commission's Scheduling Order. Line 32 of Appendix 1 shows the positions of the Parties after the effect of this Stipulation given their different recommendations on ROE.

9. Without waiving the provisions of paragraph 17 of this Stipulation, the basis for the Parties' agreement on the 30 issues shown on Appendix 1 is generally as follows:

a. The Parties agree for purposes of settlement to the adjustments for Cost of Debt (line 29) and Percent of Equity in Capital Structure (line 30) based on the Company's issuance of \$150 million of notes in March 2008.

b. The Company accepts for purposes of settlement the adjustments for AGA Dues (line 7), Lobbying Costs in Chamber of Commerce Dues (line 15), Energy Solutions (line 19), Utah Foundation (line 20), Other Donations (line 22), and Customer Golf Tournament (line 23) based on information provided in the direct testimony of the Division and Committee and further checking of its records. These adjustments are consistent with treatment by the Commission in prior rate cases of similar items.

c. The Parties agree for purposes of settlement to adjust rate base and rate-base related accounts so that the revenue requirement is reduced by \$325,000 (line 1). The Parties agree for purposes of settlement that the adjusted rate base reasonably reflects the average rate base that will be in effect in the test year.

d. The Parties agree for purposes of settlement that the proposed adjustment for Corporate A&G Expenses (line 10) need not be made based on discovery and further explanation provided by the Company.

e. The Parties agree for purposes of settlement that the proposed adjustment for Integrity Management Costs (line 13) need not be made based on discovery and further explanation provided by the Company.

f. The Parties agree for purposes of settlement that the level of Bad Debt Expense (line 9) included in the revenue requirement should be based on a three-year average as proposed by the Company.

g. The Parties agree for purposes of settlement that proposed adjustments for Lead-Lag Study – Interest on Long-term Debt (line 2) and Financial Advertising (line 6), need not be made.

h. The Parties agree for purposes of settlement that proposed adjustments for US Chamber of Commerce Dues (line 16), SLC Chamber of Commerce Dues (line 17), American Red Cross (line 18), Other Chamber of Commerce Expenses (line 21), and Utah Manufacturers Association (line 26) need not be made.

i. The Parties agree for purposes of settlement that proposed adjustments for Co-op Advertising (lines 4 and 5), Utah Energy Summit (line 11), Utah State Fairpark (line 24), Utah Science Center (line 25) and Water-Heater Blimp (line 27) need not be made based upon discovery and confirmation that the expenditures were incurred to inform customers of the Company's Thermwise energy-efficiency programs. On a going-forward basis the Parties agree that these and all other specific costs promoting energy efficiency will be separately tracked and reviewed in conjunction with the Company's energy-efficiency programs. The Parties agree that the DSM Advisory Group shall review these costs and recommend how these costs should be accounted for going forward. The Company shall propose an accounting treatment for these costs in the Company's next general rate case.

j. The Parties agree for purposes of settlement that an adjustment of \$356,995 for Reserve Accrual (line 8) should be made. On a going-forward basis, the reserve accrual will be based on the five-year average of actual payments made by the Company. The Parties further agree that the Company will file results of operation reports based upon this methodology unless and until modified by a subsequent Commission order.

k. The Parties agree for purposes of settlement that an adjustment of \$150,000 for Outside Services (line 12) should be made.

l. The Parties agree for purposes of settlement that an adjustment of \$75,000 for Software Expense (line 14) should be made.

m. The Company agrees for purposes of settlement to accept the Committee's proposed five-year amortization of MREs (line 28).

n. The Parties agree for purposes of settlement to reduce Labor Expense Issues by \$1,300,000 (line 3).

10. The Parties have not reached agreement on ROE (line 31). The overall deficiency resulting from the foregoing agreed adjustments based on the ROEs recommended by the Company, Division and Committee are shown on line 32 of Appendix 1. When the Commission issues its order on ROE, Questar Gas will provide a revised deficiency amount based on that decision consistent with the agreed positions on other revenue requirement issues.

11. The Parties agree that the rate increase resulting from the Commission's final order on ROE and approving this Stipulation shall become effective through a percentage

increase applied equally to DNG revenue for all customer classes. The increase will be collected through changes to the DNG block rates. When the Commission issues its order on cost of service and rate design, rates will be adjusted, consistent with that order, on a going-forward basis.

12. The Parties further agree, on a going-forward basis, unless otherwise agreed by the Parties subsequently or as otherwise required by the Commission in an order or rule, that:

a. Pursuant to the Stipulation and Order Approving Settlement in Docket No. 05-057-T01, the Company will perform a depreciation study by the end of 2008.

The Company agrees to perform a new depreciation study every five years on a going-forward basis.

b. When Questar Gas files a general rate case, it will use a lead-lag study in which the end date of the period used for the study is not more than three years old at the time of the filing.

c. Beginning in 2009, Questar Gas will provide a two-year forecast of its results of operations filing made in the spring of each year. Additionally, the Company will provide variance reports comparing the forecast with actual results with each semi-annual report. The Division, Committee, and Questar Gas will work together to develop the proper format and account mapping that allows the Division to compare forecasts of future results of operations with actual results as they occur.

13. In its next general rate case filing, Questar Gas will provide responses to Master Data Request A with the application and will provide responses to Master Data Request B within 30 days of filing the application consistent with the filing in this case, except as those data requests may be modified by agreement of the Parties following the conclusion of the revenue requirement hearing in this and other dockets or as otherwise ordered by the Commission.

14. The Parties agree that settlement of these issues is in the public interest and results in rates that are just and reasonable.

General

15. Except for ROE, the Parties have reached a full and final resolution of all other revenue-requirement issues. Except for ROE, the Parties agree to waive cross examination regarding all other issues related to the determination of the test-year revenue deficiency that have been addressed in the written testimony submitted by the Parties in this case. Accordingly, the Parties agree to request that witnesses whose testimony addresses revenue requirement issues be excused from appearing at the hearings scheduled to begin June 30, 2008.

16. 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 it shall be deemed to constitute an admission or acknowledgment by any Party of the validity or invalidity of any principle or practice of ratemaking; nor shall they be construed to constitute the basis of an estoppel or waiver by any Party; nor shall they be introduced or used as evidence for any other purpose in a future proceeding by any Party except in a proceeding to enforce this Stipulation.

17. Questar Gas, the Division and the Committee each will, and other Parties may, make one or more witnesses available to explain and support this Stipulation to the Commission. Such witnesses will be available for examination. So that the record in this docket is complete, the Parties may move for the admission of testimony and exhibits that have been filed on the issues resolved by this Stipulation; however, notwithstanding the admission of filed testimony, the Parties shall support the Commission's approval of the Stipulation. As applied to the Division and Committee, the explanation and support shall be consistent with their statutory authority and responsibility.

18. The Parties agree that if any person challenges the approval of this Stipulation or requests rehearing or reconsideration of any order of the Commission approving this Stipulation, each Party will use its best efforts to support the terms and conditions of the Stipulation. As applied to the Division and Committee, the phrase "use its best efforts" means that they shall do so in a manner consistent with their statutory authority and responsibility. In the event any person seeks judicial review of a Commission order approving this Stipulation, no Party shall take a position in that judicial review opposed to the Stipulation.

19. Except with regard to the obligations of the Parties under the four immediately preceding paragraphs of this Stipulation, this Stipulation shall not be final and binding on the Parties until it has been approved without material change or condition by the Commission. This Stipulation is an integrated whole, and any Party may withdraw from it if it is not approved without material change or condition by the Commission or if the Commission's approval is rejected or materially conditioned by a reviewing court. If the Commission rejects any part of

this Stipulation or imposes any material change or condition on approval of this Stipulation or if the Commission's approval of this Stipulation is rejected or materially conditional by a reviewing court, the Parties agree to meet and discuss the applicable Commission or court order within five business days of its issuance and to attempt in good faith to determine if they are willing to modify the Stipulation consistent with the order. No Party shall withdraw from the Stipulation prior to complying with the foregoing sentence. If any Party withdraws from the Stipulation, any Party retains the right to seek additional procedures before the Commission, including cross-examination of witnesses, with respect to issues resolved by the Stipulation and no party shall be bound or prejudiced by the terms and conditions of the Stipulation.

20. This Stipulation may be executed by individual Parties through two or more separate, conformed copies, the aggregate of which will be considered as an integrated instrument.

21. The Parties are authorized to represent that the intervenors in this docket that have not entered into this Stipulation either do not oppose or take no position on this Stipulation.

RELIEF REQUESTED

Based on the foregoing, the Parties request that the Commission issue an order approving this

Stipulation and adopting its terms and conditions.

RESPECTFULLY SUBMITTED: May 16, 2008.

/s/ Colleen Larkin Bell

Colleen Larkin Bell
Questar Gas Company

Gregory B. Monson
Stoel Rives LLP

Attorneys for Questar Gas Company

/s/ Michael Ginsberg

Michael Ginsberg
Assistant Attorney General
Patricia E. Schmid
Assistant Attorney General

Attorneys for Division of Public Utilities

/s/ Paul H. Proctor

Paul H. Proctor
Assistant Attorney General

Attorney for Committee of Consumer Services

/s/ Gary A. Dodge

Gary A. Dodge
Hatch, James & Dodge

*Attorneys for Utah Association of Energy Users
Intervention Group*

/s/ Ronald J. Day

Ronald J. Day
Central Valley Water Reclamation Facility

**Appendix 1 to the Revenue Requirement Stipulation
Docket No. 07-057-13**

Issue No.	Description	Agreed Settlement Positions			
		QGC	DPU	CCS	UAE
	Questar Gas Updated Position	\$22,157,542	\$22,157,542	\$22,157,542	\$22,157,542
1	Rate Base Issues	(\$325,000)	(\$325,000)	(\$325,000)	(\$325,000)
2	Lead Lag Study - Interest on Long-Term Debt				
3	Labor Expense Issues	(\$1,300,000)	(\$1,300,000)	(\$1,300,000)	(\$1,300,000)
	Advertising Expense Issues				
4	Co-Op Advertising				
5	Additional Co-Op Advertising				
6	Financial Advertising				
7	AGA Dues	(\$3,361)	(\$3,361)	(\$3,361)	(\$3,361)
	Other O & M Expense Issues				
8	Reserve Accrual	(\$356,995)	(\$356,995)	(\$356,995)	(\$356,995)
9	Bad Debt Expense				
10	Corporate A&G Expenses				
11	Utah Energy Summit				
12	Outside Services	(\$150,000)	(\$150,000)	(\$150,000)	(\$150,000)
13	Integrity Management Costs				
14	Software Expense	(\$75,000)	(\$75,000)	(\$75,000)	(\$75,000)
	Donations & Membership Expense Issues				
15	Lobbying Costs in Chamber of Commerce Dues	(\$4,963)	(\$4,963)	(\$4,963)	(\$4,963)
16	US Chamber of Commerce Dues				
17	SLC Chamber of Commerce Dues				
18	American Red Cross				
19	Energy Solutions Center	(\$18,997)	(\$18,997)	(\$18,997)	(\$18,997)
20	Utah Foundation	(\$14,998)	(\$14,998)	(\$14,998)	(\$14,998)
21	Other Chamber of Commerce Expenses				
22	Other Donations	(\$1,710)	(\$1,710)	(\$1,710)	(\$1,710)
	Miscellaneous Expenses				
23	Customer Golf Tournament	(\$7,192)	(\$7,192)	(\$7,192)	(\$7,192)
24	Utah State Fairpark				
25	Utah Science Center				
26	Utah Manufacturers Association				
27	Water-Heater Blimp				
28	MREs	(\$12,238)	(\$12,238)	(\$12,238)	(\$12,238)
	Capital Structure Issues				
29	Cost of Debt	\$574,865	\$574,865	\$574,865	\$574,865
30	% of Equity in Capital Structure	(\$887,760)	(\$887,760)	(\$887,760)	(\$887,760)
	Subtotal	(\$2,583,349)	(\$2,583,349)	(\$2,583,349)	(\$2,583,349)
31	Return On Equity		(\$12,171,723)	(\$13,693,189)	
32	Proposed Deficiency	\$19,574,193	\$7,402,470	\$5,881,004	N/A
	1/ Company ROE position at 11.25%				
	2/ DPU ROE position at 9.25%.				
	3/ CCS ROE position at 9.0%.				
	4/ UAE's specific ROE position not stated.				