

IN THE MATTER OF THE
APPLICATION OF QUESTAR GAS
COMPANY TO INCREASE
DISTRIBUTION NON-GAS RATES
AND CHARGES AND MAKE
TARIFF MODIFICATIONS

Docket No. 09-057-16

VERIFIED
APPLICATION

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VERIFIED APPLICATION
AND
EXHIBITS

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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. 09-057-16 VERIFIED APPLICATION
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Pursuant to Utah Code Ann. §§ 54-4-4 (2009) and 54-7-12 (2009) and Utah Admin. Code R746-100-1 *et seq.* (2009), Questar Gas Company (Questar Gas or the Company) respectfully applies for an order authorizing a total revenue requirement of \$277.3 million. This revenue requirement requires an increase in distribution non-gas revenue in Utah in the annualized amount of approximately \$17.2 million.¹ This amount

¹ This \$17.2 million increase results when Commission-allowed GS revenues and revenues from all other rate classes are compared to the total revenue requirement of \$277.3 million. When volumetric GS revenues and revenues from all other classes are compared to the total revenue requirement, the deficiency is \$14.7 million.

constitutes a revenue deficiency and reflects the effects of the increased costs of supplying utility service in Utah that will not be covered under currently authorized rates. The rising costs associated with replacing aging infrastructure and serving an increasing number of customers have resulted in rates that will no longer be just and reasonable.

I. PRELIMINARY MATTERS

A. *Questar Gas Company's Operations*

Questar Gas is a corporation organized and existing under the laws of the state of Utah, with its principal business office located at 180 East First South Street, Salt Lake City, Utah. The Company is engaged in the business of providing natural gas as a local distribution company. Questar Gas currently distributes natural gas to approximately 864,000 customers throughout the state of Utah and in Franklin County in southeast Idaho subject to the ratemaking jurisdiction of the Utah Public Service Commission (Commission). In addition, the Company distributes gas to communities and rural areas in southwest Wyoming under the jurisdiction of the Wyoming Public Service Commission.

B. *Articles of Incorporation; Tariff*

A copy of Questar Gas's Articles of Incorporation is on file with the Commission. The Company's present rates, charges, and general conditions for natural gas service in Utah are regulated by the Commission and are set forth in Questar Gas's Tariff PSC Utah No. 400 (Tariff). Rates and tariff provisions proposed by this Application will be published as revisions to Tariff PSC Utah No. 400 and will supersede the current rates and tariff provisions.

II. APPLICATION FOR AN INCREASE IN DISTRIBUTION NON-GAS RATES AND CHARGES FOR NATURAL GAS SERVICE

a. Current Rate Structure

Questar Gas's current rates are divided into three components: (1) distribution non-gas (DNG) rates, which relate to costs incurred by the Company in providing service to its retail customers, exclusive of the costs of gas supplies and transporting that gas to Questar Gas's system, (2) supplier non-gas (SNG) rates, which reflect the costs of transporting natural gas from natural gas fields to various city gates on the Company's system, and (3) commodity costs associated with acquiring gas supplies, including gas purchases, operator service fees for the production of Company-owned gas supplies, gas processing and other gas-supply related expenses.

The rate relief requested in this Application is limited to the DNG-cost portion of the Company's rates. The SNG and commodity rates are considered in separate pass-through proceedings in accordance with the Company's Tariff and rules and procedures of the Commission. The DNG rates collect about 30% of Questar Gas's total revenue while SNG and commodity rates make up the remaining 70%.

b. Previous Rate Proceeding Establishing DNG Rates

The Company's current DNG rates reflect the Commission's Report and Order on Revenue Requirement, Report and Order on Cost of Service and Rate Design, and Report and Order on Review, Reconsideration and Rehearing in Docket No. 07-057-13, as adjusted by the Commission-approved Conservation Enabling Tariff amortizations and Demand-Side Management amortizations.

c. Necessity for Relief

The Company's present rates and charges authorized by the Commission will no longer provide the Company the opportunity to recover the costs of providing natural gas service while earning a reasonable rate of return on its investment in rate base necessary to provide the service. They are, therefore, not "just and reasonable" as required by Utah Code Ann. § 54-3-1 (2009), and do not meet the standards enunciated by the United States and Utah Supreme Courts. Based upon the test period as set forth in this case, the Company will earn only 8.2% on equity invested.

d. Basis for Determination of Rate Relief

The Test Period includes the revenues, expenses and plant that best reflect the conditions that will occur during the rate-effective period. As more fully set forth in the direct testimony attached to this Application, Questar Gas examined all of its operations and the associated costs, revenues and plant; and considered and projected all the material changes that the Company knows or reasonably expects to occur by December 31, 2010. The Company has included adjustments that reduce the determination of the Company's revenue requirement as well as those that increase it. These forecasted results were then adjusted for regulatory adjustments consistent with past Commission orders and practice to arrive at the revenue requirement projected for the test period.

e. Factors Contributing to Revenue Deficiency

The primary driver for this general rate case is the planned capital expenditure required to replace aging infrastructure. Questar Gas's capital expenditures are significantly increasing from approximately \$80 million in 2009 to approximately \$130 million in 2010. Additionally, the number of customers the Company serves, the growth

in peak-day demand and other capital costs associated with ongoing system operations require significant investment.

f. Rate of Return

In order for Questar Gas to meet its public-service obligation to Utah customers, the Company must be given a reasonable opportunity to earn a rate of return on equity (ROE) that is commensurate with returns realized by investors on investments with similar risks in the capital markets. As established in the Direct Testimony of David M. Curtis, attached to this Application as QGC Exhibit 2.0, the Company's rates should be based on an authorized ROE of 10.6 percent. An ROE set at this level is appropriate to maintain the long-term financial integrity of the Company's utility operations and to provide a fair return on shareholder investment.

Questar Gas's requested ROE is fair and adequate in today's financial marketplace and falls within the range of reasonable ROEs of a proxy group of companies comparable to Questar Gas, as measured using the Discounted Cash Flow and Risk Premium analyses. Additionally, it is comparable to ROEs currently being authorized for top-performing gas utility companies. Questar Gas's requested ROE is at the level required by investors to attract the capital necessary for critical investment in plant.

g. Summary of Test-Period Deficiency and Rate Impact

i. Test-Period Deficiency.

The factors discussed above contribute to a revenue deficiency in the Company's Utah operations, and Questar Gas will require \$17.2 million² in additional annual

² See footnote 1, above.

revenues for its Utah operations as described in the Direct Testimony of Kelly B. Mendenhall, attached to this Application as QGC Exhibit 3.0.

ii. Cost-of-Service and Rate Design.

Questar Gas requests that the revenue requirement be spread among customer classes in accordance with the cost-of-service study and rate design described in the Direct Testimony of Steven R. Bateson, attached to this Application as QGC Exhibit 4.0.

iii. Financial Impact.

The effect of the proposed rate increase on the typical GS customer who uses 80 Dth per year will be an increase of approximately \$11.85 per year. This is an overall increase to a typical customer's bill of approximately 1.80%.

III. INFRASTRUCTURE RATE-ADJUSTMENT MECHANISM

Questar Gas is requesting Commission approval of an infrastructure rate-adjustment mechanism. The Company anticipates spending between \$40 million and \$50 million per year, each year over approximately ten years to replace its aging infrastructure.

As explained in the Direct Testimony of Barrie L. McKay, attached to this Application as QGC Exhibit 1.0, the proposed infrastructure rate adjustment mechanism, or "Tracker," will allow the Company to track costs directly associated with the replacement of identified feeder line projects as shown on QGC Exhibit 1.7. The Company is proposing to recover those costs through an incremental surcharge to general service rates. The Company would file periodically for approval to adjust the surcharge.

IV. APPROVAL OF THE CONSERVATION ENABLING TARIFF/DEMAND-SIDE MANAGEMENT PROGRAM

The Commission extended the Conservation Enabling Tariff (CET)/Demand Side Management (DSM) Pilot Program until December 2010.³ The Company is seeking the approval of the CET/DSM Program going forward. The CET/DSM Pilot Program has been successful in allowing the Company to collect its Commission-allowed DNG revenue from the General Service class and, in return, provide a mechanism that removes the Company's disincentive to promote energy-efficiency programs. The CET/DSM Pilot Program has allowed the Company to align its interests with those of its customers. Approval of the CET/DSM Program going-forward is in the public interest.

V. COMPRESSED NATURAL GAS RATE FOR NATURAL GAS VEHICLES

The Company continues to support a compressed natural gas rate for natural gas vehicles (NGV Rate) at less than full cost. In the Company's last general rate case, Questar Gas proposed a gradual increase in the NGV Rate to move the rate closer to the full cost of service. Mr. McKay states in his Direct Testimony that, since the conclusion of the Company's last general rate case, it has become increasingly clear that this approach is in the public interest. The Company, therefore, recommends that the NGV Rate be moved closer to, but remain lower than, cost of service during the rate-effective period occurring at the conclusion of this general rate case.

³ Order Extending Conservation Enabling Tariff/Demand Side Management Pilot Program to December 2010, Docket No. 05-057-T01 (Jun. 24, 2009).

VI. TARIFF CHANGES

Questar Gas requests that the tariff changes described in the Direct Testimony of Judd E. Cook, attached as QGC Exhibit 5.0, and shown on QGC Exhibit 5.7 be approved.

VII. COMPLETE FILING

In accordance with Utah Admin. Code R746-700-1 *et seq.*, Questar Gas has provided all information, evidence and data necessary to constitute a complete filing of a general rate case. QGC Appendix 1 to this Application provides a list of the categories of information required by Utah Admin. Code R746-700-1 *et seq.*, and a reference to where the required information can be found within the Application.

VIII. SUPPORTING EVIDENCE

The following exhibits are attached in support of this Application and, by this reference, are incorporated herein: the sworn testimony of Barrie L. McKay (QGC Exhibit 1.0), David M. Curtis (QGC Exhibit 2.0), Kelly B. Mendenhall (QGC Exhibit 3.0), Steven R. Bateson (QGC Exhibit 4.0) and Judd E. Cook (QGC Exhibit 5.0), and additional information provided in compliance with Utah Admin. Code R746-700-1 *et seq.* (QGC Appendix 1).

IX. RELIEF REQUESTED

WHEREFORE, Questar Gas Company respectfully requests that the Commission:

- A. Schedule a time and place for hearing on this Application and give appropriate notice in accordance with Utah law;
- B. Authorize an increase in rates and charges that will satisfy a total revenue requirement of \$277.3 million, as described in this Application;

C. Authorize the implementation of new rates and tariff changes as soon as reasonably possible, consistent with Utah Code Ann. §§ 54-4-4 and 54-7-12 (2009);

D. Approve the implementation of the Infrastructure Rate-Adjustment Mechanism as more fully set forth herein; and

E. Approve the CET/DSM Program going forward.

RESPECTFULLY SUBMITTED this 3rd day of December, 2009.

QUESTAR GAS COMPANY

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CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the Application was served upon the following persons by e-mail on December 3, 2009:

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VERIFICATION

STATE OF UTAH)
 :
COUNTY OF SALT LAKE)

Ronald W. Jibson, being first duly sworn upon oath, deposes and states: He is the President and Chief Executive Officer of Questar Gas Company; he has read the foregoing Application; and the statements made in the Application are true and correct to the best of his knowledge, information and belief.

Ronald W. Jibson

Subscribed and sworn to before me this 3rd day of December, 2009.

Notary Public