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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

<p>IN THE MATTER OF THE APPLICATION OF QUESTAR GAS COMPANY TO INCREASE DISTRIBUTION NON-GAS RATES AND CHARGES AND MAKE TARIFF MODIFICATIONS</p>	<p>Docket No. 09-057-16</p> <p>SETTLEMENT STIPULATION</p>
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Pursuant to Utah Code Ann. § 54-7-1 and Utah Admin. Code § R746-100-10.F.5, Questar Gas Company (Questar Gas or Company); the Division of Public Utilities (Division); the Office of Consumer Services (Office); the UAE Intervention Group; Nucor Steel, a Division of Nucor Corporation; Salt Lake Community Action Program; AARP; Southwest Energy Efficiency

Project; and Utah Clean Energy (collectively Parties) submit this Settlement Stipulation in resolution of the issues raised in the Company's Verified Application in this docket.

PROCEDURAL HISTORY

1. On December 3, 2009, Questar Gas filed its Verified Application and direct testimony with the Commission seeking an order authorizing a total revenue requirement of \$277.3 million based on a test period ending December 31, 2010 using year-end data (Application). The Application was filed pursuant to the new filing requirements, Utah Admin. Code R746-700-1, *et seq.* As a result, Questar Gas simultaneously filed with its Application, approximately 100 responses to required information in compliance with the new filing requirements.

2. On December 29, 2009, the Commission issued its Scheduling Order, dividing the case into two phases and setting dates for filing testimony, technical conferences, and hearings for Phase 1: Revenue Requirement issues and Phase 2: Cost of Service and Rate Design issues.

3. On January 6, 2010, a technical conference was held to discuss and provide information on the Company's models used in its Application. The Company explained its models, demonstrated how Parties could modify inputs and assumptions and responded to questions regarding the models.

4. On February 10, 2010, a technical conference was held to discuss and provide an explanation of the accounting for the Company's Infrastructure Rate Adjustment Tracker (Infrastructure Tracker). Questar Gas presented the history of its aging high-pressure feeder lines, its infrastructure replacement program, the proposed schedule for infrastructure replacement, the estimated costs and the accounting and tracking of those costs, and an explanation of how the Infrastructure Tracker would work.

5. Since the Application was filed, both the Division and the Office have performed on-site audits and Parties have conducted discovery. In conjunction with these audits and discovery, Parties have asked and Questar Gas has responded to approximately 750 data requests and posted them on its “V Bulletin” website for the convenience and review of all intervenors.

6. During the scheduling conference held on December 22, 2009, the Parties agreed to reserve March 2, 2010, for a Settlement Conference. The Parties met on March 2, 2010, to discuss settlement regarding the Application. Subsequently, the Parties continued to engage in confidential settlement discussions and have reached agreement.

TERMS AND CONDITIONS

Revenue Requirement, Rate Spread and Rate Increase

7. In settlement of the revenue requirement rate spread and rate increase issues in this case, the Parties submit this Settlement Stipulation for the Commission’s approval and adoption. Exhibit 1, page 1, which shows the stipulated revenue requirement adjustments and which is incorporated in this Settlement Stipulation, begins with the Company’s requested revenue requirement of approximately \$277,286,000 based on year-end data for the test period ending December 31, 2010. The Parties agree for purposes of settlement to use an average test period ending December 31, 2010, resulting in a revenue requirement amount of approximately \$270,768,000 as shown on Exhibit 1, page 1, column B, line 2.¹

8. The Parties agree for purposes of settlement to the revenue requirement adjustments shown on Exhibit 1, page 1, column A. A brief summary of each adjustment is listed below. Detailed explanations of the adjustments can be found in the Settlement Model

¹The Parties recognize that the order in which the adjustments are entered into the model can produce slightly different individual amounts but the final result will be the same.

filed electronically as “09-057-16 settlement model.xls” in the “E.P. Adjustments input workpaper” tab beginning in cell AC1.

a. The Parties agree for purposes of settlement to adjust the Lead / Lag Day Change days from 2.709 lag days to 2.681 lag days. This adjustment reduces the revenue requirement by approximately \$6,000 (Exhibit 1, page 1, line 3).

b. The Parties agree for purposes of settlement to the Building Transfer Depreciation adjustment that reduces the revenue requirement approximately \$145,000 (line 4).

c. The Parties agree for purposes of settlement to the Land Depreciation adjustment that reduces the revenue requirement approximately \$23,000 (line 5).

d. The Parties agree for purposes of settlement to the Plant Retirement adjustment that reduces the revenue requirement approximately \$46,000 (line 6).

e. The Parties agree for purposes of settlement to the Outside Services Billing adjustment that reduces the revenue requirement approximately \$6,000 (line 7).

f. The Parties agree for purposes of settlement to the Accounting Programming adjustment that reduces the revenue requirement approximately \$122,000 (line 8).

g. The Parties agree for purposes of settlement to the Contribution in Aid of Construction (CIAC) adjustment that increases revenue requirement approximately \$189,000 (line 9).

h. The Parties agree for purposes of settlement to the Seasonal Rate Base adjustment that increases revenue requirement approximately \$49,000 (line 10).

i. The Parties agree for purposes of settlement to accept the new depreciation study submitted by the Company in this case and to amortize the reserve variance over a 10-year period. This Depreciation Study adjustment reduces the revenue requirement approximately \$3,252,000 (line 11).

j. The Parties agree for purposes of settlement to a Rate Base adjustment that reduces the revenue requirement approximately \$1,599,000 (line 12).

k. The Parties agree for purposes of settlement to use a three-year-historical-average percentage for bad debt. This adjustment reduces the revenue requirement approximately \$407,000 (line 13).

l. The Parties agree for purposes of settlement to an authorized Rate of Return on Equity (ROE) of 10.35%. Not all Parties accept that an ROE of 10.35%, in isolation, is a reasonable return on equity. Utah Code Ann. § 54-7-1 authorizes the Commission to approve a settlement so long as the settlement is just and reasonable in result. While the Parties are not able to agree on each specific component of the settlement, all of the Parties agree that the Settlement Stipulation is just and reasonable in result. As provided in paragraph 28 of this Settlement Stipulation, below, to balance the interests of all Parties, the Parties agree that the compromises in this proceeding do not indicate agreement regarding any specific expense or revenue, including the 10.35% ROE. The Parties further agree that this ROE is specifically identified only as one component of the compromises that have led to the agreed result and, like all other components, is identified for purposes of showing adjustments to Questar Gas's Application which are being made to achieve a result that is just and reasonable. Thus, identification of the ROE is unrelated to the Parties' evidence that the Settlement

Stipulation as a whole and in result, is just and reasonable. Consistent with paragraph 28, the Parties agree that they will not claim that the Commission's approval of this Settlement Stipulation constitutes an admission by any Party that 10.35% is a just and reasonable ROE, nor shall they use the Commission's approval of this Settlement Stipulation as evidence in any future proceeding that 10.35% is a just and reasonable ROE. The Parties request that a Commission order accepting and approving this Settlement Stipulation note the foregoing. Using a 10.35% ROE results in a revenue requirement reduction of approximately \$1,689,000 (line 14).

9. When all stipulated adjustments are included, the result is a total revenue requirement of approximately \$263,710,000 (Exhibit 1, page 1, line 14, column B). Subtracting the average test period volumetric revenues of approximately \$261,110,000 results in a revenue deficiency of \$2,600,000 as shown on line 16.

10. The Parties agree that the volumetric revenue increase (Exhibit 1, page 2, column E) resulting from the Commission's final order approving this Settlement Stipulation shall become effective August 1, 2010, through a percentage increase (Exhibit 1, page 2, column D) applied equally to distribution non-gas (DNG) revenue for all customer classes. The resulting revenue requirement by class is shown on Exhibit 1, page 2, column F.

11. The Parties agree to accept the Company's proposal to adjust its metered volumes for temperature and elevation to more accurately bill customers for actual usage as more fully described in the Direct Testimony of Judd E. Cook, QGC Exhibit 5.0, lines 93-150.

12. The Parties agree that no changes should be made to the basic service fees, administrative fee, or tariff qualification requirements. Any adjustments to rates required to collect each class' revenue requirement will be collected through an equal percentage change to

the demand charge, if applicable, and each block of volumetric rates of the respective rate schedules.

13. The Parties agree that all other cost of service and rate design issues should be considered in a separate proceeding. The Parties request that the Commission open a new docket in conjunction with the approval of this Stipulation. This will allow the Parties the time needed for the Company, among other things, to update its distribution plant factor study and to more fully analyze and review Parties' cost of service and rate design proposals. The Parties anticipate this proceeding may take from 12 to 24 months to complete. The Parties agree that any cost of service and rate design issues resolved in the Commission's final order in this new proceeding will be used by the Company as a basis for its cost of service and rate design proposal in its next general rate case.

14. The Parties agree that when taking the total revenue requirement assigned to the GS class (Exhibit 1, page 2, Column F, line 1) and dividing it by the number of GS customers in the average test period, the annual allowed GS revenue per customer is \$272.59 as shown on Exhibit 1, page 3, lines 1-3. Using a three-year average percentage of monthly DNG revenue to spread the \$272.59 results in the monthly allowed revenue per customer as shown in Exhibit 1, page 3, lines 4 through 15.

Infrastructure Tracker

15. The Parties agree for purposes of settlement that the Company may implement an Infrastructure Tracker Pilot Program. The Parties agree for purposes of settlement to allow the Company to track and recover costs that are directly associated with replacement of aging infrastructure as more specifically described in the Company's Tariff through an incremental surcharge to the GS, FS, IS, TS, MT, FT-1 and NGV rate schedules. The surcharge is designed

to track and collect costs of replacement infrastructure between general rate cases. The Company agrees that it will file its next year's infrastructure replacement plan and budget with the Commission no later than November 15 each year. This plan will include, among other things, an estimate of project costs, feeder lines scheduled for replacement and their locations. The infrastructure replacement budget shall not exceed \$55 million (adjusted annually for inflation using the Global Insight Distribution Steel Main Inflation Index), except as provided below. This index will be included in the Company's infrastructure replacement plan and budget that the Company will file with the Commission each year. The Parties agree for purposes of settlement that capital infrastructure investment may still be considered Construction Work In Progress (CWIP) at year end. Amounts recorded in CWIP at year end will not be included in the budget cap for the following year. The Company may request Commission approval to exceed the budget cap if there are exigent circumstances requiring immediate capital expenditures. The Company will file quarterly reports describing the progress of infrastructure replacement with the Division.

16. The Parties agree for purposes of settlement that tracking of infrastructure replacement costs will not commence until the level of replacement-infrastructure investment included in rates has been reached. Based on the test period and adjustments agreed to in this Settlement Stipulation, that investment level is \$10.1 million. When investment in the infrastructure replacement (sub-Account 376004) exceeds \$10.1 million in 2010, the Company will file notice with the Commission. Subsequent investment in replacement infrastructure recorded in this account will be included consistent with the provision of this Stipulation in the Infrastructure Tracker.

17. The Parties agree for purposes of settlement that the Company may file semi-annually, but will file at least annually, an application to adjust the surcharge for new investment in replacement infrastructure. Only feeder line replacement that is in service will be included in an application. All investment related to the Infrastructure Tracker, as defined by proposed Tariff Section 2.08, a copy of which is attached to this Settlement Stipulation as Exhibit 2, will be recorded separately in the new 376004 sub-Account. All items included in the Infrastructure Tracker are subject to regulatory audit consistent with the audit procedures in the “Gas Balancing Account,” Tariff Section 2.07. At the time of the next general rate case, all prudently incurred investment and costs associated with the Infrastructure Tracker will be included in general rates.

18. The calculation of the surcharge is described in Exhibit 2, page 1.

19. The Parties agree for purposes of settlement that the Company will file a general rate case at least every three years while the Infrastructure Tracker is in effect. The Company’s next general rate case will be filed no later than July 2013.

Conservation Enabling Tariff

20. The Parties agree for purposes of settlement that the Conservation Enabling Tariff will no longer be considered a pilot program and will continue in its current form as more fully described in the proposed tariff sheets attached as Exhibit 3.

Compressed Natural Gas Vehicle Infrastructure Investment

21. The Parties acknowledge that the Company plans to invest up to \$14.7 million in Compressed Natural Gas (CNG) infrastructure as part of its commitment with the State of Utah to reinforce its natural gas vehicle (NGV) refueling infrastructure. This investment includes approximately four new CNG stations, one portable CNG station and up to 18 public station upgrades. The Parties agree for purposes of settlement that, after the Company has completed

the construction of the reinforcement of the NGV refueling infrastructure referenced above, not to exceed \$14.7 million, it will apply for Commission approval of any investment in NGV refueling infrastructure that requires an annual capital expenditure exceeding \$1.5 million.

Low-Income Assistance Program

22. The Parties agree for purposes of settlement that the Company will implement a Low-Income Assistance Program. A customer will be eligible to participate in the Low-Income Assistance Program if the customer is certified by the Utah Department of Community and Culture as eligible for the Utah Home Energy Assistance Target (HEAT) Program. At present, a household earning 150% or less of the federal poverty level is eligible for HEAT. Consistent with Utah Code Ann. § 54-7-13.6, a customer's income eligibility for the program shall be renewed annually.

23. Costs associated with administering the Low-Income Assistance Program and the credits given to the eligible customers will be recovered through a per Dth surcharge collected from all rate classes on an equal percentage basis, subject to a monthly per-customer cap of \$50. The total annual cost for this program will be targeted to be \$1.5 million. Interested parties agree to continue to meet and develop implementation details of this Program. A proposed Program will be submitted to the Commission by June 15, 2010, with a request for approval so that the Program will become effective August 1, 2010, consistent with the other provisions of this Settlement Stipulation. The Program will be designed to be consistent with Utah Code Ann. § 54-7-13.6.

Integrity Management Program

24. The Parties agree that the Company will account for the costs incurred in compliance with the new Distribution Integrity Management Program rules² in the same manner that it currently accounts for pipeline integrity management costs.

Rate Schedules

25. The calculation of proposed rates showing the changes to rate schedules that result from this Settlement Stipulation, including the adoption of the new temperature and elevation adjusted billing units, is attached as Exhibit 4, pages 1-5. Page 6 of Exhibit 4 shows a summary of the revenue recovery by class. Page 7 of Exhibit 4 shows the impact of the proposed rates on the typical GS customer.

General

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

27. The Parties have reached a full and final resolution of all issues in this case.

28. All negotiations related to this Settlement Stipulation are privileged and confidential, and no Party shall be bound by any position asserted in negotiations. Neither the execution of this Settlement 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 Settlement Stipulation.

² “Pipeline Safety: Integrity Management Program for Gas Distribution Pipelines”, 49 CFR Part 192, effective February 12, 2010.

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

30. The Parties agree that if any person challenges the approval of this Settlement Stipulation or requests rehearing or reconsideration of any order of the Commission approving this Settlement Stipulation, each Party will use its best efforts to support the terms and conditions of the Settlement Stipulation. As applied to the Division and the Office, 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 Settlement Stipulation, no Party shall take a position in that judicial review opposed to the Settlement Stipulation.

31. Except with regard to the obligations of the Parties under the three immediately preceding paragraphs of this Settlement Stipulation, this Settlement Stipulation shall not be final and binding on the Parties until it has been approved without material change or condition by the Commission. This Settlement 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 Settlement Stipulation or imposes any material change or

condition on approval of this Settlement Stipulation, or if the Commission's approval of this Settlement Stipulation is rejected or materially conditioned 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 Settlement Stipulation consistent with the order. No Party shall withdraw from the Settlement Stipulation prior to complying with the foregoing sentence. If any Party withdraws from the Settlement Stipulation, any Party retains the right to seek additional procedures before the Commission, including presentation of testimony and cross-examination of witnesses, with respect to issues resolved by the Settlement Stipulation, and no Party shall be bound or prejudiced by the terms and conditions of the Settlement Stipulation.

31. This Settlement 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.

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

RELIEF REQUESTED

Based on the foregoing, the Parties request that the Commission issue an order approving this Settlement Stipulation and adopting its terms and conditions.

RESPECTFULLY SUBMITTED: March 18, 2010.

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CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the Settlement Stipulation was served upon the following persons by e-mail on _____, 2010:

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