- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application of QUESTAR GAS COMPANY for Authority to Acquire and Certification to Operate Natural Gas Facilities in Utah	))))	DOCKET NO. 01-057-03 REPORT AND ORDER

ISSUED: July 3, 2001

SYNOPSIS

By this Report and Order, the Commission adopts the Stipulation of Questar Gas Company, Utah Gas Service Company, the Division of Public Utilities, and Intermountain Municipal Gas Agency regarding the proposed acquisition of Utah Gas Service's utility operations by Questar Gas Company. Specifically, the Commission adopts Questar Gas Company's proposed rate structure for Utah Gas Service's customers, including rates resulting from new rate schedules GSE, F1E, and FTE to be used for an interim period terminating on the earlier of 1) when Questar's non-gas rates are adjusted in a general rate case or 2) six years from the closing of the purchase and sale of Utah Gas Service's Operations. At that time, Utah Gas Service's customers will be incorporated into the existing rate structure of Questar Gas Company.

APPEARANCES:

Jonathan M. Duke	For	Questar Gas Company
Thomas M. Zarr	"	Utah Gas Service Company
Kent Walgren, Assistant Attorney General	"	Division of Public Utilities
Reed T. Warnick, Assistant Attorney General	"	Committee of Consumer Services
J. Craig Smith	"	Intermountain Municipal Gas Agency

By The Commission:

INTRODUCTION AND PROCEDURAL HISTORY

1. On February 16, 2001, Questar Gas Company (QGC or Questar) submitted an application to the Utah Public Service Commission (Commission) requesting approval of a proposed acquisition of the utility operations of Utah Gas Service Company (UGS or Utah Gas). On March 22, 2001, UGS filed a request for agency action declaring UGS as a co-applicant in the case, in order to accomplish the objectives described in QGC's Application.

2. On April 17, 2001, QGC filed a motion for entry of protective order accompanied by a proposed protective order. On April 27, 2001, the Commission issued its protective order in the above-entitled docket. Prior to issuance of the protective order, discovery was conducted by the Utah Division of Public Utilities (Division) and the Committee of Consumer Services (Committee). In addition, numerous discussions were held among the Division, Committee, QGC, and UGS, wherein the issues were narrowed in the case and compromises were reached on various issues.

3. On May 9, 2001, the Intermountain Municipal Gas Agency (IMGA) submitted its petition to intervene in the above-entitled docket, which intervention was approved by the Commission.

4. On June 8, 2001, the Commission issued its notice of schedule and order, setting a hearing in the above-docket for Thursday, June 28, 2001. This was based on the status report of the parties, wherein the participating parties expected to resolve all of the outstanding issues in the Docket and submit a stipulation to the Commission.

5. On June 27, 2001, QGC, UGS, the Division, and IMGA submitted a stipulation resolving all of the issues in this Docket. The Committee took no position with respect to the stipulation.

6. On June 28, 2001, the Commission held a hearing to consider the recommendations of the parties, accept expert testimony of the parties, and receive public comment in regard to the proposed acquisition and tariff adjustments. QGC witness David M. Curtis described the application, the stipulation, and QGC's proposals for operating the utility assets of UGS after the purchase and sale is consummated. Division witness Mary Cleveland also testified in support of the Stipulation.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

1. In its application, QGC proposed to purchase the operations of UGS and its sister company, Wyoming Industrial Gas (WIG), by acquiring all the outstanding shares of common stock of both companies in a stock-for-stock exchange of 390,000 shares of Questar Corporation stock. Subsequent to approval by this Commission, as well as the Wyoming Public Service Commission regarding the WIG acquisition, the stock-for-stock exchange will occur with the assets and operations of UGS becoming consolidated with those of QGC for its Utah natural gas service.

2. In the application, and supporting testimony of David M. Curtis, QGC stated that the agreed-upon purchase price exceeds the current book value of the UGS assets that are the subject of the acquisition. The parties stipulated that the resulting acquisition adjustment will be recorded on QGC's books in Account No. 114 and will not be allowed in rate recovery. Additionally, the parties agreed that no transaction costs will be recoverable in rates. However, the parties stipulated that transition costs incurred, in merging UGS's operations into QGC, should be eligible for rate recovery. The Commission accepts the proposed treatment for the acquisition adjustment, transaction costs, and transition costs as recommended in the stipulation.

3. The stipulating parties agreed that for purposes of reporting operating results to the Commission and in calculating revenues, surplus or deficiency, in a general rate case, UGS's rate base, expenses, and revenue data will be consolidated with those of QGC's. Thus, the stipulating parties propose that, after the proposed acquisition, UGS's financial data would be consolidated into QGC's results of operation for reporting and ratemaking purposes. The Commission concludes that the rolled-in treatment of rate base expenses and revenues for reporting, and future rate case purposes as proposed by the stipulating parties, is just, reasonable, and in the public interest.

4. QGC proposed to implement three new rate schedules for immediate applicability for UGS customers. These would include schedules GSE, F1E, and FTE as reflected in QGC Exhibit 1.8. These would be companion rate schedules to QGC schedules GS-1, F-1, and FT-2, respectively. The stipulating parties agreed that the resulting rate differentials, created by these new rate schedules, would remain in place until the earlier of 1) when QGC's non-gas rates are adjusted in a general rate case where the Commission adjusts customers' distribution non-gas rates, or 2) six years from the closing of the purchase and sale of UGS operations. The Commission concludes that this interim ratemaking treatment is just, reasonable, and in the public interest.

5. QGC's witness David M. Curtis explained that QGC expected to accept assignment of a natural gas transportation agreement originally entered into between UGS and the City of Blanding that is used for emergency and scheduled maintenance service. Mr. Curtis explained that this contract can benefit both the city and QGC in the event that either party's line was to be shut down for either emergency or scheduled maintenance purposes. In addition to accepting assignment of this contract, QGC agreed to make its current rate schedule MT available for eligible municipalities in the UGS service territories that desire transportation service. The Commission concludes that this application of the MT rate schedule, and assignment of the Blanding contract, is just, reasonable, and in the public interest.

6. The stipulating parties agreed that upon the purchase and sale taking effect, QGC would include UGS customers in its overall gas supply planning including access to Company-owned production. Mr. Curtis described how inclusion of these new customers, within the pool of Company-owned gas supply, would not result in a material impact to current customers but would be similar to the normal growth in residential and small commercial customers on the Company system. Under the stipulation, current UGS customers will be assessed that same gas supply cost (including Account No. 191 amortization) as current QGC Utah customers. The Commission concludes that the inclusion of the UGS customers, within QGC's general gas supply planning pool and cost assignment, is just, reasonable, and in the public interest.

7. The stipulating parties agreed that QGC's tariff provisions will be applied to current UGS rate customers in a non-discriminatory fashion. That is, all tariff provisions other than the commodity rate schedules, discussed in paragraph 10, would be applicable to UGS customers. These would include weather normalization, new premises fees, connection fees, check charges, security deposits, Account No. 191 balancing, meter turn-ons, main extensions, general policies, and other miscellaneous tariff provisions. The stipulating parties agreed that no other tariff revisions are required to incorporate UGS customers into QGC's rate schedules and conditions of service. The Commission concludes that the general tariff provisions, applicable to QGC's customers, should be incorporated for use by UGS customers as described in the stipulation.

8. The parties stipulated that, in general, the QGC acquisition of UGS is in the public interest. The stipulation states that, in the near term, UGS customers will benefit from QGC's company-owned gas supplies as its cost is significantly below current market prices. UGS acquires 100% of its gas supply on the open market whereas QGC currently obtains approximately only 50% of its gas supply on the open market. Additionally, the purchase of UGS Utility Operations will allow for lower costs per customer in the future for current UGS customers due to the improved economies of scale. The Commission agrees with these points raised by the stipulating parties, and notes that the stipulation is unopposed.

Based on our findings of fact and conclusions of law, the Commission makes the following:

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED, that 1) the Commission approves the parties' stipulation and Agreement of June 27, 2001; and 2) the proposed acquisition of UGS operations by QGC is approved.

DATED at Salt Lake City, Utah, this 3rd day of July, 2001.

/s/ Stephen F. Mecham, Chairman

/s/ Constance B. White, Commissioner

/s/ Richard M. Campbell, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary