- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application of QUESTAR GAS COMPANY to Adjust Rates for Natural Gas Service in Utah -------------------- In the Matter of the Application of QUESTAR GAS COMPANY to Adjust Rates for Natural Gas Service in Utah	))))))))	DOCKET NO. 00-057-08 DOCKET NO. 00-057-10 REPORT AND ORDER

ISSUED: May 31, 2001

SYNOPSIS

By this Order, the Commission adopts the Stipulation of Questar Gas Company, the Division of Public Utilities, and the Committee of Consumer Services regarding factors to be considered by Questar Gas Company in purchasing natural gas supplies. Specifically, the Commission adopts the stipulated recommendation that price stability should be a factor to be considered by Questar Gas Company in formulating its gas purchase portfolio, along with the factors of cost and reliability. By this Order, the Commission also directs that if Questar is required to make mark-to-market entries as described by Financial Accounting Standards Board Statement 133, they should be entered as separate, non-interest bearing line items in the 191 account that will not impact customers' rates, nor the Company's net income.

APPEARANCES:

Jonathan M. Duke	For	Questar Gas Company
Kent Walgren, Assistant Attorney General		Division of Public Utilities
Douglas Tingey, Assistant Attorney General		Committee of Consumer Services
Stanley C. Harbuck		Pro se

By The Commission:

INTRODUCTION AND PROCEDURAL HISTORY

On September 20, 2000, in Docket No. 00-057-08, QUESTAR GAS COMPANY (QGC, Questar, or the Company) submitted an Application to the Utah Public Service Commission (Commission) requesting an adjustment to the commodity and supplier non-gas cost portions of its rates. On October 18, 2000, the Commission issued an Interim Order increasing the Company's commodity portion of its rates by $63,290,000 and the supplier non-gas portion of its rates by $185,000 effective October 1, 2000. In that Order, the Commission set a Scheduling Conference which was vacated by the Commission's January 22, 2001 Order.

On December 20, 2000, in Docket No. 00-057-10, QGC filed a second request for a further increase to the commodity portion of its rates by $168,031,000 and to decrease the supplier non-gas portion of its rates by $1,190,000. The Commission approved the proposed rates on an interim basis effective January 1, 2001. On January 12, 2001, a scheduling conference was held in Docket No. 00-057-10 wherein the parties proposed hearing dates in that docket and requested that Docket Nos. 00-057-08 and 00-057-10 be combined. On January 22, 2001, the Commission issued its Order Combining Dockets, wherein the above-entitled applications were combined as requested by the parties.

In the January 12, 2001 Scheduling Conference, QGC, the Division of Public Utilities (Division), and the Committee of Consumer Services (Committee) recommended an initial hearing schedule for the purpose of receiving public comment. Stanley C. Harbuck was also granted intervention. The parties requested that public hearings be held on March 6, 2001, in the Commission hearing room, commencing at 5:00 p.m., with a second hearing to commence March 7, 2001, at 5:00 p.m. in the University of Utah EDNET facility, to accommodate QGC customers located in areas distant from Salt Lake City. A third public hearing was held on April 5, also at the Utah EDNET facility to receive further public comment.

At the scheduling conference, the parties proposed that initial discovery be conducted, issues formulated, and any further hearings proposed at a May 1, 2001 status conference.

Beginning with the initial applications, up to the May 1, 2001 status conference, the parties conducted discovery and investigated issues to be considered in the combined dockets, including discussions on the factors to be considered by the Company in procuring its gas supply. With the exception of the Stipulation discussed below, neither the Division nor the Committee raised issues relating to the above-named dockets. On May 1, 2001, the parties submitted a stipulation to the Commission disposing of the issues in this case and establishing guidelines to be considered by the Company in acquiring natural gas supplies for its customers. A hearing was held to present evidence on the Stipulation on May 14, 2001.

THE STIPULATION

The Stipulation addresses gas procurement standards, recovery of ancillary gas acquisition costs, and accounting for Financial Accounting Standards Board (FASB) Statements 133 and 138. The Commission will address each of these issues in turn.

In previous pass-through dockets, the Commission has considered cost and reliability as relevant factors when determining the prudence of the Company's gas acquisition decisions. In the Stipulation, the parties recommended that the Commission consider price stability as a third factor when reviewing the Company's gas purchase strategies and implementation thereof.

Based on public input received during the public hearings, it is evident that QGC customers experienced significant rate shock from the sudden fly-up of natural gas prices. In past years, the cost of the purchased gas portion of the Company's gas supply portfolio has been based on first-of-the-month price indices and spot-market prices. This has resulted in relatively inexpensive purchased natural gas supplies, but has exposed customers to risk of significant increases in gas costs which could have been mitigated through longer-term purchases, financial instruments, or other alternatives, some of which require some initial investment. Including price stability as a criterion should remove any disincentive to implement such measures.

Because of an increasingly volatile gas supply market, the Commission believes that the Company should consider price stability as a factor to be considered in acquiring its gas purchase portfolio as well as cost and reliability. The Commission will expect QGC to include price stability in its integrated resource planning filings, with input from the Division and the Committee.

Including price stability, as a factor in purchasing gas supplies, may result in the Company incurring certain costs, the recovery of which has not been addressed by the Commission in the past. The Commission agrees with the parties that when costs must be incurred to lock-in longer term gas supplies, in order to provide for gas price stability, such costs should be recovered in the 191 account. The prudence of the amount and necessity of these costs will be reviewed by the Commission in an appropriate proceeding.

Recently, the Financial Accounting Standards Board issued Statements 133 and 138 which directed mark-to-market accounting entries to reflect, on the balance sheet and income statement, the fair market value of certain derivative instruments and hedging activities. As described by Mr. Alan K. Allred in the hearing, such entries are necessary to reflect the proper value of such portfolio inventories which are regarded as investments by marketers or investors who buy and sell such commodities and accrue revenue from such transactions. However, because gas acquisition costs are passed-through to utility customers, Questar does not view these contract rights as investments, and does not expect a return on them.

The Commission notes the assertion of Questar Gas that no mark-to-market entries should be required to accurately reflect the value of gas contract rights on the Company's balance sheet. A gas supply portfolio is not a Company investment from which it expects to profit or incur a loss, but is a resource acquired with direct cost recovery from the Company's customers. Nevertheless, if Questar is required to record mark-to-market entries in its financial records, the Commission directs that appropriate offsetting entries be made in separate non-interest bearing line items in the 191 account such that the FASB 133 and 138 entries have no impact on customers' rates or the Company's net income.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

1. The Stipulation and resulting settlement are just and reasonable and in the public interest.

2. The Commission finds that the Company should consider price stability, as well as cost and reliability, in acquiring its natural gas supplies.

3. The Commission finds that costs involved in acquiring a more stable-priced gas supply are gas costs which should be recorded in the 191 account. Such costs may include, *inter alia*, premiums payable for locking in prices, default and replacement costs, financing, and other credit-related costs, and litigation costs necessarily incurred to provide a more stable-priced gas supply. The prudence of the amount, and necessity of these costs, will be reviewed by the Commission in an appropriate proceeding.

4. The Commission finds that, if the Company is required to make mark-to-market entries, said entries should be reflected in separate non-interest bearing line items in the 191 account which will neither impact customer rates nor the Company's net income.

5. Neither the Division, nor the Committee, raised other substantive issues in these dockets and as such, the dockets should be closed with the signing of this Order.

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

ORDER

1. The Company shall consider price stability as a factor in acquiring its natural gas purchase portfolio. In addition, the Company shall continue to take into account cost and reliability in acquiring its gas supplies.

2. Costs of acquiring a more stable-priced gas supply shall be reflected in the

191 account as gas costs.

3. Mark-to-market entries need not be made for regulatory purposes to accurately reflect balance sheet values of gas contracts. However, if the Company is required to make such entries, they shall be segregated as separate non-interest bearing line items in the 191 account, which have no impact on customers' rates or the Company's net income.

4. The rates approved in the above-entitled dockets are effective October 1, 2000, and January 1, 2001, are hereby made final, and these dockets are closed.

DATED at Salt Lake City, Utah, this 31st day of May, 2001.

/s/ Stephen F. Mecham, Chairman

/s/ Constance B. White, Commissioner

/s/ Richard M. Campbell, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary