

- 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)	<u>DOCKET NO.04-057-04</u>
)	
Application of Questar Gas Company to Adjust Rates for Natural Gas Service in Utah)	<u>DOCKET NO. 04-057-11</u>
)	
Application of Questar Gas Company for a Continuation of Previously Authorized Rates and Charges Pursuant to its Purchased Gas Adjustment Clause)	<u>DOCKET NO. 04-057-13</u>
)	
In the Matter of the Investigation of Questar Gas Company's Gas Quality)	<u>DOCKET NO. 04-057-09</u>
)	
Application of Questar Gas Company for Recovery of Gas Management Costs in its 191 Gas Cost Balancing Account)	<u>DOCKET NO. 05-057-01</u>
)	<u>REPORT AND ORDER</u>

ISSUED: January 6, 2006

SHORT TITLE

Gas Management Cost Application

SYNOPSIS

The Commission approves the Gas Management Cost Stipulation of Questar Gas Company, the Utah Division of Public Utilities and the Utah Committee of Consumer Services, authorizing recovery in rates of a portion of the costs incurred by Questar Gas Company in managing the heat content of the gas supplies delivered to its system commencing February 1, 2005.

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By The Commission:

I. PROCEDURAL HISTORY

Over the past seven years, this Commission has repeatedly addressed issues associated with changes in the heat content of natural gas supplies delivered to Questar Gas Company (“Questar Gas” or “Company”) by affiliate Questar Pipeline Company (“Questar Pipeline”) resulting from the increasing presence on the pipeline system of gas produced from coal seams (“coal bed methane”) in the Ferron area of Emery County, Utah. Our Order of August 30, 2004 (“2004 Order”), in Docket Nos. 03-057-05, 01-057-14, 99-057-20, and 99-057-12, reviewed the prudence of the Company’s decision to manage heat content by removing CO₂ from coal bed methane at a plant located in Castle Valley, Utah (“CO₂ Removal Plant”) that is owned and operated by affiliate Questar Transportation Services Company (“Questar Transportation”).

The 2004 Order concluded Questar Gas failed to prove its decision was prudent. We therefore rejected the carbon dioxide stipulation (“CO₂ Stipulation”) entered into by the Company and the Division of Public Utilities (“Division”) and denied Questar Gas’s request for CO₂ Removal Plant rate recovery. As a result of our decision, Questar Gas refunded approximately \$29 million (\$25 million plus interest) to Utah ratepayers and reduced its rates by \$5 million annually on a going-forward basis effective September 1, 2004. The 2004 Order also indicated our intent to open a separate docket to identify a long-term solution to the concerns raised by increasing volumes of coal bed methane on the Questar Gas system.

A. Docket Nos. 04-057-04, 04-057-11 and 04-057-13

During 2004, Questar Gas filed applications for adjustments to the commodity portion of the Company's rates through the 191 Account in Docket Nos. 04-057-04, 04-057-11 and 04-057-13. Each of these applications noted Questar Gas was seeking rate recovery of costs incurred under its contract with Questar Transportation for operation of the CO₂ Removal Plant.

B. Docket Nos. 04-057-09 and 05-057-01

On September 8, 2004, the Commission initiated Docket No. 04-057-09 by scheduling a hearing "to set dates for technical conferences to discuss the long-term solution to Questar Gas Company's gas quality." A scheduling conference was held on September 16, 2004, wherein interested parties agreed to a procedural schedule and issues to be discussed.

Pursuant to notice, six formal public technical conferences were subsequently held from October 2004 through January 2005. The topics of these conferences included: (1) the changing heat content of gas on the Questar Gas system; (2) the potential for Federal Energy Regulatory Commission ("FERC") resolution of issues related to Questar Pipeline's tariff and gas quality specifications; (3) possible alternatives to address the changing heat content of natural gas; (4) the Green Sticker Program; (5) participants' positions on possible alternatives; and (6) an in-depth review of the three preferred alternatives for managing heat content.

On January 31, 2005, in Docket No. 05-057-01, Questar Gas filed an application for recovery of gas management costs in its 191 Account. On March 1, 2005, the Commission conducted a scheduling conference at which Questar Gas, the Division, the Committee of Consumer Services ("Committee) (hereinafter collectively referred to as the "Parties") and other interested persons discussed scheduling issues in the above dockets and determined filing and

hearing dates for Commission consideration of the issues. Pursuant to the scheduling order, Questar Gas filed its direct testimony on April 15, 2005.

As a result of on-going discovery, investigation, and settlement discussions, the Parties entered into a Gas Management Cost Stipulation (“Stipulation”) filed with the Commission on October 11, 2005. The Stipulation resolves all issues in the pending dockets. As part of the Stipulation, the Parties request the Commission take administrative notice of the information presented in the technical conferences in Docket No. 04-057-09 and admit and incorporate the facts asserted in Questar Gas’s application and written testimony filed in these dockets into the record in support of the Stipulation.

Pursuant to public notice issued on October 11, 2005, an evidentiary hearing was held on the Stipulation on October 20, 2005. At the hearing, Questar Gas, the Division and the Committee each presented expert testimony in support of the Stipulation and responded to questions from the Commission. No one opposed approval of the Stipulation during this hearing. Absent objection, the Commission admitted the Company’s written testimony filed in these dockets, as well as the facts asserted in the Company’s application, as requested in the Stipulation.

Pursuant to the same public notice, a public witness hearing was also held on October 20, 2005. Two witnesses testified during the public witness hearing, one of whom opposed the Stipulation’s allocation of a portion of CO₂ removal costs to industrial customers.

On November 4, 2005, Claire Geddes and Roger Ball filed statements opposing the Stipulation styled Affidavit and Public Testimony of Claire Geddes and Affidavit and Public Testimony of Roger J. Ball, respectively. On November 10, 2005, Questar Gas filed a

memorandum arguing these statements should not be admitted into evidence but noting Questar Gas does not object to their consideration as unsworn public witness statements.

On November 17, 2005, Ms. Geddes and Mr. Ball (hereinafter referred to as “Petitioners”) jointly filed a Request to Intervene. This Request was accompanied by supporting form letters from 188 individuals identifying themselves as customers of Questar Gas. On November 22, 2005, Questar Gas filed its Opposition to Request to Intervene. That same day the Division also filed its Opposition to Request to Intervene. On November 29, 2005, the Committee filed its Response of the Utah Committee of Consumer Services to Request to Intervene, opposing Petitioners’ Request. On December 13, 2005, Petitioners filed their Response to Opposition of Questar Gas Company, the Division of Public Utilities, and the Committee of Consumer Services to Request for Intervention. This Response was accompanied by 146 form letters of support from Questar Gas customers. On December 29, 2005, Petitioners filed Additional Statements in Support of Petitioners’ Request to Intervene, bringing to 712 the number of customer form letters submitted on their behalf. Today, in conjunction with issuance of this Order, we issue our Order on Request to Intervene denying Petitioners’ request.

II. STIPULATION

In the Stipulation, Questar Gas, the Division and the Committee agree Questar Gas is legally obligated to provide safe and reliable gas service to its customers and to: “maintain the heating value established in [its] . . . tariffs and [to] . . . regulate the chemical composition and specific gravity of the gas so as to maintain satisfactory combustion in

customers' appliances without repeated adjustment of the burners.”¹ The Parties further agree Questar Gas must currently manage the heat content of its gas supply within a range representing the overlap between its current and prior tariffed ranges in order to allow customers a transition period in which their appliances can be inspected and, if necessary, adjusted for the different composition of gas that will enter Questar Gas's system once that transition period is over. The Parties agree approval of the Stipulation is in the public interest, is consistent with just and reasonable rates, and will help ensure customer safety. The Parties further agree the operation of the CO₂ Removal Plant, with cost recovery as set forth in the Stipulation, is a reasonable means of accomplishing the necessary heat-content management.

The Parties agree Questar Gas should be granted cost recovery for the management of its gas supplies as follows:

A. Past Costs

Contingent upon approval of the Stipulation and receipt by Questar Gas of the recovery agreed in the Stipulation, Questar Gas will not seek recovery of approximately \$15 million of gas-management costs incurred from January 1, 2003, through January 31, 2005. Due to the \$29 million refund we ordered in 2004, Questar Gas has not recovered any CO₂ removal costs to date. Therefore, approval of the Stipulation would result in zero recovery for all CO₂ removal costs incurred prior to January 31, 2005.

¹ Utah Administrative Code R746-320-2.B.2 (2005).

B. Cost Recovery Beginning February 1, 2005

Rate recovery should be allowed for costs incurred after January 31, 2005. Non-fuel costs are defined as all costs billed to Questar Gas from Questar Transportation (e.g., labor, overhead, materials, supplies, taxes other than income, power, return, depreciation, etc.), except fuel gas costs. Non-fuel costs incurred by Questar Gas to manage the heat content of gas supplies using the CO₂ Removal Plant, with available blending by Questar Pipeline, are approximately \$4 million annually. Questar Gas should recover in rates 90% of the actual non-fuel costs. The fuel needed to operate the CO₂ Removal Plant for Questar Gas will be provided in-kind by Questar Gas and will be passed through to customers on a dollar for dollar basis in the 191 Account. Cost recovery will be for the longer of three years or the date in 2008 when Questar Gas's original ten-year transition period is scheduled to end, but in no event longer than operation of the CO₂ Removal Plant is necessary to accomplish the purpose of the transition period. Any extension of recovery will be contingent upon a Commission order to extend the deadline for the transition period. Parties will work together to present recommendations to the Commission about the ultimate duration of the transition period. Any proposed extension shall be presented to the Commission upon the same terms and conditions provided in the Stipulation.

C. Fuel Gas Charges

1. Questar Gas Fuel. Rate recovery for fuel gas used at the CO₂ Removal Plant to process gas for the Company will be the lesser of 360,000 Dth/year or the actual fuel gas used.
2. Third Party Fuel. All fuel provided by third parties for processing at the CO₂ Removal Plant will be used to keep fuel charges at or below 360,000 Dth/year.

D. Third-Party Revenues

If Questar Transportation should contract with a third-party to process gas at the CO₂ Removal Plant, Questar Transportation will be allowed to keep 100% of the revenues credited to its account from such third-party processing, up to \$400,000 annually. Revenue received by Questar Transportation for third-party processing at the CO₂ Removal Plant that exceeds \$400,000 annually will be credited 50% to Questar Transportation and 50% to Questar Gas. Any such credit to Questar Gas will be recorded in the 191 Account as an offset to costs recoverable from customers.

E. Additional Plant Facilities

The costs of additional CO₂ Removal Plant or pipeline facilities required by Questar Gas or third parties to remove CO₂ from gas supplies will not be borne by Questar Gas's customers.

F. HEAT Customers

Questar Gas will take all commercially reasonable measures to inform low-income customers who qualify for Home Energy Assistance Target ("HEAT") of the necessity to have their appliances inspected and, if necessary, adjusted for the change in gas supply. Questar Gas agrees to provide free furnace inspection and adjustment services and to waive additional rate recovery of its costs to provide such services, for up to 2,000 HEAT or other qualifying customers per year, in addition to the approximately 1,000 customers whose appliances are inspected and/or adjusted annually by the Utah Weatherization Program ("UWP"), for each full year the Stipulation is in effect.

G. Allocation of Gas Management Costs

The costs associated with the CO₂ Removal Plant as provided in the Stipulation will be allocated between sales and transportation customer classes using the non-gas revenue requirement identified in Questar Gas's Barrie L. McKay – Rate Design – Exhibit 1, lines 1 and 2, in Docket No. 02-057-02. If the Commission, in a general rate case, changes the allocation of the final revenue requirement between the sales and transportation classes as provided in this Stipulation, the Parties agree that the new class allocation will be used.

III. BACKGROUND

A. Testimonial Evidence

At the evidentiary hearing on the Stipulation on October 20, 2005, three expert witnesses, one each from the Company, the Division, and the Committee, testified in support of the Stipulation. No party or person appeared in opposition to the Stipulation.

In its testimony, Questar Gas provided information regarding the process throughout the 1990s resulting in increasing volumes of coal bed methane on the Questar Gas system. The Company noted its intent throughout the process leading to the Stipulation was to follow a decision-making framework that it believed the Commission had promulgated in previous Orders relating to coal bed methane.

The Company stated its objective was to reliably manage the heat content of the gas on its system within a customer-safe range at the least cost. Questar Gas noted the Commission's prior concern that Questar Gas may not have explored various alternatives and therefore set about through the technical conference process, in cooperation with the other

participants, to identify and evaluate fourteen different alternatives. Mindful of the Commission's prior concerns about affiliate interests, the Company engaged in a process intended to show that it recognized potential affiliate conflicts, minimized them, and placed the customers first in its decision-making. In working through this process, the Company responded to over 23 sets of data requests from the Division and Committee totaling over 400 questions and producing nearly 1,000 pages of studies, analysis and information comparing the various alternatives.

Questar Gas noted that at the time of filing its application the Company supported what it believed to be the most cost-effective alternative identified during the technical conferences: precision blending with CO₂ Removal Plant backup for seven months of the year. This and a second alternative, year-round operation of the CO₂ Removal Plant, were identified in the technical conferences as the preferred alternatives having essentially identical costs over the anticipated transition period.² During a period of four to five months after the filing of Questar Gas's direct testimony, the Parties engaged in vigorous, difficult and prolonged discussions in which the outside experts retained by the Division and Committee participated. As these discussions continued, Questar Gas realized that, due to the opportunity for revenue credits and receipt of fuel gas in-kind, the least cost approach would be to operate the CO₂ Removal Plant year-round with increased processing of gas for third parties. Therefore, the Company adopted this approach as its preferred alternative. Questar Gas communicated its position to the Division

²The Commission notes that both of these alternatives would require customers to inspect their gas appliances and adjust them as necessary. Indeed, all but a few of the fourteen different alternatives analyzed by participants would have required such inspection and adjustment.

and Committee, and the Parties eventually settled on the Stipulation currently before the Commission.

In written testimony filed with the Commission on April 15, 2005, and admitted into evidence without objection at hearing, Questar Gas states the changes in gas supplies entering its system were beyond both the Company's and its affiliates' control. Coal bed methane supplies represent a major new source of natural gas in the Rocky Mountain region. This gas is needed to replace declining supplies of more traditional gas. Although the region's pipeline system developed as a closed system, the Natural Gas Policy Act and the FERC's open access policies have transformed the entire interstate pipeline system, fully integrating the Rocky Mountain region into the national market.

According to the Company, this interconnectedness means the sources of coal bed methane within the Rocky Mountain region are now served by the same interstate natural gas pipeline grid that delivers gas to the Questar Pipeline system. This grid is operated by multiple pipeline companies and is expanding to transport gas from new coal bed methane wells. As this expansion continues, the likelihood of additional coal bed methane reaching Questar Pipeline's system, and thus Questar Gas's system, is very high. Due to large proven reserves in the area, coal bed methane will likely provide a significant portion of the gas Questar Gas receives from both Kern River and Questar Pipeline in the future; without these reserves, the price Questar Gas pays for natural gas would increase significantly.

Questar Gas notes the development of large quantities of coal bed methane geographically near Questar Gas's system has reduced the market price of all gas supplies purchased by the Company, saving customers approximately \$30 million in purchased gas costs

from October 1998 through December 2004, and \$12 million from January 2003 through December 2004. In addition, the availability of coal bed methane and the construction of Mainline 104, which resulted from the development of coal bed methane, allowed Questar Gas to realize additional savings of approximately \$3 million per year. Furthermore, Questar Gas's decision not to go to the FERC in an attempt to keep coal bed methane off of Questar Pipeline has avoided costs of from \$8 to \$18 million per year that would have been required to process Company-owned gas to allow it to be transported on Questar Pipeline with new gas quality requirements. Because all of these identified savings continue into the future, it would be imprudent for Questar Gas not to plan to accept increased quantities of coal bed methane.

Due to the safety concern raised by the change in the heat content of gas supplies being delivered to Questar Gas, the Company, in concert with the Division and the Committee, initially identified and analyzed fourteen alternatives to provide safe, reliable service to customers at the lowest reasonable cost. The Company's decision-making matrix evaluated each alternative on the basis of safety, reliability, implementation, cost, and potential affiliate conflicts. Precision blending of gas streams on Questar Pipeline's southern system with CO₂ removal as a backup, year-round CO₂ removal, and precision blending with Kern River supplies as a backup were identified by technical conference participants as the three alternatives most worthy of additional consideration. However, reliance on Kern River backup was ultimately rejected due to the unavailability of no-notice service from Kern River, which would undermine the Company's ability to provide sufficient gas supplies to customers in the event precision blending failed.

The Company believes it addressed the Commission's affiliate relationship concerns by identifying the potential conflict raised by Questar Transportation's ownership and operation of the CO₂ Removal Plant and then mitigating any conflict by requiring that Questar Gas's costs under its contract with Questar Transportation be no higher than if it owned and operated the plant itself. Questar Gas noted these costs are in fact lower than if the plant were owned and operated by an unaffiliated third party, an assertion no other party controverted.

In testimony at hearing, the Division stated its belief that the Stipulation represents a reasonable compromise among the Parties, produces just and reasonable rates, and equitably balances the interests of ratepayers and Questar Gas's shareholders. As such, the Division concludes the Stipulation is in the public interest. The Division believes Questar Gas has met the requirements outlined in the 2004 Order to identify its objective and alternatives to meet that objective, to define the method and criteria by which it would evaluate those alternatives, and to properly document the process by which it reached its ultimate decision.

The Division believes gas supply safety is a legitimate concern and concurs with the Commission's prior conclusion that operation of the CO₂ Removal Plant protects Questar Gas customers. Based on its own extensive analysis and participation in the technical conferences, the Division concludes operation of the CO₂ Removal Plant with recovery of associated processing costs as specified in the Stipulation is warranted.

In evaluating the process by which Questar Gas determined its preferred alternative, the Division noted that Questar Gas proposed its decision-matrix of conditions and criteria to compare and evaluate each alternative. This matrix was discussed and modified over the course of several of the technical conferences such that the Division believes it represents a

reasonable method of evaluation. Similarly, the Division conducted its own analysis of the alternatives and engaged an independent consultant to assist in that evaluation. The Division's analysis failed to identify any alternatives that provided the same level of safety and reliability at a lower cost than the CO₂ Removal Plant. This led the Division to conclude that operation of the CO₂ Removal Plant during the transition period was a reasonable way to meet the defined objectives of providing safe, reliable gas service to Questar Gas customers. Because of the safety concerns raised by the presence of coal bed methane in the system, and the analytical process undertaken by Questar Gas and all of the participants, the Division believes operation of the CO₂ Removal Plant in accordance with the terms of the Stipulation is a reasonable solution that achieves the objective of safe, reliable gas service and is in the public interest.

At hearing, the Committee noted that its own retained expert concluded the presence of coal bed methane on Questar Gas's system results in an increased safety risk for customers using gas furnaces and water heaters. The Committee participated in the technical conferences and, along with its retained expert, in negotiations leading to the Stipulation. Following negotiations, the Committee held three meetings at which it deliberated on the Stipulation. At the conclusion of its own extensive analysis and deliberations, the Committee concluded the Stipulation results in a fair and reasonable compromise of all the issues in these dockets and is in the public interest.

The Committee identified two factors that led it to conclude that circumstances had changed since the prior CO₂ dockets. First, coal bed methane now represents between 25 and 40% of Questar Gas's overall market purchases, a significant increase from the less than 5% level existing at the time of the Committee's previous opposition to recovery of CO₂ removal

costs. This increasing reliance on coal bed methane to meet customer demand led the Committee to re-evaluate its prior view that coal bed methane is transported on the pipeline system for the benefit of Questar Pipeline with little corresponding benefit to Questar Gas's customers. Second, the Committee notes the compelling evidence submitted by the Company showing that a combination of blending and diverting coal bed methane into the Kern River system would not entirely eliminate the need to process the gas in order to protect Questar Gas customers. The Committee thus concluded that CO₂ removal is the most effective remedy available for dealing with this situation.

The Committee believes two major features of the proposed settlement are important. The first is Questar Gas's abandonment of its claim to past and interim gas management costs in return for the ability to recover the majority of its future costs for the next three years. Because of continuing concerns about affiliate interests, the Committee believes only partial recovery of the Company's gas management costs is justified such that Questar Gas must give up all claims to recovery of past CO₂ processing costs in any settlement in the current dockets. Second, under the Stipulation's revenue sharing and in-kind fuel provisions relating to processing operations for third parties, customers will save an estimated \$1.3 million annually. Excluding past and interim gas management costs and including various credits or benefits agreed in the Stipulation, the Committee calculates that 59% of the estimated costs associated with CO₂ removal from January 1, 2003 through 2008 will be borne by Questar Gas.

The Committee also believes the rate allocation across customer classes provided in the Stipulation is reasonable. Under the Stipulation, residential and small commercial customers will bear approximately 95% of the gas management costs assigned to customers.

The Committee believes two factors justify charging the remaining 5% to large industrial and commercial customers. First, a significant number of residential and small commercial customers have already had their appliances inspected and adjusted as necessary but they, like the large industrial and commercial customers, will be required to pay a portion of the CO₂ removal costs going forward. Second, given Questar's evidence indicating the availability of coal bed methane has had a dampening effect on gas prices in the local market, large and small customers alike have derived a benefit from the availability of coal bed methane and so should share in the cost of safely bringing that gas to market.

In response to questions from the Commission, Questar Gas reaffirmed that portion of the Stipulation in which Parties agree the alternative of going to the FERC to keep coal bed methane off Questar Pipeline is not a viable alternative. The primary reason the Parties chose not to pursue this option was the risk that doing so might create additional costs for customers and the likelihood that any approach to FERC would not be successful. Questar Gas also confirmed its intent under Stipulation paragraph 9(f) to provide, within the terms of the Stipulation, any identified low-income customer, not just HEAT customers, free furnace inspection and adjustment services, and to provide such services with its current work force at no additional cost to ratepayers.

The Company pointed out the Parties have agreed to procedures to be used to extend the terms of the Stipulation and stated its belief that, depending upon progress made during the next three years, the Stipulation may have to be extended two years to 2010. The Division noted the Green Sticker Accord provides for a series of surveys to permit the Parties to determine on an annual basis how many people have yet to have their appliances inspected and

to identify any trends in the inspection process. This will enable the Parties in the 2008 time frame to recommend to the Commission whether the transition period needs to be extended.

The Company then addressed the Commission's questions regarding the rate allocation procedure outlined in paragraph 9(g) of the Stipulation. The Company provided an exhibit that showed how the Utah costs would be allocated between sales and transportation customers, noting transportation customers would bear less of the CO₂ removal costs under the proposed Stipulation than would have been the case under the prior CO₂ Stipulation. Questar Gas stated its aim to arrive at simply "two pots", a sales rate and a transportation rate, using the non-gas revenue requirement identified in the Questar Gas exhibit referenced in paragraph 9(g). The Committee noted there has probably been some migration from the transportation class to the sales class since the last rate case and believes the agreed cost allocation is a fair outcome given the Committee's aim of allocating the costs under the Stipulation to all customers.

The Parties explained the benefits anticipated from third-party processing and acknowledged that capping the fuel usage to be recovered in rates by Questar Gas for processing was a benefit and that revenue from third-party processing was a potential benefit that made this alternative preferable to precision blending with CO₂ removal as a backup. The Division and Committee noted the rate recovery provided in the Stipulation was within the range of recovery those parties would have recommended had the matter gone to an adversarial proceeding.

The Company also clarified that the presence of coal bed methane on the Questar Pipeline system has created a basis difference between Questar Pipeline's gas prices and those on the Kern River and Northwest Pipeline systems. It is this difference that accounts for the millions of dollars Questar Gas has identified as savings to Utah customers attributable to the

presence of coal bed methane on its system. The Committee noted it is not only this price component but also the fact that coal bed methane now represents an additional source of supply adjacent to the Wasatch Front that led the Committee to conclude that circumstances have changed since prior dockets.

The Company stated that, if approved, the estimated costs of CO₂ removal under the Stipulation would increase a typical customer's bill by approximately 50 cents per month. All witnesses testified that customers were not being asked to pay twice to deal with the changing heat content of gas on Questar Gas's system, once through appliance adjustments and once through increased rates. Customers should have their appliances inspected and adjusted periodically anyway and customers had already received a benefit of lower cost gas through the development of coal bed methane near Questar Gas's distribution area.

Questar Gas also confirmed that its inspectors are finding substantial safety issues during their inspections of customer appliances. The Company also noted the required inspection, and adjustment if necessary, is a small part of what Questar Gas already asks their customers to do; namely, to have their appliances inspected every year or every other year because that is when many safety issues are identified.

B. The Technical Conferences

As detailed in the Company's testimony, as well as in its application filed January 31, 2005, and admitted into evidence without objection at hearing, Questar Gas, the Division, Committee, Commission staff and other interested persons engaged in a series of technical conferences intended to identify, evaluate, and select a preferred alternative to address the safety concerns caused by the presence of coal bed methane on the Questar Gas system.

The first technical conference focused on the changing heat content of gas on the Questar Gas system. The agenda included the following discussion items: (1) evolution of the changing heat content of gas on the Questar Gas system; (2) demonstration of unsafe appliance operation when non-interchangeable gas is burned; (3) set point; (4) safety standards; (5) changing FERC regulations; (6) cost recovery for management of heat content; and (7) participants' positions on the issues.

During this technical conference, participants reviewed combustion principles; the impact on appliance performance of burning non-interchangeable gas; the approximate interchangeability ranges; the evolution of the interstate pipeline grid in the Rocky Mountain region and its ties to the national market; national pipeline heat-content specifications; Questar Pipeline efforts to deliver gas that meets the specifications of interconnecting pipelines and Questar Gas; natural gas producing basins and their respective gas compositions; historical basin heating values; Price, Utah-area coal-seam production; the Btu ranges of various types of natural gas; an explanation of the Wobbe Index and how it is used to determine gas interchangeability; a comparison of the composition of coal bed methane, Uintah Basin gas and Northern Gates gas; the interchangeable range for Questar Gas's transition from pre-1998 to post-1998 appliance set points; Btu ranges for producing basins serving Questar Pipeline; the historical Btu trends for Salt Lake City; the Btu delivery ranges for Questar Gas from 1995 to the present; the heat content of Kern River gas delivered to Questar Gas from 1999 to September 2004; and a comparison of Questar Gas's new Btu set points to 26 urban areas showing that Questar Gas's new set points were well within the set-point range for local distribution companies ("LDC") throughout the country while the old set point was significantly higher than the 26 other areas.

Questar Gas also provided a demonstration of natural gas appliance safety in Questar Gas's lab that showed dangerously elevated levels of carbon monoxide and unstable flame conditions resulting from appliance settings that are incompatible with the gas stream. Questar Gas then summarized its position regarding the presence of coal bed methane on its system as follows: (1) an appliance not properly adjusted for the heat content of natural gas supplied to it creates a safety hazard; (2) Questar Gas and Questar Pipeline constantly manage the heat content and gas composition of their natural gas supplies to provide safe, reliable gas supplies that meet the interchangeability requirement of the overlap between Questar Gas's old and new set points; (3) pursuant to FERC regulations issued since 1985, Rocky Mountain pipelines have adopted national interstate grid natural gas-quality specifications; (4) Questar Gas's two major pipeline suppliers, Questar Pipeline and Kern River, both deliver supplies of natural gas with a heat content that is aligned with the national market; and (5) natural gas markets beyond the Rocky Mountains have a major influence on natural gas composition and the physical flows of Rocky Mountain production.

The technical conference concluded with a discussion of FERC's policy favoring competition that prohibits discrimination by a pipeline in favor of any customer, including affiliates; an overview of the FERC orders that over time have led to a more competitive open-access environment on interstate pipelines; pipeline regulation pre-1985 when pipelines were not common carriers and typically provided bundled transportation and sales service; and a discussion of FERC Order 2004 that reiterated pipelines could not wield market power over gas markets and give undue preference to any customer, including the pipeline's affiliated LDC.

At the second technical conference, the topics for discussion included possible FERC resolution of issues related to Questar Pipeline's tariff and gas quality specifications, additional review of heat-content specifications, and a framework for analysis of alternatives for managing the heat content of natural gas delivered to the Company's customers. Questar Gas summarized the FERC's natural gas interchangeability docket and the Natural Gas Council's proposal to study gas quality and interchangeability. This discussion also addressed whether a proceeding at the FERC should be initiated to address natural gas heat-content issues on Questar Pipeline and if so, by whom. The Company's position was that: (1) there is little likelihood of a favorable outcome at the FERC; (2) there is a substantial risk of unintended adverse results, e.g. Company-owned production that may not meet Questar Pipeline's tariff specifications may be restricted unless processed at great expense to Questar Gas's customers; (3) any FERC action should be pursued against both Kern River and Questar Pipeline and the requested relief should be an assurance that gas delivered to Questar Gas meets its interim and prospective interchangeability ranges; and (4) a party other than Questar Gas should bring any FERC action in order to avoid potential affiliate-interest issues. The Company indicated that, despite its position, Questar Gas was willing to initiate a proceeding at the FERC to request that Questar Pipeline's tariff be changed or enforced in a manner to require that coal bed methane could not be transported on the pipeline, if the participants requested that it do so.

The Company then described the process by which it proposed to determine the best alternative for managing the heat content of its gas supplies on a going-forward basis. This process was based on the criteria identified in the Commission's 2004 Order and included a

Decision-Making Matrix based on the Company's objective to manage gas supplies for safe and reliable gas service for customers at the lowest reasonable cost.

The criteria to be used in evaluating the alternatives included: (1) safety, defined as ensuring that gas supplies delivered to customers will burn safely and efficiently; (2) reliability, defined as ensuring sufficient supplies and transport capacity are available to meet customer demand; (3) implementation, defined as factors that impact the ability to successfully implement the alternative; and (4) cost. Additionally, if an affiliate is involved, then the Company must recognize the potential affiliate conflict, minimize the conflict, prioritize customers' interests first, and demonstrate that there has been no undue influence.

At the third technical conference, the topic of discussion was possible alternatives to address the changing heat content of natural gas. These alternatives included: (1) taking no action; (2) FERC action; (3) shutting in city gates; (4) appliance adjustment; (5) paying producers to shut in their gas supplies; (6) gross blending; (7) precision blending; (8) propane injection; (9) CO₂ removal using the existing CO₂ Removal Plant; (10) four alternatives involving service from Kern River; and (11) other (which was an invitation for any other alternatives from any of the other parties). The Company presented its analysis of each of these fourteen alternatives using the criteria outlined above. Included for each alternative was a physical and business description, a list of pros and cons, a risk matrix, capital-cost estimates, and first-year cost-of-service.

The Company provided all participants a "Summary of Alternatives" handout that analyzed each alternative. Additionally, the Company included the first step in the affiliate-conflict analysis for each alternative and explained that once the alternatives were narrowed, a

complete affiliate analysis would be conducted. The Company invited the input of any participant on these or any other alternatives.

At the fourth technical conference, Questar Gas presented an overview of the Green Sticker Program and specifically addressed the responsibilities of the Company in connection with heat-content of gas and appliance adjustment, namely: (1) to maintain the heat-content of gas within the Commission-approved range; (2) to educate customers about the approved range; and (3) to encourage customers to periodically have appliances inspected. The Rocky Mountain Gas Association (“RMGA”) then provided a position statement explaining the mission of RMGA; its position on safety of natural gas appliances; and the role of heating contractors in assuring that appliances they install, inspect, or repair are adjusted to the heat-content range specified in the LDC’s tariff. Representatives from various municipal building inspectors; the Division of Occupational and Professional Licensing (“DOPL”); the UWP; and individual heating, ventilation and air conditioning (“HVAC”) contractors were in attendance. Some of them made statements regarding the issues discussed in the conference.³

The topics for discussion at the fifth technical conference included the positions of participants on the alternatives previously outlined by Questar Gas, any other alternatives, the narrowing of alternatives, the process for refining the remaining alternatives, and a time line for

³During the course of the technical conferences, a group was formed to study the Green Sticker Program. This group, which included the Company, the Division, the Committee, DOPL, the RMGA, the UWP, municipal building code inspectors, and individual HVAC contractors, eventually entered into the Green Sticker Accord. The Accord recognized that appliances not properly adjusted for the heat content of gas delivered to Questar Gas’s system can pose a safety risk and that a transition period during which Questar Gas managed the heat content of its gas supplies (so that appliances set to either the prior or new heat-content ranges would operate safely) was necessary for customers to get their appliances checked and, if necessary, adjusted to the new range. The signers of the Accord agreed to work together to encourage customers to have their appliances inspected and, if necessary, adjusted by qualified heating contractors by the summer of 2008.

decision. The Commission asked all participants to provide input on narrowing the alternatives. The Division distributed three handouts entitled “Precision Blending Issues,” “Need for CO₂ Removal Plant,” and “Deliveries at Indianola, Payson and Goshen.” The Company presented its three preferred alternatives which, with some slight variation, were the three alternatives the participants agreed needed further analysis: (1) precision blending with the CO₂ Removal Plant as a back-up; (2) reliance on the CO₂ Removal Plant; and (3) precision blending with the Kern River backup using Feeder Line 85. No participant presented a different alternative.

The sixth technical conference was held to provide a more thorough analysis of these three preferred alternatives. Questar Gas compared the three alternatives in greater detail using the safety, reliability and implementation criteria. The Company stated it would not support the precision blending with Kern River backup alternative because of the unavailability of intraday transportation service and gas supplies, as well as the cost risk of very high demand charges associated with securing gas supplies if they were available.⁴

Questar Gas then presented an expanded cost analysis for the three preferred alternatives for various time frames ranging from 4 to 15 years. This analysis showed the costs of the CO₂ Removal Plant and precision blending with the CO₂ Removal Plant as a backup were approximately equal in the near term, but that precision blending with CO₂ removal as a backup had slightly lower costs over longer time periods. The cost of precision blending with Kern River gas supplies as a backup was significantly more expensive.

⁴Put another way, Questar Gas believed this alternative should be removed from further consideration because of its unreliable gas supply and cost risk.

The Company also presented a detailed affiliate analysis of the three preferred alternatives that identified potential affiliate conflict, explained how the possibility of a conflict could be minimized, showed how customers' interests would be prioritized first, and showed there would be no undue affiliate influence.

C. Public Witness Testimony and Statements

The final portion of the record in these dockets is the public witness testimony provided at hearing on October 20, 2005, and the two late-filed statements of Mr. Ball and Ms. Geddes filed on November 4, 2005. Two individuals, H. Sam Neslen and Roger J. Swenson, appeared at the public witness hearing providing sworn testimony. Mr. Neslen's testimony did not address the Stipulation, but rather addressed more general issues related to pricing of natural gas to producers of electricity. Mr. Swenson appeared on behalf of US Magnesium Corp ("US Mag"). Mr. Swenson testified that US Mag does not oppose the Stipulation, except for allocating a portion of the costs of the CO₂ Removal Plant to industrial customers. US Mag believes the costs of CO₂ removal should be borne by those customers whose appliances require adjustment due to the changes in the heat content of gas supplies delivered to them. Large industrial customers such as US Mag require no adjustment in order to safely burn coal bed methane.

Mr. Ball's statement complains about the notice of hearing and the filing of the Stipulation. Mr. Ball provides background on his former employment as administrative secretary and director of the Committee and his view that the Committee has not vigorously and effectively represented consumers' interests in this proceeding. Mr. Ball also states that he does not believe the Division has fulfilled its duty to illuminate all aspects of this matter.

Mr. Ball argues the prudence of the CO₂ Removal Plant has not and can not be demonstrated on a going forward basis because construction and operation of the plant was not prudent in the first instance. He also challenges the agreement by Parties to the Stipulation that going to the FERC to prevent coal bed methane from entering Questar Gas's system is not viable. In addition, Mr. Ball argues the Stipulation does not adequately address: (1) the compensation due from Questar Pipeline to Questar Gas customers for money paid in prior years to support pipeline construction and operation; (2) the viability of using a second pipeline, already constructed by Questar Pipeline, to transport coal bed methane and thereby keep it off the Questar Gas system; and (3) the fact that approval of the tariff revision in Docket No. 98-057-T02 may have been a mistake in so much as it has resulted in Questar Gas wanting customers to twice pay for costs caused by Questar Pipeline, once to process the coal bed methane and again to adjust their appliances.

Mr. Ball requests his statement be admitted into evidence. He acknowledges his absence from the public witness hearing rendered him unavailable for cross-examination, but argues he was not present for the public witness hearing because he was not aware that any hearings had been scheduled until after hearing on the Stipulation. He also urges the Commission not to take administrative notice of, nor consider, the various documents produced and distributed at the technical conferences held in Docket No. 04-057-09, nor the direct testimony on behalf of Questar Gas, discovery questions and answers, or the opinions of the Division's and Committee's analysts produced in Docket No. 05-057-01.

Mr. Ball argues the documents distributed during the technical conferences are not filed under the Commission's docket index, nor have they been readily available to the

public. In addition, he notes the comments of participants at those conferences were neither made under oath nor contemporaneously transcribed or recorded. He also notes that none of the discovery questions and answers exchanged between Parties to the Stipulation are available via the docket index on the Commission's website and that this discovery has thus far been opaque to members of the public. Finally, Mr. Ball argues that none of the Division's or Committee's staff or consultants, save two, appeared, were sworn, or were available for cross-examination during hearing on the Stipulation.

Ms. Geddes also argues the prudence of the Questar Gas decision to construct and operate the CO₂ Removal Plant remains unproven. In addition, she challenges the terms of the Stipulation that would provide 90% recovery of the plant's fixed operation costs while also awarding Questar Transportation the first \$400,000 in profits received annually from third-party contracts.

IV. APPLICABLE LEGAL STANDARD

Settlement of matters before the Commission is encouraged at any stage of proceedings.⁵ The Commission may approve a stipulation or settlement after considering the interests of the public and other affected persons if it finds the stipulation or settlement in the public interest.⁶ In reviewing a stipulation, the Commission may also consider whether it was the result of good faith arms-length negotiations.⁷

⁵ Utah Code Ann. § 54-7-1. *See also Utah Dept. of Admin. Services v. Public Service Comm'n*, 658 P.2d 601, 613-14 (Utah 1983).

⁶ *Id.*

⁷ *Utah Dept. of Admin. Services*, 658 P.2d at 614, n.24.

In conducting a prudence review, we must analyze the decision-making process in light of the circumstances and the facts that the utility knew or reasonably should have known at the time of the decision.⁸ We do not substitute our judgment in hindsight for the reasonable decisions made by management,⁹ nor do we determine that a reasonable decision is imprudent merely because we conclude that a better, reasonable alternative was available for consideration or action. Our 2004 Order specifically addressed this issue in the context of Questar Gas's prior decision to remove CO₂ from coal bed methane:

One would expect a prudent gas distribution company faced with the risk of [a] safety issue of the magnitude faced by Questar's distribution customers to clearly identify its objective; to identify alternatives to meet the objective, to define the method and criteria by which it would evaluate the alternatives and to record or document the process in support of the ultimate decision. . . .

In making this determination, we believe that ratepayers are best served by reserving wide latitude to utilities' managerial experience and technical expertise. We therefore do not promulgate a checklist of actions which, if followed, might inoculate a utility's action against a finding of imprudence. Instead, we simply require substantial evidence that the utility's decision-making process, under the totality of the circumstances, was not the product of a conscious or unconscious favoring of affiliate over ratepayer interests. The utility's and its customers' interests must be paramount and affiliate interests subordinate.¹⁰

These criteria were recently codified with the addition of subsection (4) to Utah Code Ann. § 54-4-4. This subsection specifically provides that, in considering prudence, the

⁸ *In the Matter of the Application of Mountain Fuel Supply to Adjust Rates for Natural Gas Service in Utah*, Docket Nos. 91-057-11 and 91-057-17 (Sept. 10, 1993).

⁹ *Logan City v. Public Utilities Commission*, 296 P.2d 1006 (Utah 1931).

¹⁰ 2004 Order at 19-20 (footnotes omitted).

Commission shall “focus on the reasonableness of the expense . . . judged as of the time the action was taken”¹¹ and shall “determine whether a reasonable utility, knowing what the utility knew or reasonably should have known at the time of the action, would reasonably have incurred all or some portion of the expense, in taking the same or some other prudent action”.¹²

We therefore assess the prudence of Questar Gas’s actions going forward from February 1, 2005¹³ by asking whether an unaffiliated utility acting in the best interests of its customers, in light of the circumstances and possessing the same knowledge which Questar Gas had or should have had at the time, could reasonably have responded the way Questar Gas has responded in selecting operation of the CO2 Removal Plant as the best alternative to manage the changing heat content of its gas supplies in light of current and anticipated conditions.

Where potential exists for conflict with affiliate interests, we do not presume affiliate transactions to be reasonable.¹⁴ We view customers’ interests as paramount and require in all instances that those interests not be subordinated to the interests of affiliates.¹⁵ We are guided in this matter by our October 20, 2004, Order on Request for Reconsideration and Clarification in Docket Nos. 03-057-05, 01-057-14, 99-057-20, and 99-057-12 :

¹¹ See Utah Code Ann. § 54-4-4(4)(a)(ii).

¹² See *id.* at § 54-4-4(4)(a)(iii).

¹³We need not assess the prudence of the Company’s actions prior to February 1, 2005 since, pursuant to the Stipulation, the Company has agreed to forego request of any cost recovery prior to this date.

¹⁴*US West Communications, Inc. v. Public Service Commission*, 901 P.2d 270, 274 (Utah 1995).

¹⁵ *E.g., In the Matter of the Analysis of an Integrated Resource Plan for Mountain Fuel Supply Company*, Docket No. 91-057-09 (Sept. 26, 1994), p. 3.

We anticipate where such conflicts can arise and utility seeks recovery of costs affected with such potential conflicts, the utility understands its burdens of proof and persuasion and takes steps (which enable it to present evidence of its actions) showing how these conflicts were recognized, were minimized and how the utility prioritized its customers' interests and was not unduly influenced by its affiliate interests in the actions it took.¹⁶

V. DISCUSSION, FINDINGS, AND CONCLUSIONS

A. Public Witness Procedural Challenges

As an initial matter, we consider whether to regard the statements submitted by Ms. Geddes and Mr. Ball as sworn or unsworn testimony, examine the adequacy of our notice of the hearings on the Stipulation, and address our decisions to take notice of information presented at the technical conferences and to admit Questar Gas's pre-filed testimony, as well as the information contained in its application.

Ms. Geddes and Mr. Ball are not parties in any of the present dockets. However, Ms. Geddes has previously participated in public witness hearings before the Commission. In addition, until March of this year, Mr. Ball regularly participated, as long-time Committee administrative secretary and staff director, in Commission proceedings and is familiar with the Commission's procedures. Despite their familiarity with Commission proceedings generally, and Mr. Ball's familiarity with this proceeding in particular, neither of these individuals sought intervention or discovery prior to the hearing on the Stipulation, nor did they file testimony or otherwise participate as a party. As noted above, we have denied their joint Request to Intervene which was filed almost a month after the hearing on the Stipulation and nearly two weeks after

¹⁶ Order on Request for Reconsideration or Clarification, Docket Nos. 98-057-12, 99-057-20, 01-057-14 and 03-057-05 (Oct. 20, 2004) at 3.

submission of their late-filed public witness statements. They are not parties to these dockets and appear solely in the role of public witnesses.

Pursuant to Commission Rule 746-100-10.F.1, public witness testimony may be sworn or unsworn. If sworn, the testimony is subject to cross-examination and the Commission may make findings based upon the testimony. If unsworn, cross-examination is not permitted and no finding may be based on the testimony. The statements of Ms. Geddes and Mr. Ball were not presented at hearing and were not subject to cross-examination. We therefore conclude these statements are properly viewed as unsworn public witness statements and we treat them accordingly.¹⁷

We issued notice of these hearings on October 11, 2005, nine days prior to the hearings. No minimum notice period is set forth in the Administrative Procedures Act. Rule R746-100-10.A specifies the Commission will give at least five days notice but may decide upon a shorter period. Rule 6(d) of the Utah Rules of Civil Procedure also states not less than five days notice should be given unless otherwise ordered. Notice of the hearings on the Stipulation clearly complied with these requirements.

Furthermore, the hearing in this case was on a settlement proposed by all of the parties in this proceeding. Before approving a settlement, we are required to notify all parties to a proceeding of the settlement and to afford them an opportunity to provide evidence or argument in opposition to it. Utah Code Ann. § 54-7-1(3)(c) and (e)(ii)(C). Because the

¹⁷We note, however, that even if we were to admit these statements into evidence as sworn testimony, such testimony would prove unpersuasive in light of the overwhelming weight of competing evidence in the record. Therefore, whether these statements are treated as sworn testimony or unsworn opinion is in fact immaterial to our findings and conclusions contained herein.

Stipulation was between all parties, the Commission was not even required to give notice.

Nonetheless, public notice was given.

Mr. Ball complains it is unlikely customers would have known of the public witness hearing, stating that although the Commission's docket index indicates that the notice of hearing was issued on October 11, 2005, the index also indicates that the Stipulation was not filed, and therefore not available for public review, until October 13, 2005. In fact, the Commission's file shows that the Stipulation was filed at 11:06 a.m. on October 11, 2005. If Mr. Ball had contacted the Commission at anytime after the notice of hearing was issued at 1:52 p.m. on October 11, 2005, the Commission would have provided him with a copy of the Stipulation. Even if the Stipulation was not available on the Commission website until October 13, 2005, this was nonetheless seven days in advance of the hearing in full compliance with any notice requirement in the Administrative Procedures Act, the Commission's Rules of Practice and Procedure Governing Formal Hearings, or the Utah Rules of Civil Procedure.

Furthermore, the Utah Open and Public Meetings Act, U.C.A. § 52-4-1 et seq. (the "Act"), requires posting of written public notice and notice to the press and media representatives. The Commission complied with these requirements; Mr. Ball submits no evidence to the contrary. The Act also encourages electronic notification, a practice which the Commission routinely follows, and which it followed in this case, via an email list subscription service. As prior participants in Commission proceedings, Mr. Ball and Ms. Geddes are undoubtedly aware of this service, yet both failed to avail themselves of its benefits in these dockets. We therefore conclude notice was adequate and proper in all respects.

Mr. Ball's challenge also lacks merit with regard to the Commission's decision to take notice of the information developed at the various technical conferences and to admit the application and written testimony filed by Questar Gas. Each technical conference held in Docket No. 04-057-09 was duly noticed and open to the public. Extensive testimony admitted into the record documents the agenda, presentations, and discussion undertaken at each technical conference. Copies of these presentations were provided as attachments to the Questar Gas application and have been a matter of public record available for review and comment since the application's filing on January 31, 2005. The specific agenda and content of each technical conference was spelled out in great detail within the body of the application. Despite the passage of nearly nine months between the application's filing and hearing on the Stipulation, no party or person challenged the veracity of the application's statement of facts regarding the conduct and content of the technical conferences, nor did any party challenge the authenticity or substantive content of the attachments to the application. Under these circumstances, and absent objection from any party to these proceedings, it is appropriate that we take administrative notice of this information.¹⁸

Finally, Mr. Ball argues the pre-filed testimony admitted into evidence at the request of the Parties was not subject to cross-examination. He is incorrect. This testimony was admitted only after all parties were given the opportunity in open hearing to object to its admission, as is routine Commission practice. No one objected and no one chose to conduct any

¹⁸While we take such notice, we base our findings and conclusions contained herein upon a thorough examination of the entire evidentiary record in these dockets and conclude that, absent any reliance on the noticed material, the overwhelming weight of evidence admitted in these proceedings, including testimony on the Stipulation, pre-filed testimony, and the facts asserted in the application, support both our conclusion that Questar Gas has acted prudently in evaluating and choosing among the available alternatives and our approval of the Stipulation.

cross-examination regarding this testimony. Mr. Ball also ignores the fact that the Commission asked a number of questions of the Parties at hearing regarding the substance of this testimony. This testimony is signed and sworn and was properly admitted.

B. Prudence of Decision to Use CO₂ Removal Plant Operation

In considering the prudence of Questar Gas's decision to use the CO₂ Removal Plant to manage the heat content of its gas supplies since February 1, 2005, we must consider the facts and conditions as they existed at that time. Our prior finding that the Company failed to demonstrate prudence in its decision to contract for construction and operation of the CO₂ Removal Plant during the 1997 and 1998 time frame is relevant only to the extent the same conditions present in 1997 and 1998 continue to be present. Based on the evidence presented in these dockets, it is apparent these conditions have changed.

We were critical in our 2004 Order of the lack of documentation in the Company's decision-making process in 1997 and 1998. We determined that the introduction of coal bed methane into the Company's system could have been the result of Questar Pipeline taking advantage of a business opportunity to transport the gas and that the Company's analysis of possible solutions appeared to be influenced by affiliate considerations. We were troubled by the fact that the contract for operation of the CO₂ Removal Plant was given to an unregulated affiliate of Questar Gas. Finally, we concluded that the Company should have anticipated the safety issue earlier than it did, which may have allowed more time to address the issue and pursue other alternatives, such as keeping coal bed methane off of Questar Pipeline's system through action by Questar Gas at the FERC.

The record in these dockets, on the other hand, indicates that the Company's customers have benefitted from the shipment of coal bed methane by Questar Pipeline and that coal bed methane has become an important component of Questar Gas's gas supplies. Since 2002, coal bed methane has accounted for a significant portion (up to 40 percent) of the Company's annual gas supply purchases, compared to less than 5 percent only a few years earlier.

This increasing presence of coal bed methane on the Questar Pipeline system results from the expansion of the interstate natural gas pipeline grid to transport new coal bed methane from wells throughout the Rocky Mountain region. As this expansion continues, it is very likely that additional coal bed methane will enter Questar Pipeline's system, and thus Questar Gas's system. Therefore, while we previously questioned the initial presence of coal bed methane on the Questar Pipeline system, such questioning is no longer relevant to today's circumstances. The amount of coal bed methane on the interstate pipeline system is increasing and represents an increasingly important source of gas to meet growing customer demand as traditional gas supplies decline.

The record also establishes that having the CO₂ Removal Plant owned and operated by Questar Transportation does not result in any prejudice to Questar Gas or its customers. The costs incurred by Questar Gas are the same as if the plant were owned and operated by Questar Gas. The provisions in the Stipulation that permit recovery of only 90% of non-fuel costs, limit fuel costs to 360,000 Dth/year, require the sharing of third-party processing revenues in excess of \$400,000 per year, and prohibit recovery of costs for additional CO₂ Removal plant facilities assure that the interests of Questar Gas's customers are given priority in

this arrangement. In addition, Questar Gas has agreed to forego request of any recovery of gas management costs incurred prior to February 1, 2005 (the \$29 million previously refunded by order of the Commission and the \$15 million foregone for the period January 1, 2003 through January 31, 2005).

In addition, no Party believes it would be reasonable to pursue actions at the FERC to attempt to keep coal bed methane off of Questar Pipeline. Indeed, it appears that pursuing such actions would be detrimental to Questar Gas customers. Therefore, the fact that Questar Gas did not pursue these potential actions prior to 1999, which gave rise to concerns about affiliate conflicts in prior proceedings, does not give rise to the same concerns in the current context.

Following issuance of our 2004 Order, Questar Gas, the Division, and the Committee undertook a comprehensive investigation and analysis of the benefits and safety concerns associated with the increasing volumes of coal bed methane on Questar Gas's system and of the alternatives available to address those concerns. The series of six technical conferences held in Docket No. 04-057-09 were a primary tool for the exchange of information and ideas among participants, resulting in detailed analysis on a wide range of subjects. The first five of these conferences provided a forum for discussion of such topics as the evolution of the changing heat content of gas on the Questar Gas system, demonstration of unsafe appliance operation when non-interchangeable gas is burned, set point, safety standards, changing FERC regulations, cost recovery for management of heat content, possible FERC resolution of issues related to Questar Pipeline's tariff and gas quality specifications, additional review of heat-content specifications, a framework for analysis of alternatives for managing the heat content of

natural gas delivered to the Company's customers, analysis and discussion of fourteen such alternatives, the Green Sticker Program, the positions of participants concerning the alternatives previously discussed, the process for refining the remaining alternatives, and a time line for decision. Throughout this process, the participants were encouraged to analyze each alternative and to propose other potentially viable alternatives.

At the fifth technical conference, Questar Gas presented its three preferred alternatives. No party presented a different alternative. The sixth technical conference provided a more thorough analysis of the three preferred alternatives, employing safety, reliability and implementation criteria as a basis for comparison. The participants evaluated the estimated cost for each of the preferred alternatives over various time frames ranging from 4 to 15 years and also considered the potential for affiliate conflicts and methods for mitigating any such conflicts. This analysis showed that the costs of the CO₂ Removal Plant alternative or the precision blending with the CO₂ Removal Plant as a backup alternative were approximately equal in the near term, but that precision blending with CO₂ removal as a backup had slightly lower costs over longer time periods. It also showed that the cost of precision blending with Kern River gas supplies as a backup were significantly more expensive.

In addition to these technical conferences, the Division and Committee submitted twenty-three sets of data requests totaling over 400 questions and producing nearly one thousand pages of studies, analysis, and information related to evaluation of the alternatives presented.

The extensive analysis represented by these technical conferences and discovery activities resulted in comprehensive and detailed oral and written testimony by Company, Division, and Committee witnesses. Key within this testimony are the Parties' conclusions that

Utah customers have benefitted financially from the presence of coal bed methane on the Questar Gas system, that approaching FERC to attempt to preclude coal bed methane from the Questar Gas system would not be a viable alternative, and that the affiliate interests which so concerned us in prior dockets have been subordinated to the interests of Questar Gas customers. While any activity involving a Questar Gas affiliate raises legitimate affiliate interest concerns, it is clear that it is the continuing integration of the nation's natural gas pipeline system, not affiliate interests, that is driving the increasing volumes of coal bed methane on the Questar Pipeline and Questar Gas systems. It is equally clear that safety, efficiency, and cost considerations, not affiliate interests, led Parties to conclude that operation of the CO₂ Removal Plant is the preferred course of action during the stipulated transition period.

The Company conducted a transparent decision-making process open to the public and subject to scrutiny by any interested person. Throughout the technical conference process, Questar Gas repeatedly sought input from other parties on how to best address the issues presented by the presence of coal bed methane going forward. No participant challenged the conclusions Questar Gas presented as being prudent and in the best interest of customers, and no participant suggested any alternative as more preferable.

Questar Gas clearly identified its objective to address the safety issue posed by the presence of coal bed methane on its system. The Company identified alternatives to meet this objective, employed reasonable methods and criteria in evaluating the alternatives, and adequately recorded and documented its evaluation. The Company carefully considered potential conflicts between affiliates and placed the interests of its customers before those of its affiliates. This process satisfies the concerns outlined in our 2004 Order. We therefore conclude

that a reasonable, unaffiliated utility, knowing what Questar Gas knew or reasonably should have known, could reasonably have acted the way Questar Gas has acted in choosing to use the CO₂ Removal Plant since February 2005 and thereafter.

Coal bed methane is now an important part of the gas supply purchased by Questar Gas for its customers. However, the use of this gas creates a significant safety risk for customers who have not adjusted their appliances to properly burn this gas. Providing a transition period for customers to have their appliances inspected and, if necessary, adjusted to the range now specified in Questar Gas's tariff is reasonable both because of the uncontested safety concerns and because customers need additional time to complete necessary inspections and adjustments. Given the extensive investigation and analysis undertaken by Questar Gas, the Division and the Committee to identify and compare alternatives for dealing with this risk, we find that operation of the CO₂ Removal Plant in accordance with the terms of the Stipulation provides a reasonable, reliable, cost-effective solution during the necessary transition period.

Based on the findings of fact in the foregoing sections of this Order, we conclude that Questar Gas's use of the CO₂ Removal Plant from and after February 1, 2005 to manage the heat content of its gas supplies is prudent and that the partial recovery of costs provided in the Stipulation is reasonable and in the public interest.

C. Cost Allocation in Accordance with the Stipulation

Paragraph 9(g) of the Stipulation provides for a cost allocation between sales and transportation customer classes consistent with the general allocation of non-gas revenue requirement approved in Questar Gas's most recent general rate case, Docket No. 02-057-02. This allocation will be adjusted in the future consistent with adjustments in future Questar Gas

general rate cases. We find that the allocation of the cost of CO₂ removal among all customer classes, including the allocation of some costs to industrial customers, is reasonable. All customers have benefitted from the development and availability of coal bed methane near Questar Gas's distribution area and should therefore share in the cost of ensuring this gas is safe for use by all customers.

However, we disagree with Questar Gas's stated conclusion that the Stipulation's cost allocation procedure produces only two rates, one each for sales and transportation customers in the aggregate. This approach would charge all sales customers an identical rate for CO₂ removal costs, regardless of their relative responsibility in driving those costs. We find a more reasonable approach, consistent with the terms of paragraph 9(g), is to employ the cost allocations in the referenced exhibit to calculate a schedule-specific gas management cost recovery rate for each listed customer schedule based on anticipated volumes used within each schedule. To accomplish this, we employ the rate calculated for schedule F1 as a proxy for schedules F3 and F4 until such time as a new cost of service study has been completed. This approach is consistent with our oft-stated goal of developing and refining cost-based rates to the greatest extent possible. Viewed in this light, we find that the level of rate recovery provided in the Stipulation for the Company's gas management activities is just and reasonable.

D. Approval of the Stipulation

The Parties to the Stipulation represent the interests of Questar Gas, the public interest generally, and the specific interests of residential, small commercial, and agricultural customers. The Division and Committee were assisted in their analyses not only by their staffs, but by separate, retained consultants. The Parties were initially deeply divided in their views, as

demonstrated by the prior proceedings on this issue. Nonetheless, they were able to reach agreement on the Stipulation following extensive discovery, technical conferences, and arms-length negotiations. Large customers were represented at public hearing and indicated support for the Stipulation except for the very limited cost allocation concern addressed *supra*. We therefore find the interests of all Questar Gas customers were adequately represented in these proceedings and conclude the Stipulation fosters the policy of encouraging settlement of issues before the Commission.

It is important to bear in mind that we are not being asked to approve rate recovery of all gas management costs incurred by Questar Gas since January 2003. As part of the compromise reached in the Stipulation, Questar Gas has agreed to forego recovery of such costs amounting to approximately \$15 million for the period January 1, 2003 through January 31, 2005. In fact, Questar Gas will not recover any gas management operations costs incurred prior to February 1, 2005. Thereafter, the Company will recover only 90 percent of actual non-fuel costs, its fuel costs will be limited to 360,000 Dths per year, and customers will receive an offset against these costs of 50 percent of any revenues Questar Transportation receives for providing processing to third parties in excess of \$400,000 per year. This opportunity for third-party revenue credits, coupled with the use of third-party fuel gas, makes operation of the CO₂ Removal Plant the least-cost alternative going forward. Customers are also protected from incurring any costs for additions to the CO₂ Removal Plant related to third-party processing, and the Company will assist low-income customers to have their appliances inspected and adjusted.

We therefore conclude that the rates resulting from the Stipulation are just and reasonable and that approval of the Stipulation is in the public interest. However, as we have

indicated in previous cases, said approval is not intended to alter any existing Commission policy nor to establish any precedent by the Commission.

Wherefore, based upon the foregoing information, and for good cause appearing, the Commission enters the following

VI. ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED, that:

1. The Gas Management Cost Stipulation is approved.
2. Cost allocation to determine gas management cost recovery rates shall be conducted on a schedule-specific basis as indicated *supra*.
3. Questar Gas Company shall file appropriate tariff revisions based upon the Stipulation and this Order. The Division shall review the tariff revisions for compliance with the terms of the Stipulation and this Order.

This Report and Order constitutes final agency action in these dockets. Pursuant to *Utah Code Annotated* §§ 63-46b-12 and 54-7-15, agency review or rehearing of this order may be obtained by filing a request for review or rehearing with the Commission within 30 days after the issuance of the order. Responses to a request for agency review or rehearing must be filed within 15 days of the filing of the request for review or rehearing. If the Commission fails to grant a request for review or rehearing within 20 days after the filing of a request for review or rehearing, it is deemed denied. Judicial review of the Commission's final agency action may be obtained by filing a Petition for Review with the Utah Supreme Court within 30 days after final

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agency action. Any Petition for Review must comply with the requirements of *Utah Code Annotated* §§ 63-46b-14, 63-46b-16 and the Utah Rules of Appellate Procedure.

DATED at Salt Lake City, Utah, this 6th day of January, 2006.

/s/ Ric Campbell, Chairman

/s/ Ted Boyer, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary

G#47054 Docket No. 04-057-04
G#47119 Docket No. 04-057-11
G#47120 Docket No. 04-057-13
G#47121 Docket No. 04-057-09
G#47122 Docket No. 05-057-01

APPENDIX: GAS MANAGEMENT COST STIPULATION

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

Application of Questar Gas Company to) Adjust Rates for Natural Gas Service in Utah)	Docket No. 04-057-04
Application of Questar Gas Company) to Adjust Rates for Natural Gas Service) in Utah)	Docket No. 04-057-11
Application of Questar Gas Company) for a Continuation of Previously) Authorized Rates and Charges Pursuant to its) Purchased Gas Adjustment Clause)	Docket No. 04-057-13
In the Matter of the Investigation) of Questar Gas Company's Gas Quality)	Docket No. 04-057-09
Application of Questar Gas Company for) Recovery of Gas Management Costs in its) 191 Gas Cost Balancing Account)	Docket No. 05-057-01
	GAS MANAGEMENT COST STIPULATION

Pursuant to Utah Code Ann. § 54-7-1 (2000) and Utah Administrative Code R746-100-10.F.5 (2005), Questar Gas Company (Questar Gas), the Division of Public Utilities (Division), and the Committee of Consumer Services (Committee) (collectively, Parties) submit this Stipulation in final resolution and settlement of Questar Gas' application for rate recovery of certain costs incurred in managing the heat content of its gas supplies.

PROCEDURAL HISTORY AND BACKGROUND

1. On August 30, 2004, the Commission issued its Order in Docket Nos. 98-057-12, 99-057-20, 01-057-14, and 03-057-05 implementing a Utah Supreme Court decision that reversed a

Commission order approving a prior stipulation between Questar Gas and the Division that provided Questar Gas a portion of the recovery of CO₂-removal costs incurred in managing the heat content of its gas supplies from June 1999 to May 31, 2004.¹ On September 16, 2004, Questar Gas filed a petition for reconsideration or clarification of certain issues related to the Commission's Order, including clarification of the time period over which Questar Gas could pursue recovery of gas heat-content management costs in other or future proceedings. The Commission clarified in its Order on Request for Reconsideration or Clarification that:

The Order addressed only Questar's failure to substantiate approval of the CO₂ Stipulation in these proceedings and our necessary rejection of the Stipulation, which would have permitted recovery of some processing costs through May of 2004. Our reference to the May 2004 end date was dictated by the Stipulation's terms and was not intended to have any other preclusive effect on recovery by Questar. In regards to Questar's requests for clarification and reconsideration, we state that our Order does not preclude Questar from seeking recovery of CO₂ processing costs in other dockets. ... We will need to wait for Questar to make whatever arguments and present whatever evidence it deems appropriate in seeking recovery of these costs, whether incurred pre- or post-May 2004, in whatever dockets Questar may raise the issue.²

2. On September 8, 2004, the Commission opened Docket No. 04-057-09, *In the Matter of the Investigation of Questar Gas Company's Gas Quality*, "to set dates for technical conferences to discuss the long-term solution to Questar Gas Company's gas quality."³ A series of six formal technical conferences were subsequently held during the months of October 2004 through January

¹ *Committee of Consumer Services v. Public Service Comm'n*, 2003 UT 29, 75 P.3d 481, reversing in part, Report and Order, *In the Matter of the Application of Questar Gas Company for a General Increase in Rates and Charges*, Docket No. 99-057-20 (Utah PSC Aug. 11, 2000).

² Order on Request for Reconsideration or Clarification, Docket Nos. 98-057-12, 99-057-20, 01-057-14 and 03-057-05 (Oct. 20, 2004) at 4-5.

³ See Notice of Scheduling Conference, *In the Matter of Investigation of Questar Gas Company's Gas Quality*, Docket No. 04-057-09 (Sept. 8, 2004).

2005 that were attended by the Commission and Commission staff and representatives from the Company, the Division, the Committee, and other interested parties. The topics of these conferences included: (1) the changing heat content of gas on the Questar Gas system; (2) the potential for Federal Energy Regulatory Commission (FERC) resolution of issues related to Questar Pipeline's tariff and gas quality specifications; (3) possible alternatives to address the changing heat content of natural gas; (4) the Green Sticker Program; (5) parties' positions on possible alternatives; and (6) an in-depth overview of the three preferred alternatives for managing heat content.

3. On January 31, 2005, Questar Gas applied to the Commission for inclusion of its costs to manage the heat content of gas required to assure safe gas supplies for its customers in its 191 Gas Balancing Account (191 Account) on a going-forward basis. However, Questar Gas reserved the right to seek cost recovery for its gas heat-content management costs back to the earliest date permitted by law. This application was assigned Docket No. 05-057-01.

4. On March 1, 2005, the Commission conducted a scheduling conference at which Questar Gas, the Division, the Committee, intervenors and interested persons discussed scheduling issues in the above dockets, and determined filing and hearing dates for Commission consideration of the issues. The Commission subsequently issued a Scheduling Order in these dockets.

5. Pursuant to the Scheduling Order, Questar Gas filed its direct testimony on April 15, 2005. The testimony filed by the Company to support its request for cost recovery included testimony from: (1) Charles Benson, a mechanical engineer specializing in combustion theory, and Larry Conti, Questar Gas, General Manager of Operations and Gas Control, who explained that there is a safety concern with the change in the gas supplies; (2) Mr. Conti and Barrie McKay, Questar Gas, Manager, State Regulatory Affairs, who explained the various alternatives to manage Questar

Gas' gas supply and the rationale for selecting various alternatives to address gas quality needs; (3) Mr. Conti and Bob Lamarre, a petroleum and exploration geologist, who explained that the evolution and changes in gas supplies were beyond both the Company's and its affiliates' control and that coal-bed methane supplies were a proven new source of available natural gas; (4) Mr. Conti and Mr. McKay, who explained that going to the FERC to prevent coal-bed methane from coming on Questar Gas' system is an action that all parties agree is not viable; and (5) Al J. Walker, Questar Gas, Manager Gas Supply, and Robert Reid, Ph.D, an economist, who explained that the development of large quantities of coal-bed methane geographically near Questar Gas' system has, in fact, saved customers millions of dollars.⁴

6. In response to Questar Gas' January 31, 2005 application, the Division and the Committee began the process of inquiry and clarification to determine whether they would support or oppose Questar Gas' renewed effort to obtain rate recovery of costs related to the Company's management of its gas supplies. To that end, the Division and Committee retained separate outside consultants to review the Company's claims that the decisions resulting in the costs at issue were prudent and incurred in response to a safety risk to customers.

7. Subsequent to the filing of the Company's direct testimony, numerous technical meetings were held with Company, Division and Committee representatives and their consultants to further review and discuss concerns raised by the Committee and Division regarding, among other things, recent changes to the configuration of Questar Pipeline's southern system, additional alternatives, conflicting affiliate interests, and the prudence and timeliness of Company management

⁴ The Parties request that the Commission take administrative notice of the information presented in the technical conferences in Docket No. 04-057-09 and admit and incorporate the facts asserted in Questar Gas' application and written testimony filed in these dockets into the record in support of this Stipulation.

decisions. As those discussions progressed into settlement negotiations between the Company, the Division and the Committee, the Company advised the Division and Committee it had determined that, with physical modifications to the CO₂ Removal Plant and operational cooperation from third parties, the CO₂ Removal Plant could provide processing to third parties on an increased basis over what had occurred in the past. The potential for increased third party processing results in the possibility of lower processing costs to Questar Gas' customers. Operating the plant year round and providing processing service to third parties, accordingly, became the preferred alternative because of potential benefits to the utility's customers stemming from revenue sharing and fuel cost savings.

TERMS AND CONDITIONS OF STIPULATION

8. The Parties agree that Questar Gas is legally obligated to provide safe and reliable gas service to its customers and to: "maintain the heating value established in [its] ... tariffs and [to] ... regulate the chemical composition and specific gravity of the gas so as to maintain satisfactory combustion in customers' appliances without repeated adjustment of the burners."⁵ The Parties further agree that Questar Gas must currently manage its gas supply within a narrower range than provided in its Utah Tariff to allow customers a transition period in which their appliances can be inspected and, if necessary adjusted for the different composition of gas that Questar Gas will manage once that transition period is over. Following the extensive analysis, review and discussions that were described above, and without waiver or acceptance of the claims, testimony or objections of any Party, the Company, Division, and Committee have agreed to compromise and settle their differences with respect to the Company's application for rate recovery in these proceedings and enter into this Stipulation. The Parties agree that the entry of this Stipulation is in the public interest,

⁵ Utah Administrative Code R746-320-2.B.2 (2005)

is consistent with just and reasonable rates, and will help ensure customer safety. The Parties further agree that the continued operation of the CO₂ Removal Plant, with cost recovery as set forth below, is a reasonable means of accomplishing the necessary heat-content management.

9. The Parties agree that Questar Gas should be granted cost recovery as provided below:

(a) Past Costs. If this Stipulation is approved in a final order and Questar Gas actually receives the recovery contemplated in paragraph 9(c), Questar Gas will not seek recovery of approximately \$15 million of past gas-management costs incurred from January 1, 2003 through January 31, 2005.⁶

(b) Cost Recovery beginning February 1, 2005. Rate recovery shall be allowed for costs incurred after January 31, 2005, pursuant to the terms of this Stipulation. The Parties agree that non-fuel costs incurred by Questar Gas to manage the heat content of gas supplies using the CO₂ Removal Plant, with available blending by Questar Pipeline, are approximately \$4 million annually. Non-fuel costs are defined as all costs billed to Questar Gas from Questar Transportation Services (i.e., labor, overheads, materials, supplies, taxes other than income, power, return, depreciation, etc.), the owner and operator of the CO₂ Removal Plant, except fuel gas costs. Questar Gas shall recover in rates, 90% of the actual non-fuel costs as defined in this Stipulation. The fuel needed to operate the CO₂ Removal Plant for Questar Gas will be provided in-kind by Questar Gas and will be passed through to customers on a dollar for dollar basis in the 191 Account. Cost recovery will be for the longer of three (3) years or the date in 2008 when Questar Gas' original 10-year transition period is scheduled to end as described in earlier proceedings, but in no event longer than operation

⁶ See n.2 *supra*.

of the CO₂ Removal Plant is necessary to accomplish the purpose of the transition period. Any extension of recovery would be contingent upon a Commission Order to extend the deadline for the 10-year transition period. The Parties agree to work together to present recommendations to the Commission about the ultimate duration of the transition period. The Parties agree that any extension of the transition period shall be presented to the Commission upon the same terms and conditions as provided in this Stipulation.

(c) Fuel Gas Charges.

(i) Questar Gas Fuel. Questar Gas' rate recovery for any fuel charges at the CO₂ Removal Plant for gas processing services performed for Questar Gas will be for the lesser of 360,000 Dth/year or the actual fuel gas used.

(ii) Third Party Fuel. All fuel provided by third parties for processing at the CO₂ Removal Plant will be used to help keep fuel charges in the 191 Account at or below 360,000 Dths/year. Limiting 191 Account rate recovery for fuel charges at the CO₂ Removal Plant to the lesser of 360,000Dth/year or the actual fuel gas used results in an estimated fuel cost savings benefit to the utility's customers of about \$1 million per year.

(d) Third-Party Revenues. The Parties agree that if Questar Transportation Services should contract with a third-party to process gas at the CO₂ Removal Plant, Questar Transportation Services will be allowed to keep 100% of the revenues credited to its account from such third-party processing up to \$400,000 annually. Revenue received by Questar Transportation Services for third-party processing at the CO₂ Removal Plant that exceeds \$400,000 annually will be credited 50% to Questar Transportation Services and 50% to Questar Gas; and any such credit to Questar Gas will be recorded in the 191 Account as an offset to costs recoverable from customers.

(e) Additional Plant Facilities. The Parties agree that the costs of any additional CO₂ Removal Plant facilities or pipeline facilities required by Questar Gas or third parties to remove CO₂ from the gas supplies will not be borne by Questar Gas' customers.

(f) HEAT Customers. The Parties agree that Questar Gas will take all commercially reasonable measures to inform low-income customers who qualify for Home Energy Assistance Target (HEAT) of the necessity to have their appliances inspected and, if necessary, adjusted for the change in gas supply. Questar Gas agrees to provide free furnace inspection and adjustment services, and to waive additional rate recovery of its costs to provide such services, for up to 2000 HEAT or other qualifying customers per year, in addition to the approximately 1000 customers whose appliances are inspected and/or adjusted by Weatherization of Utah annually, for each full year this Stipulation is in effect.

(g) Allocation of Gas Management Costs. The Parties agree that the costs associated with the CO₂ Removal Plant as provided for in this Stipulation will be allocated between sales and transportation customer classes using the non-gas revenue requirement as identified in Questar Gas Company's Barrie L. McKay – Rate Design – Exhibit 1, lines 1 and 2, in Docket No. 02-057-02. If the Commission, in a general rate case, changes the allocation of the final revenue requirement between the sales and transportation classes as provided in this Stipulation, then the new class allocation will be used.

10. 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 this Stipulation shall be deemed to constitute an acknowledgment by any party of the validity or invalidity of any principle or practice of ratemaking, or the basis of

an estoppel or waiver by any party other than with respect to issues explicitly resolved by this Stipulation; nor shall they be introduced or used as evidence for any other purpose in a future proceeding by any Party to this Stipulation except a proceeding to enforce the approval or terms of this Stipulation. The Parties believe that this Stipulation is in the public interest and that the rates, terms and conditions it provides for are just and reasonable.

11. The Parties each agree to present testimony of one or more witnesses to explain and support this Stipulation. Such witnesses will be available for examination. No Party to this Stipulation may present testimony in opposition to this Stipulation.

12. This Stipulation shall remain in effect from the date of the Commission's order approving the Stipulation until the date of a superseding Commission order.

13. The Parties agree that if any other party, entity or individual challenges the approval of this Stipulation, requests rehearing of any approval of the Stipulation or appeals the approval of this Stipulation, each Party will use its best efforts to support the terms and conditions of the Stipulation at the Commission and/or at the applicable appellate court.

14. In the event the Commission rejects any or all of this Stipulation, or imposes any additional material conditions on approval of this Stipulation, or in the event the Commission's approval of this Stipulation is rejected or conditioned in whole or in part by an appellate court, each Party reserves the right, upon written notice to the Commission and the other Parties to this proceeding delivered no later than five (5) business days after the issuance date of the applicable Commission or court order, to withdraw from this Stipulation. Prior to that election, the Parties agree to meet and discuss the Commission's order or court's decision. In the event that no new

agreement is reached, no Party shall be bound or prejudiced by the terms of this Stipulation, and each Party shall be entitled to undertake any steps it deems appropriate.

DATED: October 11, 2005.

/s/ _____
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