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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

Joint Application of Questar Gas Company, the Division of Public Utilities, and Utah Clean Energy, for the Approval of the Conservation Enabling Tariff Adjustment Option and Accounting Orders	)))))	Docket No. 05-057-T01

I. INTRODUCTION

1. Questar Gas Company (Questar Gas or Company), the Division of Public Utilities (Division), and Utah Clean Energy (collectively the Parties)[1] request the approval of tariff changes that would implement a Conservation Enabling Tariff (or CET) Pilot Program (Pilot Program) and that would result in a rate decrease in the non-gas portion of customers' rates. The Parties believe that this rate reduction, if implemented on a timely basis, could help reduce customers' bills this heating season. At a time when customers are bearing the burden of higher energy costs, the Pilot Program represents a real opportunity to align the interests of the Company, customers, regulators, and other interested parties and utilize conservation as an

[1] The Utah Committee of Consumer Services (Committee) also participated in most of the meetings that led to this Joint Application and many of the positions and suggestions of the Committee have been incorporated by the Parties in this Joint Application.

effective means to save energy and reduce costs. The Parties also request the approval of various accounting orders necessary for the implementation of the Conservation Enabling Tariff and rate decrease.

2. Many state and national energy policy groups have engaged in, and are continuing with, discussions of alternative rate designs or tariffs designed to promote energy efficiency and conservation to help address high wholesale natural gas prices and remove disincentives to natural gas public utilities to implement demand-side management programs while recovering their costs.

3. In July 2004, the American Gas Association and the Natural Resources Defense Council submitted a joint statement to the National Association of Regulatory Utility Commissioners (NARUC) recommending that public utility commissions consider "innovative programs that encourage increased total energy efficiency and conservation in ways that will align the interests of state regulators, natural gas utility company customers, utility shareholders, and other stakeholders." A copy of the joint statement is attached as Exhibit 1.1.

4. In NARUC's 2005 Fall Meeting, its Board of Directors adopted the "Resolution on Energy Efficiency and Innovative Rate Design," dated November 16, 2005. NARUC's resolution recognizes that energy conservation and efficiency are, in the short term, the actions most likely to reduce upward pressure on natural gas prices and that current forms of rate design may tend to create a misalignment between the interests of natural gas utilities and their customers. The resolution further recognizes that:

> Innovative rate designs including "energy efficient tariffs" and "decoupling tariffs" (such as those employed by Northwest Natural Gas in Oregon, Baltimore Gas & Electric and Washington Gas in Maryland, Southwest Gas in California, and Piedmont Natural Gas

> in North Carolina), "fixed-variable" rates (such as that employed by Northern States Power in North Dakota, and Atlanta Gas Light in Georgia), other options (such as that approved in Oklahoma for Oklahoma Natural Gas), and other innovative proposals and programs may assist, especially in the short term, in promoting energy efficiency and energy conservation and slowing the rate of demand growth of natural gas.

Finally the resolution provides in pertinent part that NARUC:

> [E]ncourages State commissions and other policy makers to review the rate designs they have previously approved to determine whether they should be reconsidered in order to implement innovative rate designs that will encourage energy conservation and energy efficiency that will assist in moderating natural gas demand and reducing upward pressure on natural gas prices; . . . .

A copy of the NARUC Resolution is attached as Exhibit 1.2.

5. Furthermore, Section 139 of the Energy Policy Act of 2005 provides that NARUC and the National Association of State Energy Officials shall conduct a study of state and regional policies that promote cost-effective programs to reduce energy consumption. In conducting the study, the following criteria shall be taken into consideration:

> (1) performance standards for achieving energy use and demand reduction targets;
> (2) funding sources, including rate surcharges;
> (3) infrastructure planning approaches (including energy efficiency programs) and infrastructure improvements;
> (4) the costs and benefits of consumer education programs conducted by State and local governments and local utilities to increase consumer awareness of energy efficiency technologies and measures; and
> (5) methods of:
> (A) removing disincentives for utilities to implement energy efficiency programs;
> (B) encouraging utilities to undertake voluntary energy efficiency programs; and
> (C) ensuring appropriate returns on energy efficiency programs.

A copy of Section 139 is attached as Exhibit 1.3.

II. GENERAL BACKGROUND

6. The Commission has general jurisdiction to decide this matter pursuant to Utah Code Ann. § 54-3-3 (Supp. 2004), § 54-4-1 (2000) and § 54-7-12(2)(b), (4)(a)(Supp. 2004).

7. Questar Gas is a Utah corporation doing business as a public utility engaged in the distribution of natural gas to customers in the states of Utah, Wyoming and Idaho. Questar Gas' Utah and Idaho public utility activities are regulated by the Commission and conducted in accordance with its Utah Tariff. A copy of the Company's Articles of Incorporation and its Utah Tariff are on file with the Commission.

8. In Questar Gas' last rate case, Docket No. 02-057-02 (2002 Rate Case) the parties in that case entered into four separate Stipulations and Settlements on four major issues: Revenue Requirement; Allocation and Rate Design; Demand-Side Management; and Service Standards. In the Allocation and Rate Design, Demand-Side Management and Service Standards Stipulations, the parties to the Stipulations in that case recommended to the Commission that task forces be established to further consider issues raised during the 2002 Rate Case and to make recommendations in final reports filed with the Commission on how to proceed in future cases with regard to these issues. In its Order in the 2002 Rate Case, the Commission approved the terms of all four Stipulations and Settlements.

9. In the Demand-Side Management (DSM) Stipulation and Settlement, the settling parties agreed that the Commission should approve the DSM Stipulation and should order Questar Gas to examine DSM alternatives for resource planning in its Integrated Resource Plan (IRP) proceedings and further should schedule an initial meeting for all parties interested in the development of natural gas DSM in Utah to form a collaborative work group. The work group was to address DSM issues raised by the Utah Energy Office (UEO) and

other interested parties in the 2002 Rate Case. The work group was known as the Natural Gas DSM Advisory Group (Advisory Group) and was co-chaired by representatives from Questar Gas and UEO.

10. The Advisory Group engaged GDS Associates, Inc. to conduct a study of demand-side management options and to prepare a report (GDS Report). The Advisory Group submitted its final report to the Commission in January 2005. A copy of the Executive Summary from the final report is attached as Exhibit 1.4. Item 4 of the Findings and Recommendations from the Executive Summary states: "The Advisory Group has identified several barriers to the successful implementation of Natural Gas DSM. It is recommended that the Commission address the policy issues that act as barriers. The primary example is the issue of Questar's economic sensitivity to the loss of gas load that increased DSM would foster." Adoption of the Conservation Enabling Tariff is expected to remove the barrier identified by the Advisory Group.

11. In the Service Standards Stipulation and Settlement, those settling parties agreed that the Commission should approve the Stipulation and should order that Questar Gas submit quarterly customer satisfaction standards reports substantially in the form presented in DPU Exhibit 2.5R to the Division, Committee and Commission. This report was developed primarily as a management tool utilized by the Company that is also useful for monitoring and review purposes by regulators. The parties also agreed that a second Questar Gas quarterly report would be made public and would provide information in at least the following areas: call answering, emergency response, customer service activations, response to billing inquiries and safety. In its Order in the 2002 Rate Case, the Commission approved the terms of the Service Standards Stipulation and Settlement.

12. In the Allocation and Rate Design Stipulation and Settlement, the settling parties agreed that several issues raised during the proceedings in the 2002 Rate Case required further study and consideration by a collaborative task force made up of the Company, the Division, the Committee and other interested parties. In the Stipulation, the parties requested the Commission to direct in its final order that a task force engage in a study in 2003 regarding ten issues concerning Questar Gas' rate-design and allocation methodologies. On December 30, 2002, the Commission entered a final order in the 2002 Rate Case approving the Allocation and Rate Design Stipulation and Settlement and directing that a collaborative task force (Allocation and Rate Design Task Force) be established and chaired by a representative of the Division.[2]

13. Additionally, the settling parties agreed in the Allocation and Rate Design Task Force to study separately the possible development of a tracker mechanism for usage per customer. While the issue of how to address the problems created from declining usage per customer was discussed in several task force meetings, no specific consensus was reached. However, "the Task Force felt it was important to continue discussions in this area into the future after the task force conclude[s]." See Final Task Force Report at page 6. A copy of the final report is attached as Exhibit 1.5.

14. At the conclusion of the Allocation and Rate Design Task Force, the Division, the Committee, and the Company continued to meet to discuss various alternative regulation options. In November 2004, the Company circulated a draft "white paper" that presented an overview and analyzed five options that could potentially address decline in customer usage. The November 2004 White Paper provides an in-depth overview of how customer usage can

[2] The Allocation and Rate Design Task Force met approximately 18 times over a span of 18 months starting in January 2003 and concluding in June 2004. Darrell Hanson, Task Force Chair, filed the task force's report with the Commission on June 17, 2004.

impact a utility's revenues. A copy of the November 2004 White Paper is attached as Exhibit 1.6. As pointed out in the 2004 White Paper, "since Questar Gas is in the circumstance of having a very high saturation of both furnace and water heating customers in the service territory and is located in an area which has a high number of degree days per year, it feels the full effects of conservation in both of these areas." See Exhibit 1.6, p.1.

15. As discussions with the Division, Committee, and Company progressed, Questar proposed three important goals with regard to the alternatives being analyzed: 1) to remove disincentives for the Company to promote DSM; 2) to reduce contentions between regulators and the Company by using new rate design concepts; and 3) to provide the Company the opportunity to earn its allowed rate of return during periods of declining usage. In the course of these discussions, the Company, Division, Committee and other interested parties explored various options for addressing these three goals.

16. Over the course of several months, the Company, with the input of the Division and Committee, analyzed the following six alternatives: 1) the Company could use the provisions of recent legislation to file forecasted test years 20 months into the future; 2) the Company would file annual, abbreviated rate cases using projected test years; 3) the Company could include in rate case proceedings a calculation of "lost revenues" associated with reductions in usage; 4) the Company could implement rate design changes designed to recover a higher percentage of the fixed costs through fixed charges and/or higher low volume initial blocks in a declining block rate structure; 5) the Company could implement a decoupling mechanism; and 6) the Company could file annual rate cases with a banded rate of return on equity (ROE) with quarterly monitoring and automatic rate changes when the actual ROE falls outside the band.

17. In November 2005, Questar Gas refined the 2004 White Paper to include in-depth analysis of three preferred alternatives: 1) Revenue Stabilization Alternative: This alternative would require annual rate cases, banded ROE and quarterly reviews; 2) Rate Design Alternative: This alternative would use the collection of fixed costs through an up front monthly delivery charge; and 3) Conservation Enabling Tariff Alternative: This alternative would decouple DNG revenue collection from volumetric sales. A copy of the 2005 White Paper is attached as Exhibit 1.7. The 2005 White Paper listed the pros and cons of each alternative and analyzed them in detail. Ultimately, through continued discussions and analysis, the Parties agreed that the Conservation Enabling Tariff Alternative was the preferred alternative and should be implemented as a pilot program. In addition, the Parties held a technical conference on November 9, 2005, that included the three Commissioners, in which the alternatives were discussed.

III. CONSERVATION ENABLING TARIFF

18. The Conservation Enabling Tariff would allow Questar Gas to address the issue of declining usage per customer while removing the disincentives for Questar Gas to implement demand-side management programs. The Parties propose jointly that the Conservation Enabling Tariff be adopted by the Commission as a three-year pilot program. As part of the pilot program, the Division will review the results of the Conservation Enabling Tariff at the end of each quarter for the first year and annually, or more frequently as needed, thereafter, and will submit reports to the Commission that include an analysis of each year's

results. At any time during the Pilot Program, any party can recommend to the Commission that the Pilot Program be modified or discontinued.

19. The Conservation Enabling Tariff methodology consists of the following three steps:

a. First, the allowed GS-1 distribution non-gas (DNG) revenue per customer per month is calculated. The revenue requirement and the year-end customers are allocated to the calendar months based on historical patterns. The monthly revenue requirement is then divided by the monthly number of customers to arrive at the allowed revenue per customer per month. Exhibit 1.8 shows an example of the calculated revenue per Utah GS-1 customer proposed to be implemented in the Conservation Enabling Tariff beginning in January 2006. The proposed revenue per customer will be based on projected year-end 2005 customers and the revenue collected from these customers using the rates proposed to be effective on January 1, 2006. These rates include a reduction in total Utah Jurisdictional Revenue Requirement of $10.2 million as explained in Paragraph 34.

b. Second, on a monthly basis, the allowed GS-1 DNG revenue per customer each month is multiplied by the actual number of GS-1 customers. The product is compared to the actual GS-1 DNG revenue and any difference, higher or lower, is booked into a balancing account (Account 191.9). Interest will accrue and will be booked into Account

191.9 as currently approved by the Commission for Account 191 and described in the Utah Tariff, Section 2.10 (See Exhibit 1.9.)

c. Third, on a schedule of not less than twice per year, the Company will file for a percentage adjustment to the GS-1 DNG block rates in an amount to amortize the balance of Account 191.9 over the projected sales for the upcoming 12 months. It is anticipated that these filings will be in conjunction with the Company's regular pass-through rate cases, but may occur separately. The Commission-approved amortization will increase or decrease the volumetric DNG rates for the GS-1 rate schedule on a prospective basis.

IV. SERVICE QUALITY STANDARDS

20. The Parties agree that in addition to the service quality standards referred to in Paragraph 11, the Emergency Calls' goal should be modified so that 90% of emergency calls on Questar Gas' system are responded to within one hour pursuant to the Company's internal goals filed with the Division. The Parties agree that the Company should be held to this standard. If the Company does not meet this service quality standard, the Division may initiate an investigation and may recommend penalties. Additionally, the Parties agree that a Service Quality Standards Working Group should be formed to evaluate other customer service standards during the Pilot Program.

V. ROLL-IN OF GSS RATES

21. Over the last year, the Parties have also been reviewing GSS rates and Extension Area Charges in Questar Gas' tariff and are concerned about whether these rates continue to be necessary. The Parties request that the Commission combine the GS-1 and GSS; the I-2 and IS-2; the I-3 and IS-3; the I-4 and IS-4; and the IT and ITS rate classes and eliminate the collection of "GSS" rates for expansion areas.

22. The Parties also request that the Commission establish a task force, which would include representatives from the Company, Division, Committee, and other interested parties, to review the Company's current policies regarding expansion areas and propose tariff changes that would address how the Company should proceed in the future in this regard. The Parties recommend that the task force file a report with the Commission within three months following the approval of this application.

VI. DEMAND SIDE MANAGEMENT

23. With a conservation enabling tariff, the Company commits to developing and implementing cost effective gas DSM programs for its residential and non-residential customers using the GDS Report as a guide. The Parties request that the Commission order the creation of a Natural Gas DSM Advisory Group to evaluate and propose specific cost effective natural gas DSM programs and to provide implementation guidance to the Company. The Natural Gas DSM Advisory Group will include representatives from the Company, the Division, the Committee, the Governor's Energy Advisor, Utah Clean Energy

and Southwest Energy Efficiency Project (SWEEP). Input from other interested parties will be solicited and given due consideration by the Natural Gas DSM Advisory Group.

24. In designing these programs, the Company shall seek and consider input from the Natural Gas DSM Advisory Group. The programs will be developed and implemented in a timely manner and will seek to maximize gas savings and net economic benefits for customers. All programs and other related costs must pass the cost effectiveness criteria established by the Utah Public Service Commission and be subject to approval by the Commission. Promotion of ENERGY STAR products and buildings and a pilot program involving education and provision of low-cost efficiency measures to a large number of low-income households will be among the programs considered by the Company.

25. Questar Gas will work with the Utah State Division of Housing and Community Development to design and implement an energy efficiency program targeted at the residential gas market (irrespective of household income). This is the state agency that currently receives $250,000 per year from Questar Gas to fund the Low Income Weatherization Assistance Program (LIWAP). The Parties recommend that Questar increase its funding for LIWAP to $500,000. The program may involve audits, promotions, and/or financial incentives, and the program may be modeled after the LIWAP.

26. Questar Gas, with support from the Natural Gas DSM Advisory Group, will recommend to the Commission levels of expenditures for DSM. Upon receiving Commission approval for specific programs, or other related costs, the costs borne by the Company in implementing the approved programs will be accounted for on a deferred basis. The DSM deferred balance will accrue interest at a rate equal to the 191 account carrying charge rate and will be amortized in conjunction with the Conservation Enabling Tariff amortization.

The Parties propose that the one time amount of $1.3 million will be immediately credited into the deferred account to provide initial funding for these programs. The $1.3 million referenced above comes from funds that have been collected in rates for the purpose of research and development (R&D). The Parties propose to transfer this balance into the DSM deferred account. Amortization will not start until the $1.3 million has been spent.

VII. ACCOUNTING ORDERS

27. Conservation Enabling Tariff – The Parties jointly request that a balancing account (191.9) be established, as described in this application, to record the monthly differences between allowed and actual GS-1 DNG revenue.

28. DSM Deferred Accounting Order – The Parties jointly request that a regulatory asset be established so that DSM costs incurred as described in this application may be deferred and amortized every six months in conjunction with the Conservation Enabling Tariff.

29. Pipeline Safety Improvement Act Implementation Costs – In Docket No. 04-057-03 Questar Gas applied for a deferred accounting order authorizing the Company to establish a deferred account or regulatory asset for costs that the Company incurred in 2004 and will incur in future years to meet the requirements of the Pipeline Safety Improvement Act. This request was granted. The Parties propose to begin amortizing the balance in that deferred account at the end of December 2005 over a five year period. This amortization is expected to be about $600,000 per year.

30. The Parties also agree that on a going forward basis, annual expenses related to meeting the requirements of the Pipeline Safety Improvement Act that are greater or less than $1.4 million would be entered into the deferred account as increases or decreases respectively.

31. The Parties also propose to begin imputing interest on the balance in the deferred account at the rate currently approved by the Commission for Account 191 and described in the Utah Tariff, Section 2.10, and to amortize any balance in the account over a five year period beginning at the next QGC rate case.

32. <u>Depreciation Study</u> – In the 2002 Rate Case, the Commission ordered the Company to conduct a review of its depreciation policies. In response, the Company engaged Garnett and Fleming, a consulting firm that specializes in depreciation studies, to conduct such a review. Garnett and Fleming reviewed the following three depreciation methodologies:

- The current method used by Questar Gas
- Equal Life Group (ELG) method
- Average Service Life (ASL) method

33. On December 9, 2005, Garnett and Fleming met with representatives from the Company, the Division, and the Committee and explained their analysis, reviewed the methodologies and how each methodology affected Questar Gas. Garnett and Fleming also explained that approximately 80% of the natural gas utilities in the United States use the "Average Service Life" depreciation method. Based upon the information available at this time, the Parties in this case propose that the ASL depreciation method recommended by Garnett and Fleming be adopted, effective January 1, 2006, and that the difference in the accumulated depreciation resulting from a change to the depreciation methodology be

amortized in depreciation expenses over a 10-year period. The Parties request an accounting order approving adoption of this methodology.

VIII. RATE REDUCTION

34. The Parties have agreed to propose tariff changes designed to reduce the revenues collected for natural gas service from Utah customers by an annualized amount of $10.2 million (includes the dollar impact of rolling in of GSS expansion area rates.) The Parties request that the reduction in revenue be allocated on a percentage basis through a change in volumetric distribution non-gas (DNG) rates in all Utah rate schedules.

35. Attached as Exhibit 1.9 to this Application are tariff sheets incorporating revisions to the rate schedules and conditions of service in Questar Gas' Utah Tariff No. 400 reflecting the proposed decrease in rates and the rolling-in of the expansion areas. Also included in Exhibit 1.9 is the addition of § 2.10 in the Utah Tariff implementing the Conservation Enabling Tariff as described above in Paragraph 18.

36. These proposed changes in Questar Gas' volumetric DNG block rates result in an annual decrease of $13.93 (or 1.08%) for the typical GS-1 customer using 115 Dth per year as shown in Exhibit 1.10.

IX. JOINT SUPPORT

37. The Parties also request that the Commission approve the proposed tariff revisions and this Application on an expedited basis pursuant to Utah Code Ann. § 54-7-12(2)(b)(Supp. 2004) and § 54-3-3 (Supp. 2004).

38. Although the Commission could waive the hearing requirement since this application is for a rate reduction, the Parties nevertheless request that a hearing be scheduled. The Parties to this Application each agree to present testimony of one or more witnesses to explain and support why this Joint Application is just and reasonable and in the public interest. Such witnesses will be available for cross-examination.

39. The Parties further agree that this Conservation Enabling Tariff and the DSM proposal should be approved as a three year Pilot Program and that after completion of each year, the Division will submit a report to the Commission that includes an analysis of the year's results.

40. The Parties support of this Joint Application is conditioned on Commission approval of the entire Joint Application. In the event the Commission rejects any or all of the entire Joint Application, or imposes any additional material conditions on approval of this Joint Application, 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 order, to withdraw from this Joint Application.

X. PRAYER FOR RELIEF

41. The Parties respectfully request an Order from the Commission, effective as of January 1, 2006, and to remain in effect on an ongoing basis, granting approval of the three-year Pilot Program for the Conservation Enabling Tariff.

42. The Parties request that the Commission order the creation of a Natural Gas DSM Advisory Group to evaluate and recommend cost effective natural gas DSM programs.

The Natural Gas DSM Advisory Group will include representatives from the Company, the Division, the Committee, the State Energy Office, the Governor's Energy Advisor, and Utah Clean Energy. The Natural Gas DSM Advisory Group will conduct its first meeting within 30 days of the Commission's order.

43. The Parties also respectfully request that Questar Gas be granted the authority to record as regulatory assets, costs incurred for DSM programs and the Conservation Enabling Tariff as discussed in this Joint Application and for the authority to discontinue the deferral of pipeline integrity related expenses as ordered in Docket No. 04-057-03.

44. Specifically, the Parties request these costs be recorded in the Company's books of accounts as follows:

a. DSM Account 182.4
b. Conservation Enabling Tariff Account 191.9

45. The Parties also request that Questar Gas be granted a depreciation accounting order as described in paragraph 32.

46. The Parties also respectfully request that the Commission approve, on an expedited basis, the proposed tariff changes shown in Exhibit 1.9 incorporating the revenue decreases as described in this Joint Application and the tariff changes required to implement the Conservation Enabling Tariff, and the tariff changes required to eliminate the current GSS expansion area rates (GSS, IS-2, IS-3, IS-4 and ITS).

DATED this 16th day of December, 2005.

Respectfully submitted,

QUESTAR GAS COMPANY

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