Docket No. 02-057-02
Mary H. Cleveland
Exhibit No. DPU 3.0
August 28, 2002

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Questar Gas for a General Increase in Rates and Charges	)))	DOCKET NO. 02-057-02

PRE FILED DIRECT TESTIMONY OF

MARY H. CLEVELAND

FOR THE

DIVISION OF PUBLIC UTILITIES

DEPARTMENT OF COMMERCE

STATE OF UTAH

August 28, 2002

I. QUALIFICATIONS

Q. PLEASE STATE YOUR NAME FOR THE RECORD.

A. Mary H. Cleveland

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR BUSINESS ADDRESS?

A. I am employed by the Utah Department of Commerce, Division of Public Utilities (Division). My business address is 160 East 300 South, Suite 400, Salt Lake City, Utah, 84114.

Q. WHAT IS YOUR POSITION?

A. Utility Regulatory Analyst.

Q. BRIEFLY DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I hold a Bachelor of Business Administration, as well as a Master of Business Administration, from the University of Missouri-Kansas City. I am a licensed Certified Public Accountant (CPA) in the state of Kansas and I am a member of the Institute of Certified Public Accountants. In addition I have attended the National Association of Regulatory Utility Commissioners (NARUC) Staff Subcommittee on Accounts meetings and have served on the NARUC Securities and Exchange Commission (SEC)

Subcommittee.

I have over twenty years of utility regulatory experience, both as a consultant and as an employee of state regulatory agencies. I have participated in regulatory proceedings in the states of Alaska, Arizona, Connecticut, Kansas, Missouri, New Mexico, Ohio, Utah and Wisconsin. I have also testified before the Kansas Supreme Court. Further details regarding my background are provided in Appendix A.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony addresses the majority of operating expenditures included in Questar Gas' test year, including those expenses that were either allocated to or directly charged to Questar Gas from its affiliates. My testimony does not address payroll, incentive compensation, depreciation nor taxes. There areas are addressed by other Division witnesses.

III. ADJUSTMENTS

Q. WHAT ADJUSTMENTS DID YOU MAKE TO TEST YEAR OPERATIONS?

A. The Company's filing was based on a year-end 2001 calendar test year adjusted for known and reasonable expected changes through calendar year-end 2002. My adjustments are likewise divided into two groups, those to derive the year-end 2001 calendar test year and those which are known or are expected to occur in 2002.

Questar Gas receives charges allocated to it directly and indirectly from its affiliated companies. The Company's filing makes several adjustments to these affiliated charges to arrive at its year-end 2001 calendar test year. In all instances these adjustments were computed using 2002 allocation factors, rather than the actual 2001 allocation factors that were used to allocate affiliated charges to Questar Gas in 2001. This results in a misstatement of the adjustments to 2001 affiliated charges. All my adjustments to 2001 affiliated charges are based on actual 2001 allocation factors.

2001 ADJUSTMENTS

AFFILIATE RATE OF RETURN

Q. PLEASE EXPLAIN YOUR AFFILIATE RATE OF RETURN ADJUSTMENT.

A. Questar Gas receives billings from its various affiliates. It is allocated a share of Questar Corporation's and Questar Regulated Services' general and administrative expenses. Questar Info Comm bills it for information technology services and telecommunications. Questar Pipeline charges it for use of Questar Pipeline's airplane. Implicit in all these billings is a rate of return.

Questar Corporation, Questar Regulated Services and Questar Pipeline included a pre-tax rate of return of 21.05% in their billings. Questar Info Comm billed for its services at market rates. The Company's Rate of Return Adjustment-Affiliated

Companies, Exhibit QGC 4.4, pages 13A - 13D, adjusted the rate of return in the billings from Questar Corporation, Questar Regulated Services and Questar Info Comm to reflect the return previously authorized by the Utah Commission in Docket 99-057-20, although it was requesting a higher rate of return then that previously authorized. The Company did not adjust the rate of return in Questar Pipeline's aircraft billings.

This adjustment covers Questar Corporation, Questar Regulated Services and Questar Info Comm. I have adjusted the rate of return in these billings to the rate of return recommended by Division witness Artie Powell. In addition I made other changes to the Company's Rate of Return Adjustment - Affiliated Companies, which are described below. My adjustment reduces operating expenditures $ 2,711,311, as shown in Exhibit No. DPU 3.1, page 1 of 4. Aircraft charges are addressed in a separate adjustment. The various components of this adjustment are as follows:

<u>1. Questar Corporation</u>

Q. IN ADDITION TO ADJUSTING FOR THE DIVISION'S RECOMMENDED RATE OF RETURN, WHAT OTHER REVISIONS DID YOU MAKE TO THE COMPANY'S ADJUSTMENT TO QUESTAR CORPORATION SHOWN ON EXHIBIT QGC 4.4, PAGE 13B?

A. The Company's adjustment was based on a 13 month average net investment, although its filing was based on a 2001 calendar year-end test year. Consistent with the Company's filing as well as the Division's recommended test year, I have based my adjustment on the December 31, 2001, net investment. I have corrected the annual return shown on line 5 of the Company's Exhibit QGC 4.4, page 13B, to the actual return billed to Questar Gas for the twelve months ending December 31, 2001. Additionally, I have based my adjustment on actual 2001 allocation percentages and have included Questar Corporation return charged to Questar Gas through Questar Info Comm.

Some of the companies to which Questar Corporation allocates administrative and general expenses in turn charge a portion of Questar Corporation's administrative and general expenses billed to them to Questar Gas. During 2001, Questar Corporation allocated 6.92% to Questar Info Comm and 7.01% to Questar Regulated Services. Questar Info Comm in turn charged back 52.54% of the administrative and general expenses billed to it by Questar Corporation back to Questar Gas and Questar Regulated Services 67.61%. The Company's adjustment was based on the percentages of Questar Corporation's administrative and general expenses allocated to its various affiliated companies beginning January 1, 2002. Since the 2002 percentages were actually lower than the 2001 percentages, the Company's adjustment removes less than the actual return above the allowed return. Additionally, the Company's adjustment fails to include the return billed from Questar Info Comm.

Q. WHY SHOULD THE COMPANY'S ADJUSTMENT INCLUDE THE RETURN ALLOCATED FROM QUESTAR INFO COMM?

A. The return component of Questar Info Comm’s billings is computed as operating income (i.e. revenues minus total operating expenses) divided by net investment. The return allocated from Questar Corporation is included in Questar Info Comm’s operating expenses. I have adjusted the return component of Questar Info Comm’s billings to the rate of return recommended by Division witness Artie Powell. However, if the return allocated to Questar Info Comm from Questar Corporation is not adjusted to the allowed rate of return, the resulting revenue requirement will contain that portion of Questar Corporation’s return in excess of the Division’s recommendation that is allocated to Questar Gas from Questar Info Comm.

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2. Reallocation of HR System Costs

Q. PLEASE EXPLAIN YOUR ADJUSTMENT FOR REALLOCATION OF HR SYSTEM COSTS.

A. Questar Corporation’s administrative and general expenses in previous years have all been allocated by Distrigas. However, in 2001, employee numbers were used to allocate HR System costs. This resulted in a greater percentage of the return associated with the HR system being allocated to Questar Gas. The Company’s adjustment did not account for this change in Questar Corporation’s allocation, resulting in return above the Division’s recommend rate being allocated to Questar Gas.

<u>3. Questar Regulated Services</u>

Q. IN ADDITION TO ADJUSTING FOR THE DIVISION'S RECOMMENDED RATE OF RETURN, WHAT OTHER REVISIONS DID YOU MAKE TO THE COMPANY'S ADJUSTMENT TO QUESTAR REGULATED SERVICES SHOWN ON EXHIBIT QGC 4.4, PAGE 13C?

A. Once again the Company's adjustment was based on a 13-month average net investment, although its filing was based on a year-end calendar 2001 test year. Consistent with the Company's filing as well as the Division's recommended test year, I have based my adjustment on the December 31, 2001, net investment. Additionally, I calculated my adjustment using the actual percentage of return allocated from Questar Regulated Services to Questar Gas in 2001. The Company's adjustment was based on the percentages of Questar Regulated Services return allocated to Questar Gas beginning January 1, 2002, and therefore does not appropriately adjust the return billed in 2001. Since the 2002 percentages were actually lower than the 2001 percentages, the Company's adjustment removes less than the actual return above the allowed return.

<u>4. Questar Info Comm</u>

Q. IN ADDITION TO ADJUSTING FOR THE DIVISION'S RECOMMENDED RATE OF RETURN, WHAT OTHER REVISIONS DID YOU MAKE TO THE COMPANY'S ADJUSTMENT TO QUESTAR INFO COMM SHOWN ON

EXHIBIT QGC 4.4, PAGE 14C?

A. Once again the Company's adjustment was based on a 13-month average net investment, although its filing was based on a year-end calendar 2001 test year. Consistent with the Company's filing as well as the Division's recommended test year, I have based my adjustment on the December 31, 2001, net investment. Additionally, I have removed construction work in progress (CWIP) from Questar Info Comm's net investment. Current Commission policy does not allow the Company to earn a return on CWIP.

In addition I have made a couple of adjustments to the operating expenditures shown on the Company's exhibit QGC 4.4, page 13D, line 11. First, I increased the operating expenditures for Questar Corporation charges that should have been charged directly to Questar Info Comm, but were instead allocated to the various Questar affiliated companies. Likewise I removed these costs from the administrative and general expenses allocated by Questar Corporation (See Exhibit No. DPU 3.13, Other Costs). Secondly, I decreased Questar Info Comm's operating expenditures for charge backs from Questar Corporation.

Q. WHAT ARE CHARGE BACKS?

A. Questar Info Comm provides information technology and telecommunication services to Questar Corporation. Questar Corporation records the billings received from

Questar Info Comm in the administrative and general expenses which are in turn allocated to the various Questar affiliates including Questar Info Comm. Questar Info Comm records the administrative and general expenses allocated from Questar Corporation as an operating expense on its books. This serves to artificially increase Questar Info Comm's operating expenses and thereby lower its implicit return. For example, assume that Questar Info Comm bills Questar Corporation for $1,000,000 of information technology and telecommunication services which cost Questar Info Comm $500,000 to provide. Questar Info Comm recognized $500,000 in operating income ($1,000,000 - $500,000). However, Questar Corporation allocates 10% of its bill for these services, or$50,000, back to Questar Info Comm. Questar Info Comm in turn records the $50,000 as an operating expense, thereby increasing its cost to $550,000 and reducing its operating income from $500,000 to $450,000, and thus artificially lowering its calculated return on net investment. It did not cost Questar Info Comm, nor the Questar family of companies an additional $50,000 to provide these services. Therefore, the charge backs from Questar Corporation need to be removed from Questar Info Comm's operating expenses to derive the actual return earned by Questar Info Comm on its net investment.

Q. DID YOU MAKE ANY OTHER CHANGES TO THE COMPANY'S CALCULATION SHOWN ON ITS EXHIBIT QGC 4.4, PAGE 13D?

A. Yes, the Company did not include Questar Info Comm's charges to Questar Corporation that were subsequently allocated by Questar Corporation to the various Questar affiliates in its calculation. I have accounted for Questar Corporation's allocation of these charges to Questar Gas and indirectly to Questar Gas through Questar Regulated Services in my calculation. Additionally, my review of the Company's books and records revealed that Questar Gas did in fact expense $ 11,889,521 of Questar Info Comm charges**,** not $11,225,098 as indicated in the Company's adjustment. Also, the Company's adjustment made the assumption that Questar Regulated Services allocated all expenses Questar Info Comm charges, when in fact some of the Questar Info Comm charges billed to Questar Regulated Services were subsequently billed by Questar Regulated Services directly to Questar Gas and Questar Pipeline. Only $9,691,664 of the Questar Info Comm charges billed to Questar Regulated Services were allocated, not $13,448,837, as indicated in the Company's adjustment. These changes are shown on Exhibit No. DPU 3.1, page 5.

<u>AIRCRAFT</u>

Q. HOW ARE THE AIRCRAFT'S COSTS CHARGED TO THE VARIOUS QUESTAR ENTITIES?

A. Aircraft costs are divided into a fixed costs and a variable costs. Fixed costs include depreciation, insurance, hanger rental, labor and overhead, maintenance and inspection, miscellaneous pilot expense, relief pilot expense and a return component. All other costs are classified as variable costs.

Variable costs are apportioned to each passenger by dividing a rate per hour of flight time by the number of passengers on board and multiplying the result by the total hours of flight time. The rate per hour of flight time is determined by dividing the total variable costs incurred in the prior calendar year by the aircraft's flight hours. Thus, the rate per hour of flight time in 2001 was based on the total variable costs incurred in 2000 divided by the aircraft's 2000 flight hours.

Fixed costs are assessed through a demand charge to each affiliate based on the number of passenger flight hours in the prior calendar year. The demand charge consists of the budgeted fixed costs, including a return on investment, for the current year plus any over or under recovery of prior year's costs. In 2001 the return on investment utilized a 11.75% return on equity and the demand charge included a $93,958 credit for over recovery of expenses from the prior year, 2000. The total 2001 demand charge was $712,567. This amount was apportioned among each of the affiliates based on its share (i.e. percent) of the total number of passenger flight hours flown in 2000.

Q. DID YOU MAKE ANY ADJUSTMENTS TO AIRCRAFT COSTS?

A. Yes. I adjusted the aircraft demand charge to reflect the rate of return on investment recommended by Division witness Artie Powell, actual 2001 costs and 2001 passenger seat miles. This resulted in a $34,775 reduction to operating expenses as shown on Exhibit No. DPU 3.2.

SOUTHERN TRAILS PROPERTY

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO QUESTAR REGULATED SERVICE'S RETURN FOR SOUTHERN TRAILS PROPERTY?

A. In November 1998, land purchased in California for Southern Trails Pipeline was erroneously included in Questar Regulated Service's rate base. Subsequently Questar Gas filed a rate case with a 1999 test year, Docket No. 99-057-20. Since no party to the 1999 rate case made an adjustment to remove the investment in this land from Questar Regulated Service's rate base, the rates established in that docket included Questar Gas' allocated share of the return on this property.

In December 2001, this land was sold resulting in a gain of $ 2,764,083, which remained on Questar Regulated Services books and was never allocated among, or assigned directly to Questar Gas or Questar Pipeline. In response to DPU Data Request, 17.3, the Company indicated that the gain remained in Questar Regulated Services since the land sold belonged to Southern Trails Pipeline and had never been included in the rate base of Questar Gas. Perhaps not on Questar Gas Company' books, but yet it was included in Questar Regulated Service's net investment on which Questar Gas was charged a return. Thus, indirectly, this land was treated as if, in fact, the investment had been recorded on Questar Gas Company's books. Since land is not depreciated Questar Gas did not incur any depreciation expense associated with this property.

My adjustment removes and amortizes over a two year period the return for this property included in Questar Gas' rates established in Docket No. 99-057-20 from the rate effective date, August 2000 through the rate effective date in the current docket, December 2002, plus interest. For purposes of this calculation I used the 191 Account interest component. This adjustment decreases year-end 2001 operating expenses $62,313, as shown in DPU Exhibit No. 3.3.

PHANTOM STOCK

Q. PLEASE EXPLAIN YOUR PHANTOM STOCK ADJUSTMENT.

A. My adjustment incorporates two changes to the Company's Deferred Compensation–Phantom Stock Adjustment on Exhibit QGC 5.5, pages 15A - 15C. As in previous adjustments, the Company's adjustment was calculated using 2002 allocation factors. My adjustment uses actual 2001 factors. Additionally, I corrected an error found on QGC 5.5, page 15C, line 7. The "Total to QIC" reflects 100% of Questar Corporation's Phantom Stock adjustments, rather then the percent allocated from Questar Corporation to Questar Info Comm. My adjustment results in an increase in operating expenses of $370,557, as shown on Exhibit No. DPU 3.4, as compared to the Company's $590,594 increase.

Q. WHAT EXACTLY IS PHANTOM STOCK?

A. Officers and directors have the option to defer compensation as shares of stock. The number of shares deferred is determined based on the market price of the stock at the time compensation is received. For example, assume a director elects to defer $1200 in compensation as share of stock. If the stock's market price is $20 at the time compensation would have been paid, the $1200 would be deferred as 60 shares of company stock. The stock is not actually issued, thus the term phantom stock.

Questar's books and records would reflect a $1200 expense as if the compensation had actually been paid. Questar now has an obligation to provide the director with 60 shares of stock at a future date. As the market price of these shares increase or decreases Questar records the difference in the overall market value of the shares as a phantom stock adjustment to reflect the current value of Questar's future obligation to provide 60 shares of stock. These phantom stock adjustments, which are made quarterly, are not reflective of current operating expenditures, but rather changes in a future obligation.

<u>RESTRICTED STOCK ISSUES - LTIP</u>

Q. PLEASE EXPLAIN YOUR RESTRICTED STOCK ISSUES - LTIP AJDUSTMENT.

A. During the year-end 2001 test year, expenses associated with the issuance of restricted shares of stock to a corporate executive under the Long Term Incentive Plan (LTIP) were included in Questar Corporation's administrative and general expenses that were in turn allocated to its various affiliates including Questar Gas. This particular expenditure was not identified by the Company as an incentive payment, nor was it included in any adjustments made by the Company to test year expenses. I'm removing this expense consistent with the position taken by Division witness Paul Mecham. Mr. Mecham addresses corporate incentive plans. This adjustment reduces operating expenses $208,291, as shown on Exhibit No. DPU 3.5.

ADVERTISING

Q. WHAT CHANGES DID YOU MAKE TO THE COMPANY'S ADVERTISING ADJUSTMENT ON EXHIBIT QGC 4.4?

A. I removed additional promotional advertising identified from my own independent analysis of the Company's books and records. I found several promotional advertisements that had been included in the informational category. In addition I found one promotional advertisement that had been incorrectly recorded in Account 908, which was not included in the Company's adjustment. Additionally, I recalculated the institutional advertising expenses allocated from Questar Corporation using the actual 2001 allocation factors. The Company's adjustment was once again based on 2002 factors. My adjustment results in a $1,123,079 reduction to operating expenses as shown on Exhibit No. DPU 3.6, as compared to the Company's $1,105,992 reduction.

DUES DONATIONS & LOBBYING

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO DUES, DONATIONS & LOBBYING.

A. My adjustment revises the Company's Donations and Membership Adjustment, Exhibit No. QGC 4.4, pages 17A - 17C, to include dues and donations to economic development organizations and homebuilder associations as well as lobbying expenses. My adjustment results in a $263,674 reduction to year-end 2001 operating expenses as shown on Exhibit No. DPU 3.7, as compared to the Company's $73,401 reduction.

Y2K ADJUSTMENT

Q. PLEASE EXPLAIN YOUR Y2K ADJUSTMENT TO YEAR-END 2001 RESULTS OF OPERATIONS.

A. I have removed the Company's Y2K Adjustment shown on Gary L. Robinson's Exhibit QGC 4.4, page 12. Subsequent to the Commission's order in Docket No. 99-057-20, the Company's Accounting Department deferred and began amortizing Y2K expenditures. The year-end 2001 test year already reflects the amortization of Y2K expenditures approved by the Commission. Therefore, no adjustment to Y2K expenditures should be made to 2001 operating results. My adjustment to operating expenses in therefore $0, as shown on Exhibit No. DPU 3.8, as compared to the Company's proposed increase to operation expenses of $546,419.

The Company's Regulatory Department, apparently assumed that all Y2K expenditures were expenses on the Company's books in 1999, and thus the amortization order by the Commission was not reflected on the Company's books in 2001.

PEOPLE SOFT MAINTENANCE FEES

Q. PLEASE EXPLAIN YOU ADJUSTMENT TO PEOPLE SOFT MAINTENANCE FEES.

A. This adjustment reflects the increase in the PeopleSoft annual maintenance fee that occurred in 2001. It includes the maintenance charged directly to Questar Gas as well as that portion of the maintenance fee charge allocated to Questar Gas from Questar Corporation and Questar Regulated Services. The adjustment increases operating expenses $35,422, as shown of Exhibit No. DPU 3.9.

PROPERTY RELATED INSURANCE COSTS

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PROPERTY RELATED INSURANCE COSTS?

A. My adjustment changes the Company's adjustment to Property Related Insurance Costs shown on Gary L. Robinson's Exhibit QGC 4.6, to include increases in property insurance allocated to Questar Gas from Questar Corporation and Questar Regulated Services. It also recognized the fact that these increases occurred in 2001, not 2002, as indicated on the Company's exhibit. The Company's insurance policy's term runs from November 1 to October 31. The property related insurance cost increase shown on Exhibit QGC 4.6, reflects the increase in insurance premiums that occurred on November 1, 2001. My adjustment increases the Company's adjustment from $418,626 to $423,388, to reflect increased property insurance costs allocated from Questar Corporation and Questar Regulated Services as shown on Exhibit No. DPU 3.10. It is included as an adjustment to 2001 operation results.

RENT EXPENSE

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO RENT EXPENSE.

A. This adjustment reflects additional rental expense for 2001 that was not billed until 2002 and removes non-reoccurring rent expense incurred in 2001 for Utah Gas Service Company's Denver, Colorado office. The Utah Gas Service Company's Denver office is no longer in existence. It increases operating expenses $3,573, as shown on Exhibit No. DPU 3.11.

NON-REGULATED EXPENDITURES

Q. PLEASE EXPLAIN YOUR ADJUSTMENT FOR NON-REGULATED EXPENDITURES.

A. During 2001 Questar Gas was allocated charges from Questar Corporation and Questar Regulated Services associated with the development of gas fired generation, business development in Ireland and the United States, Main Line 104 and Southern Trails. These activities are not necessary to the provision of gas service in Utah and should be disallowed. This adjustment removes these charges from Questar Gas' 2001 operating results. It reduces operating expenses $333,778, as shown on Exhibit No. DPU 3.12.

In Questar Gas' previously filed rate case, Docket No. 99-057-20, the Division recommended that costs related to these type of activities be accounted for in specific work orders so that they were readily identifiable and not intertwined with other expenditures. Questar Corporation did in fact assign a specific activity code to gas fired generation development activities. However, Questar Regulated Services was negligent in assigning specific activity codes to its various business development activities. Since the last rate case the Company has implemented PeopleSoft which readily provides for the categorization of expenditures. In the future the Company should be required to assign specific activity codes to business development activities.

OTHER EXPENSES

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO OTHER EXPENSES.

A. This adjustment removes out of period costs, acquisition costs, Grynberg litigation costs, olympic costs, AMIP costs, over accrual of research and development costs and costs that should have been charged to other non-regulated affiliates within the Questar family that were either recorded on Questar Gas' books or allocated to Questar Gas from Questar Corporation and Questar Regulated Services. It reduces operating expenses $515,059, as shown on DPU Exhibit No. 3.13, page 1. The various components of this adjustment follow:

<u>1. Questar Gas</u>

Q. WHAT OTHER EXPENSES DID YOU REMOVE THAT WERE CHARGED DIRECTLY TO QUESTAR GAS?

A. In 2001, Questar Corporation billed Questar Gas $275,055, for costs associated with the Nominating System that were incurred prior to 2000. These are the out of period costs shown on Exhibit No. DPU 3.13, page 1 of 3, column B, line 1.

In Docket No. 99-057-20, the Commission authorized Questar Gas to fund industry-wide research and development in distribution non-gas rates that had historically been funded through the payment of a Federal Energy Regulatory Commission approved charge included in pipeline rates. The Company accrued the funding level approved by the Utah Commission on its books and records throughout the year and charged research and development expenditures against the accrual. In 2001, the Company expended $58,605 less then the amount accrued. Therefore the actual research and development expenses recorded on Questar Gas' books are $58,605 greater than the actual expenditures incurred for research and development. I have reduced 2001 operating expenses $58,605, to reflect the actual expense incurred as shown on Exhibit No. DPU 3.13, page 1 of 3, column B, line 2.

Per the Commission's in Docket No. 95-057-21, Grynberg litigation costs are included in the Company's 191 Account. Some Grynberg litigation costs were inappropriately included in operating expenses. This adjustment removes these costs totaling $21,524, as shown on Exhibit No. DPU 3.13, page 1 of 3, column B, line 3. The Company should seek recovery of these costs thru the 191 Account as ordered by the Commission. To allow recovery of these costs in general rates could result in them being recovered twice, both through general rates and later through the 191 Account.

Only three bills related to the 2002 Olympics slipped through Questar's accounting system and found their way above the line. The $2,280 reduction shown on Exhibit No. DPU 3.13, page 1 of 3, column B, line 4, is one and was direct billed to Questar Gas from Questar Corporation. The other two bills were recorded on Questar Corporation's books as administrative and general expense and thus a portion of them were allocated to Questar Gas. The Company did in fact record Olympic expenses below the line.

2. Questar Corporation

Q. WHAT OTHER EXPENSES WERE ALLOCATED TO QUESTAR GAS FROM QUESTAR CORPORATION?

A. Questar Corporation's operating results for 2001 included $88,044 of rent expense from 2000, as well as a $97,418 adjustment to 2000 AMIP expense. These two items make up the total out of period costs on Exhibit No. DPU 3.13, page 2 of 3, column B, line 1. Additionally it should be noted that Division witness Paul Mecham has recommended the disallowance of AMIP. These items were recorded as administrative and general costs and allocated to Questar Corporation's affiliates including Questar Gas.

Questar Corporation's 2001 operating results also included acquisition costs. It is unclear as to what entity these acquisition costs apply. However, acquisition costs relating to the purchase of Utah Gas Service Company have been explicitly denied recovery. Other acquisitions made during 2001 related to non-regulated activities and therefore are not recoverable in Questar Gas' rates. Acquisition costs are shown of Exhibit No. DPU 3.13, page 2 of 3, column B, line 2.

During 2001 various expenses were recorded on Questar Corporation's books as administrative and general expenses and allocated to its affiliates when in fact they should have been directly billed to a particular affiliate. These costs are shown on

Exhibit No. DPU 3.13, page 2 of 3, column B, line 3.

During 2001 Questar Corporation allocated Grynberg litigation expenses which per previous Commission orders are included in Questar Gas' 191 Account. If allowed in distribution non-gas rates these expenses would be recovered twice. Grynberg litigation expenses are shown on Exhibit No. DPU 3.13, page 2 of 3, column B, line 4.

Finally, a couple of bills for 2002 Olympic expenditures found their was to administrative and general expenses that in turn were allocated to Questar Corporation's affiliates. Olympic costs are shown on Exhibit DPU 3.13, page 2 of 3, column B, line 5.

3. Questar Regulated Services

Q. WHAT OTHER COSTS DID YOU ADJUST THAT WERE ALLOCATED TO QUESTAR GAS FROM QUESTAR REGULATED SERVICES?

A. Questar Info Comm charged Questar Regulated Services for a portion of the AMIP for a Questar Info Comm executive. A portion of this AMIP was allocated to Questar Gas. Consistent with Division witness Mecham's testimony I have removed this AMIP expense. This particular AMIP expenditure was not identified in the Company's filing nor adjusted by Division witness Mecham. AMIP is address by Division witness Mecham. AMIP cost is shown on Exhibit DPU 3.13, page 3 of 3, column B, line 5.

QUESTAR CORPORATION ALLOCATION S ADJUSTMENT

Q. PLEASE EXPLAIN THE ADJUSTMENT TO UPDATE QUESTAR CORPORATION'S ALLOCATIONS TO ITS AFFILIATES.

A. Questar Corporation's general and administrative expenses, which are not directly billed, are allocated to its subsidiaries based on the Distrigas Formula, with the exception of the HR System which is allocated based on employee numbers. The Distrigas Formula, which is based on gross plant, gross revenue less natural gas and other product purchases and gross payroll, is updated annually. Likewise, so is the employee allocation. The Distrigas Formula applied to 2001 expenses was based on 2000 year end results. Employee numbers likewise were 2000 levels. This adjustments updates the Distrigas Formula to reflect 2001 operating results, thus reflecting changes which occurred during the test year. Likewise it updates employee numbers to 2001 levels. This adjustment reduces operating expenses $140,008, as shown of Exhibit No. DPU 3.14.

<u>QUESTAR REGULATED SERVICES DISTRIGAS ADJUSTMENT</u>

Q. PLEASE EXPLAIN YOUR QUESTAR REGULATED SERVICES DISTRIGAS ADJUSTMENT.

A. The Distrigas formula is normally updated in March when prior year end results become known. Once the current year Distrigas factors are established, Questar goes back and trues-up the allocations for January and February to reflect the current year factors. Questar Regulated Services does not true-up previous months. This adjustment trues-up the months of January and February to reflect the Distrigas factors applicable to 2001. It results in a $4,046 increase in operating expenses as shown of Exhibit No. DPU 3.15

QUESTAR REGULATED SERVICES ALLOCATION UPDATE

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO UPDATE QUESTAR REGULATED SERVICE'S ALLOCATIONS TO QUESTAR GAS AND QUESTAR PIPELINE.

A. The majority of Questar Regulated Service's cost centers are allocated between Questar Gas and Questar Pipeline based on Distrigas. The exceptions are Personnel Services, Continuous Improvement and Security which are allocated on employee numbers and the engineering cost centers which are allocated based on direct charges. This adjustment updates Distrigas and employee allocation to year-end 2001 levels and adjusts the direct charge allocation to a five year average. It reduces operating expenses $569,034, as shown on Exhibit No. DPU 3.16, page 1 of 4.

Q. PLEASE DISCUSS THE DISTRIGAS FORMULA UPDATE ON PAGE 2 OF EXHIBIT DPU 3.16.

A. Questar Regulated Services, like Questar Corporation, allocates costs to the affiliates to which it provides services, Questar Gas and Questar Pipeline, using the Distrigas Formula. Distrigas is a three factor formula which allocates costs to each entity based on each entity's percentage of total gross plant, gross revenues less product costs and gross payroll. Product costs include natural gas and other product purchases, cost of goods sold and plant shrinkage. The Distrigas formula is updated annually based on gross plant, gross revenues less product costs and gross payroll as of December 31. Thus, the Distrigas Formula used to allocate 2001 cost centers was based on Questar Gas' and Questar Pipeline's year-end 2000 gross plant, revenues and payroll. I have reallocated the total Questar Regulated Services expenses allocated using the current Distrigas percentages which are based on Questar Gas' and Questar Pipeline's year-end 2001 gross plant, revenues and payroll. The current Distrigas percentages are reflective of changes that occurred during 2001, are being used to allocate Questar Regulated Services costs to Questar Gas and Questar Pipeline in 2002 and therefore are consistent with and match the Division's recommended 2002 average test year.

Q. PLEASE DISCUSS THE EMPLOYEE ALLOCATION UPDATE ON PAGE 3 OF EXHIBIT NO. DPU 3.16.

A. This schedule reallocates Questar Regulated Service's cost centers which are allocated based on employee numbers based on year-end 2001 employees. This is consistent with the Division's average 2002 test year which is based on year-end 2001 employee levels.

Q. PLEASE DISCUSS THE DIRECT CHARGE ALLOCATION UPDATE ON PAGE 4 OF EXHIBIT NO. DPU 3.16.

A. Engineering cost centers are allocated each month between Questar Gas and Questar Pipeline based on each entity's percent of directly charged engineering costs. The percent of each's directly charged engineering cost fluctuates with its relative portion of construction activity. Likewise the percentages of labor capitalized and expenses varies with construction activity. The Division uses a five year average to apportion labor costs between capital and expense for ratemaking purposes. We now have five years of historical data for Questar Regulated Services. Therefore, I have reallocated Questar Regulated Services engineering cost centers using a five year average of direct charges. This not only is consistent with the Division's apportionment of labor between capital and expense, but also normalizes the percentage of engineering costs allocated to Questar Gas.

<u>QUESTAR ENERGY SERVICES DISTRIGAS ADJUSTMENT</u>

Q. PLEASE EXPLAIN YOUR QUESTAR ENERGY SERVICES DISTRIGAS ADJUSTMENT.

A. The Distrigas allocation used to allocate Questar Regulated Services expenses should have included an allocation to Questar Energy Services. This adjustment assigns a portion of the total expenses allocated by Distrigas as adjusted to Questar Energy

Services. This compares to the Company's adjustment shown on Gary L. Robinson's Exhibit QGC 4.4, page 10. It reduces operating expenses $214,329, as shown on Exhibit No. DPU 3.17.

2002 ADJUSTMENTS

Q. WHAT ADDITIONAL ADJUSTMENTS DID YOU MAKE TO ARRIVE AT THE DIVISIONS AVERAGE 2002 TEST YEAR.

A. I made further adjustments of PeopleSoft maintenance fees, rent expense, property related insurance costs and Y2K costs.

PEOPLE SOFT MAINTENANCE FEES

Q. WHAT FURTHER ADJUSTMENT DID YOU MAKE TO PEOPLE SOFT MAINTENANCE FEES?

A. I reduced PeopleSoft maintenance fees to reflect a decrease that took effect on May 15, 2002. This reduces operating expenses $6,619, as shown on Exhibit DPU 13.18.

RENT EXPENSE

Q. WHAT FURTHER ADJUSTMENT DID YOU MAKE TO RENT EXPENSE?

A. I increased rent expense to reflect an increase in rents that took effect January 1, 2002. This increases operating expenses $101,444, as shown on Exhibit DPU 13.19.

PROPERTY RELATED INSURANCE COSTS

Q. WHAT FURTHER ADJUSTMENT DID YOU MAKE TO PROPERTY RELATED INSURANCE COSTS?

A. As I mentioned previously, the Company's purported 2002 increase in property related insurance costs actually took effect in 2001 and I have reclassified it accordingly. Per my discussions with the Company and information received from its Insurance Department, the Company is facing a substantial increase in property related insurance costs when new rates become effective on November 1, 2002. I have increased operating expenses $1,051,623, as shown on Exhibit No. DPU 13.20, to reflect the expected increase. The Company expects to receive rate quotes in mid-October 2002, and will receive the actual billing by mid-November 2002. This adjustment will be trued-up to reflect the actual property insurance costs prior to the rate effective date in this Docket.

Y2K COSTS

Q. WHAT FURTHER ADJUSTMENT DID YOU MAKE TO Y2K COSTS?

A. I removed the amortization of Y2K cost. Y2K costs were fully amortized on December 31, 2001. This adjustment reduces operating expenses $485,833, as shown on Exhibit No. DPU 3.21.

IV. OTHER ISSUES RECOMMENDATIONS

Q. DO YOU HAVE ANY OTHER ISSUES OR RECOMMENDATIONS YOU WOULD LIKE TO RAISE IN THIS PROCEEDING?

A. Yes. Currently Questar Gas, unlike PacifiCorp, does not file an "affiliated interest" report detailing the services Questar Gas receives from its affiliates, affiliates that provide the service and charges received for those services as well as the basis for the charge. It would be extremely helpful from an auditing standpoint, if Questar Gas would file such a report along with its annual results of operations. The Division proposes that it work with Questar Gas to develop an "affiliate report" that is useful to the Division's auditors and not burdensome to the Company.

V. CONCLUSION

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes.