Docket No. 02-057-02
Thomas F. Peel
Exhibit No. DPU 4.0
August 30, 2001

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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

PRE FILED TESTIMONY OF

THOMAS F. PEEL

FOR THE

DIVISION OF PUBLIC UTILITIES

DEPARTMENT OF COMMERCE

STATE OF UTAH

August 30, 2002

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Q.

PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Thomas F. Peel, and my business address is the Heber M. Wells State Office Building, 160 East 300 South, Salt Lake City, Utah.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed as a Public Utility Technical Consultant for the Utah Division of Public Utilities (Division).

Q. HOW LONG HAVE YOU BEEN EMPLOYED BY THE DIVISION OF PUBLIC UTILITIES?

A. I have been employed by the Division since March 6, 1979.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I am a graduate of Brigham Young University with a Masters Degree in Accounting. I am also a graduate of the University of Utah with a Masters of Business Administration (MBA). I have participated in many conferences and seminars dealing with public utility regulation over the years.

Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ASSOCIATIONS?

A. I am a registered Certified Public Accountant (CPA) with the State of Utah.

Q. HAVE YOU PRESENTED TESTIMONY AND EXHIBITS IN PREVIOUS CASES BEFORE THE UTAH PUBLIC SERVICE COMMISSION?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

A. I will present testimony relating to Division adjustments involving revenues, net gains from property sales, uncollectible accounts, tax credits, rate base corrections and revisions and depreciation expense.

REVENUES

Q. PLEASE EXPLAIN THE DIVISION'S REVENUE ADJUSTMENT FOR 2002 NEW CUSTOMERS, AS SHOWN ON EXHIBIT NO. 4.1.

A. The Division's first adjustment increases Utah revenues by $148 thousand. The adjustment reflects the addition of three new customers in 2002 that were not contemplated in the Company's original filing.

Q. PLEASE EXPLAIN THE DIVISION'S CUSTOMER USAGE REVENUE ADJUSTMENT, AS SHOWN ON EXHIBIT NO. 4.2.

A. The Division proposes an adjustment to GS-1 customer usage. The Company forecasted a decline in customer usage during 2002 to level of 116.16. The Division proposes a customer usage level of 117.00 Dths, which increases revenues by $1.036 million.

Q. PLEASE EXPLAIN HOW THE 117.00 DTHS WAS CALCULATED.

A. Because customer usage is impacted by so many variables, it is difficult to forecast future customer usage levels. The Division's estimate, therefore, begins with the average actual GS-1 customer usage, as of June 30, 2002, which is about 118.00 Dths. This level of usage is based on normal degree days for the 30 years 1970 - 1999. The Division then adjusted the 118.00 Dths to update for the effect of the change in normal degree days for the 30 years 1972 - 2001 (117.25), and the effect of the lower usage levels of GSE customers (formerly Utah Gas) to arrive at the Division's mid-year adjusted GS-1 usage of 117.00 Dths.

Q. WHAT IS THE BASIS FOR THE DIVISION'S ESTIMATE OF CUSTOMER USAGE OF 117.00 DTHS, WHICH IS HIGHER THAN QUESTAR'S ESTIMATE?

A. Usage declined during the years of significant rate increases. The Division believes that rate levels have a significant impact on customer usage. If rates tend to be burdensome, many customers will change their usage habits. It is true that there are other factors that also influence usage levels (e.g., better insulated homes, more efficient furnaces and appliances, etc.). From July, 1999 through January, 2001, rates increased approximately $298 million. However, beginning in October, 2001 through January, 2002, rates decreased approximately $179 million or 60 percent. Based on the recent significant decrease in rates, it is possible that many customers may take advantage of the lower rates during the 2002/2003 winter season by increasing their usage. The use of a 2002 mid-year adjusted GS-1 customer usage, of 117.00 Dths, represents a test year forecast that anticipates a little higher usage than the Company's forecasted 116.16 Dths level.

Q. DID THE DIVISION TEST THE COMPANY'S FORECAST OF 2002 CUSTOMER LEVELS?

A. Yes. The Company forecasted an increase in GS-1 customers of 18,500 by year-end 2002. The Division reviewed the Company's forecast and performed its own tests which included a comparison of ratios based on the relationship of six months accumulated customer totals to annual totals. The conclusion was that the forecasted customer increase of 18,500, for 2002, appears reasonable.

Q. PLEASE EXPLAIN THE USAGE ADJUSTMENTS RELATING TO THE GADSBY AND WEST VALLEY CITY GAS-FIRED PLANTS, AS SHOWN ON EXHIBIT NO. 4.11.

A. In the original filing, Docket No. 02-057-02, the 2002 estimated usage of the gas-fired plants at Gadsby and West Valley City were incorrect. The Gadsby usage was over-estimated and the West Valley City usage was under-estimated. The net effect of the revised projections is an increase in revenues of $226 thousand.

GENEVA STEEL REVENUE

Q. PLEASE EXPLAIN THE DIVISION'S GENEVA STEEL REVENUE ADJUSTMENT, AS SHOWN ON EXHIBIT NO. 4.3.

A. Based on information (some confidential) presented in meetings by representatives of Geneva Steel (Geneva) and PacifiCorp, there appears to be a strong possibility that Geneva could resume operations before the close of 2002. Geneva Steel has reached an agreement with its secured lenders for continued access to cash collateral through September 27, 2002. Use of cash collateral, money that banks hold a lien against, allows Geneva to continue limited operations by meeting payroll and professional fees through the sale of its inventory, assets and the collection of accounts receivable. Without the use of cash collateral, the Geneva plant would be highly unlikely to begin operation. The Company is continuing efforts to secure a $250 million loan from Germany based Deutsche Bank. The loan would be 85 to 95 percent guaranteed by the federal government under the Emergency Steel Loan Guarantee Act. The Division therefore proposes an adjustment to revenues of $944 thousand to reflect the possibility of Geneva operating, once again, as a viable business. The adjustment restores Geneva Steel revenues on the basis of average Dths (12.8 million) for the years 1999 and 2000 as a Schedule FT-1 customer. These two years seem to represent normal operations. The future of Geneva will be known before the Commission issues its order in the current case. If Geneva fails to convince lenders and other key parties as to the viability of its business plan, then the Division's adjustment should be eliminated.

Q. IF GENEVA STEEL DOES INSTALL AN ELECTRIC ARC FURNACE, WOULD THE NEED FOR NATURAL GAS DECLINE SIGNIFICANTLY?

A. The Electric Arc Furnace would not become operational until early 2004. Geneva has 3 blast furnaces. The Company intends to use the blast furnaces, as in the past, beginning possibly in October or November of 2002 through 2003 and would be using natural gas during the rate effective period. Based on discussions with Geneva executives, when the Electric Arc Furnace comes on line the Company will continue to use the blast furnaces into the future. It was indicated that natural gas usage would not decline but would continue as in past years.

Q. PLEASE EXPLAIN THE DIVISION'S "RATE SCHEDULES" REVENUE ADJUSTMENT, AS SHOWN ON EXHIBIT NO. 4.4

A. Based on information provided by the Company in a data request, this adjustment reflects a change in rate schedules for specific FT2 transportation customers who no longer satisfy the 50 percent load factor requirement. These customers will be changed to GS-1 or F-1 type schedules. The adjustment increases 2002 revenues by $88 thousand.

NET GAINS ON UTILITY PROPERTY SALES

Q. PLEASE EXPLAIN THE DIVISION'S ADJUSTMENT FOR NET GAINS ON UTILITY PROPERTY SALES, AS SHOWN ON EXHIBIT NO. 4.5

A. The Division believes that ratepayers have borne the primary economic risks and burdens associated with Questar's utility plant. The rate base consists of investor-owned plant facilities and other assets used in supplying utility service to the consumer. Through cost based rates, the shareholder is given the opportunity to recover plant investments and earn a return on those investments in rate base. However, since rate payers essentially assume the risks associated with recovery of investments and a fair return on those investments, gains on utility property should be used to offset future rates. The net gains for 2001 and early 2002 totaled $930 thousand. The Division's adjustment amortizes the gains over three years which increases the 2002 miscellaneous revenues by approximately $310 thousand.

Q. HOW DOES QUESTAR GAS ACCOUNT FOR NET GAINS ON PROPERTY SALES?

A. Gains are recorded "below-the line" at the time the sale is closed on the books.

Q. HOW DOES PACIFICORP ACCOUNT FOR NET GAINS ON PROPERTY SALES?

A. PacifiCorp typically includes gains on utility property sales "above-the-line" for semi-annual reporting and rate making purposes.

Q. PLEASE EXPLAIN THE DIVISION'S REASONING FOR THE INCLUSION OF THE FULL NET GAINS RATHER THAN THE USE OF A SHARING MECHANISM.

A. Actually, there is a sharing of the gains. Between rate cases, realized net gains accrue fully to the benefit of the shareholders. When there is a rate case, only the gains realized during the test year would be included for rate making. Generally, test year gains are amortized over three years. In the current case, the Division used a three year amortization.

Q. PLEASE EXPLAIN THE OTHER ADJUSTMENTS ON EXHIBIT 4.5 WHICH AFFECT THE RATE BASE.

A. It was discovered that various properties, that were previously sold, were still being depreciated and included in the year-end 2001 rate base. The DPU adjustment corrects these errors by reducing the year-end 2001 rate base by $4.218 million and depreciation expense by $158 thousand.

UNCOLLECTIBLE ACCOUNTS

Q. PLEASE EXPLAIN THE DIVISION'S ADJUSTMENT TO UNCOLLECTIBLE ACCOUNTS, AS SHOWN ON EXHIBIT NO. 4.6.

A. The Division's adjustment reduces uncollectible accounts by $425 thousand. With the adjustment, uncollectible expense is reduced from $1.877 to $1.452 million. The Company increased its uncollectible percent of revenues to 0.9% in 2002 from approximately 0.5% in 2000. The Division is proposing an increase to 0.7%.

Q. WHAT IS THE DIVISION'S 0.7% OF REVENUES FOR UNCOLLECTIBLE ACCOUNTS BASED ON?

A. The Division reviewed PacifiCorp's Results of Operations for its fiscal year ending March 2002. Uncollectible accounts as a percent of general business revenues for unadjusted results for total company and Utah is approximately 0.68%. Since the two major utilities operating in Utah serve essentially the same customers, the Division recommends that the Commission use PacifiCorp's rounded 0.7% as a substitute for the 0.9% used by Questar Gas in its rate filing.

Q. WHAT ARE THE CONTRIBUTING FACTORS TO THE INCREASE IN UNCOLLECTIBLE EXPENSE, BEGINNING IN 2001?

A. The increase in uncollectible accounts, as a percent of sales, is due to several factors. **First**, the number of accounts written off due to bankruptcies has significantly increased (Utah leads the nation), **second**, write-offs have increased due to unusually high gas prices and rate hikes experienced in the last quarter of 2000 and the first quarter of 2001, and **third**, the down-turn in the economy (recession) and high unemployment as a result of layoffs makes it difficult for people to meet their financial obligations.

Q. ARE THERE ANY OTHER CONTRIBUTING FACTORS?

A. Probably, but other possible contributing factors are not easily identified. The average time frame, for an account to go through the collections process and be written-off, has decreased from five to seven months, in 2000, to four to five months in 2001. This implies that accounts are written-off more quickly than in the past. Prior to October 2000, the majority of field collections were performed by Questar employees. Beginning October 30, 2000 and ending September 13, 2001, Questar Gas contracted with Utility Services, N.A., to do most of the field collections. From December 13, 2001, Questar Gas has contracted with CDI Corporation (an affiliated company) to do field collections. Who performed filed collections between September 14, and December 12, 2001 is unclear. It is also my understanding that the number of in-house collection representatives was reduced from six to five employees in December, 2000.

The employee reduction, the shifting and balancing of workload among existing staff due to staffing restrictions, the move to outsourcing field collections (which resulted in a change in 2001 for the service provider), and the fact that accounts receivable are written-off more quickly, could possibly have contributed, in some degree, to the increase in uncollectible accounts.

Q. DID THE DIVISION REVIEW THE AVERAGE WRITE-OFF BALANCE PER RESIDENTIAL CUSTOMER?

A. Yes. During the years 1997 - 2000, the average write-off balance averaged about

$125.00. In 2001 the average write-off balance increased to $184.00. For the months of January - April of 2002, the average write-off balance is about $130.00. This reduction, during the winter months, would seem to support some kind of reduction in the percent of revenue calculation for uncollectible accounts.

Q. PLEASE SUMMARIZE THE DIVISION'S CONCLUSIONS REGARDING UNCOLLECTIBLE ACCOUNTS.

A. Based on economic data, going forward, we expect that recovery from the down-turn in the economy will probably be gradual. This would argue for a higher level of uncollectible accounts. But one could also argue that the significant decrease in rates, during the latter part of 2001 and early 2002, could help to lower uncollectible accounts. Looking forward, the Division proposes that the 0.7% of revenues for uncollectible accounts appears reasonable through 2003, based on what we know at the present time.

Q. WHAT ABOUT THE 70 PERCENT OF UNCOLLECTIBLE ACCOUNTS RECENTLY TRANSFERRED TO THE 191 ACCOUNT (UNRECOVERED PURCHASE GAS COSTS)?

A. It seems logical that any adjustment made to the DNG portion of uncollectible accounts, should also apply to the portion of uncollectible accounts associated with gas costs (191 Balancing Account).

SECTION 29 TAX CREDITS

Q. PLEASE EXPLAIN THE DIVISION'S ADJUSTMENT FOR SECTION 29 TAX

CREDITS, AS SHOWN ON EXHIBIT NO. 4.7.

A. The Division's adjustment restores the $1.735 million Section 29 tax credits removed by the Company in its rate case filing. Under current law Federal tax credits, for the production of gas from tight-sands formations, expire for all production after December 31, 2002. It is my understanding that both the House and Senate have versions of a tax credit extension but the differences must be resolved in conference. The House version limits the production subject to credit of 200,000 cubic feet per day from a qualifying well or facility. This would extend some credits, but limits the amount available to Questar Gas. The Senate version enacts a new credit only applicable to wells drilled after enactment. What the final outcome will be is unknown at this time. In any event, whatever Congress may come up with, by the end of 2002, should be reflected in the current case in place of the Division's tax credit adjustment. If Congress does nothing by year-end 2002, then the Division's adjustment (which is based on the original tax credit continuing) should be eliminated and revenue requirement increased by $2.798 million ($1,735,000 x 1.6129 tax gross-up).

Q. HOW WILL THE COMMISSION BE APPRAISED OF ANY LEGISLATION THAT MAY BE FORTHCOMING REGARDING AN EXTENSION FOR SECTION 29 TAX CREDITS?

A. Since Questar Gas is tracking this issue, they should be the party responsible to inform the Commission, before the issuance of an order in this case, of the status of the bills in Congress addressing the extension of tight-sands tax credits.

2002 CAPITAL BUDGET REVISIONS

Q. PLEASE EXPLAIN THE DIVISION'S ADJUSTMENT FOR 2002 CAPITAL BUDGET REVISIONS, AS SHOWN ON EXHIBITS NO. 4.8 AND 4.9.

A. The forecasted capital budget "quarterly closings to plant" (a measure of increased investment in plant) exceeded actual closings for the first six months of 2002 by approximately $13 million. Subsequent to its initial filing, the Company reduced its capital budget forecast, for the 2002, by $9 million. In addition, the Company increased its retirements estimate from $15 million to $19 million. A change in the year over year Account 107 (Construction Work in Progress) resulted in a reduction of $4.669 million from the original forecast. The overall result is a reduction, in the year-end 2002 Account 101 (Gas Plant in Service), by $17.669 million for a revised 2002 Capital Budget of $59.6 million. The original capital budget was $68.6 million. The effect of a lower rate base is a reduction in revenue requirement.

Q. PLEASE EXPLAIN THE ADJUSTMENT TO OFFICE SUPPLIES & EXPENSES (ACCOUNT 921), AS SHOWN ON EXHIBIT 4.8.

A. The adjustment, to Account 921, relates to the hiring of 12 new employees in 2003. The Division is not accepting this adjustment for reasons that will be explained in the testimony of Mr. Ron Burrup (Division witness). This adjustment reduces expenses by $458 thousand.

DEPRECIATION EXPENSE

Q. PLEASE EXPLAIN THE DIVISION'S ADJUSTMENT FOR DEPRECIATION EXPENSE, AS SHOWN ON EXHIBIT NO. 4.10.

A. Based on its analysis, the Division calculated depreciation expense for 2002 to be \$40.768 million. After taking into consideration all adjustments, the depreciation expense included in the case is \$42.217 million. The difference represents an adjustment that reduces depreciation expense by \$1.449 million. The Division concludes that the appropriate weighted composite depreciation rate should be approximately 3.5%. Based on a review of depreciation rates, as a percent of gas plant in service for 2001 and 2002 (original filing) for unadjusted and adjusted numbers, composite depreciation rates range from 3.2% to 3.5%. The Division selected the higher end of the range (3.5%) to calculate depreciation expense by applying the rate to the year-end adjusted gas plant in service of \$1.165 billion.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes.