Exhibit QGC 7.0R

BEFORE THE
PUBLIC SERVICE COMMISSION OF UTAH

Questar Gas Company	)	Docket No. 02-057-02

REBUTTAL TESTIMONY OF
DAVID M. CURTIS
ON BEHALF OF QUESTAR GAS COMPANY

October 4, 2002

Q. State your name and business address.

A. David M. Curtis, 180 East First South Street, Salt Lake City, Utah 84111.

Q. What is your position and you current responsibilities?

A. I am the Controller for Questar Regulated Services, Questar Gas, Questar Pipeline and Questar Energy Services. I have responsibilities for the accounting, tax, budget and planning functions.

Q. What is your educational and professional background?

A. I received a bachelors degree in accounting from the University of Utah in 1979 and a masters degree in business administration from Westminster College in 1998. I am licensed as a Certified Public Accountant in the State of Utah.

Q. Have you reviewed the testimony filed by the Division of Public Utilities (Division) and Committee of Consumer Services (Committee)?

A. Yes.

RATE BASE

Q. For the 2002 test year, the Committee has proposed that the Commission adopt a value for rate base that would be an average over the 12 months of 2002. Do you agree with this approach?

A. No. Keeping in mind that the overarching goal of ratemaking is to model as well as possible under applicable Utah law the conditions that will be present during the rate-effective period, the average rate base for 2002 will not fairly represent conditions during the rate-effective period. QGC's 2002 year-end rate base will more accurately reflect the conditions that will exist when new rates will be effective.

Q. Please explain why this is so.

A. Equity investors in the Company are entitled to earn a return on the full amount of their investment during the rate-effective period. Although some have criticized the "snapshot" nature of year-end rate base, the actual investment (net of depreciation) at a given time is what the investor should earn on. Thus, the year-end snapshot is entirely appropriate in the following sense: If rates are effective on January 1, 2003, then the investor is entitled to earn the authorized return—whatever that turns out to be—on the investment base *on that date*. The only reason to take an average would be to take a *forward-looking* average. The Company has not proposed to do that here, although it would provide an even fairer measure over the course of the 2003 rate-effective period.

Q. But, doesn't the rate base vary from one part of the year to another, thus

rendering the "snapshot" possibly unrepresentative?

A. Rate base does vary throughout the year. However, in QGC's case, the variance is nearly uniformly increasing. Exhibit QGC 7.1R shows the history of QGC's rate base month by month since 1997, with year-end projections based on revised capital budget figures through the end of 2002.

As Mr. Allred has testified, QGC is an increasing-rate-base utility, and this graph dramatically demonstrates the point. There may be a slight dip at the end of January and February when there are relatively few project closures and depreciation continues to be deducted, but the overall trend is always upward. This is easily seen by comparing each month on a year-to-year basis. This shows an increase for every month compared to the corresponding months over all six years shown on the graph.

Comparing the point marked "CCS 2001" on the right side of the graph with the expected 2002 year-end value of $571.7 million shows that an equity investor in QGC would begin the 2003 rate-effective period with *no return on over $40 million* in investment. And the shortfall would increase over 2003 as QGC's rate base continues to rise. Even with the Committee's 2002 test year, the use of average rate base will leave about $10 million of net investment that will not be eligible for a return on capital.

It is a difficult enough problem for the investor to see a dilution of his earning capability as the rate base increases from January 1, 2003. At least he doesn't begin the year already behind. But, it is entirely unfair for that investor to start on Day One knowing that millions in investment will never earn a return until the next rate case.

Q. Why did rate base, as shown on Exhibit QGC 7.1R, increase significantly in

December of 2000 and 2001?

A. Construction projects are often recorded as plant in service in the fourth quarter of each year because significant construction work occurs during the second and third quarters. In addition, QGC had some problems with its PeopleSoft fixed-asset system in 2000 and 2001 that prevented the Accounting Department from recording projects as plant in service on an ongoing basis before the end of the year. Instead, they were recorded in December. This problem has been largely fixed. Nevertheless, there will always be a larger increase near the end of the year as projects are "booked."

Q. Doesn't the investor get his investment back through the recognition of depreciation expense?

A. Yes, but the investor would only get a return *of* the investment and not *on* the investment. It is the same thing as requiring the equity investors to commit $40 million to a large coffee can buried in the backyard. To be sure, the can is opened up every year and perhaps 3% of what's in it is returned to the investor, but he has earned nothing on it. That is not a very attractive feature of investing in utility equities in Utah.

Q. Summarize the Company's position on average rate base.

A. For a utility company with a constantly increasing need for plant investment, the use of average rate base imposes an automatic penalty on the equity investor because the actual net investment in plant on the first day of the rate-effective period (in this case, sometime around January 1, 2003) will be significantly higher than the 2002 average rate base—and the disparity will continue to grow as the year 2003 progresses.

BAD-DEBT WRITE-OFF

Q. Division witness Tom Peel has proposed an adjustment to the 2002 test-year bad-debt write-off expense that would reduce the annual revenue requirement by $425,000. Do you agree with this adjustment?

A. No. In fact, additional information obtained since the May 3, 2002, filing in this case establishes that the Company's bad-debt experience has deteriorated since then, and an adjustment to increase the Company's revenue requirement by $417,000 is justified.

Q. Explain your understanding of Mr. Peel's proposed modifications to the Company's original filing.

A. QGC's May 3 filing reflected its most recent analysis, which established an average bad-debt ratio of .9% of total GS class revenues, or about $5.3 million. This value was obtained from write-off data compiled for the year ended December 2001.

Mr. Peel reduced this amount by $425,000 solely by changing the .9% ratio to .7% on the basis of his understanding that .7% represented the ratio recently experienced by PacifiCorp. So far as I can tell, he examined none of QGC's records or data that would provide recent, company-specific information on this difficult issue.

Q. Do you agree that QGC's experience should be about the same as that of PacifiCorp?

A. I have no reason to believe it would be identical and know of no evidence to support this conclusion. For purposes of this case, it is not particularly relevant, because we have accurate, recent data that establishes the current level of GS customer nonpayment. This far exceeds the level that Mr. Peel has assigned to QGC solely on the basis of a level recognized in the rates of some other Utah utility.

Q. What was the data that QGC relied on in its initial filing, and what is QGC's recent experience since that filing?

A. Exhibit 7.2R shows the last 32 months of information on QGC's GS revenues, the net bad-debt write-offs, and the ratio of 12 months of write-offs that lag 12 months of revenues by five months. For example, the December 2001 entry of .90%, which was used in the May filing, is the sum of write-offs from January 2001 through December 2001, divided by the sum of the GS revenues from June 2000 through July 2001.

As the exhibit shows, there has been a disturbing increase in this ratio over the past several months. The most recent information shows that the bad-debt ratio has increased significantly and is now 1.15% of revenues. This means that QGC can reasonably expect to experience annual bad-debt write-offs of about $6.8 million. The distribution non-gas portion of this is $417,000 more than in the original filing, and $842,000 more than Mr. Peel's PacifiCorp-driven claim.

Q. Why do you compare 12 months of write-offs with 12 months of revenues that occurred five months earlier?

A. The normal cycle of billing, non-payment, collection efforts, write-off and subsequent collection of a portion of the amount written off takes about this long.

Q. What is your recommendation about the treatment of bad debt in the Company's O&M expenses?

A. In view of the trend toward higher levels of unpaid bills by customers, test-year O&M expenses should be increased by $417,000 over the amount in the Company's original filing to reflect the most recent information. Indeed, if the trend that is indicated in Exhibit 7.2R continues, even this amount will be inadequate as the Company heads into the year 2003.

Q. Committee witness Donna DeRonne has proposed an adjustment to the 2002 test-year bad-debt expense that would reduce the annual revenue requirement by $567,000. Do you agree with this adjustment?

A. No. Committee witness Donna DeRonne proposed an adjustment based on a three-year average of net write-offs to average accounts receivable. This adjustment contains several logical errors.

The use of a three-year average ignores the clear trend of increasing bad-debt experience as the economy has worsened and individual bankruptcies have increased. The Company would be unable to recover significant costs if the revenue requirement were based on outdated experience.

Ms. DeRonne's adjustment is calculated on the ratio of net write-offs to average accounts receivable. As overall collection experience has been getting worse, the average accounts receivable to total revenues has been increasing. This causes Ms. DeRonne's ratio of net write-offs to be artificially low.

Q. Are there other reasons that bad-debt writeoffs will be higher than the levels included in the Company's May 2002 filing?

A. Yes. Among other things, the Company monitors bankruptcy filings of its customers. Data through September 2002 shows that the amount of write-offs has increased 29% since the year-earlier period in 2001, and 83% when comparing September 2002 with September 2001.

In addition, experience has shown that the effect of general economic conditions on bad debt is long-term. Throughout the 1980s decade, for example, QGC experienced a bad-debt cost of about 1.0% of GS revenues. During the 1990s, a period of far better economic conditions, this percentage was significantly lower. I see no reason to believe that the bad-debt expense level that the Company is currently experiencing is temporary; to the contrary, it is probably still going up.

Q. For book and tax purposes, at what rate will QGC have to accrue for bad debt during the rate-effective period?

A. It will accrue costs on the basis of actual experience. It cannot simply report what the Commission authorizes to be recovered in rates. Mr. Peel’s and Ms. DeRonne’s proposals would certainly cause QGC to incur an actual shortfall from the outset—a shortfall that would be reflected as a reduction of net income.

CAPITAL STRUCTURE—SHORT-TERM DEBT

Q. Committee witness David Parcell has recommended that the Company’s overall return on rate base should be determined from a capital structure that includes $66 million in short-term debt. Do you agree with this recommendation?

A. No. There is little or no connection between the Company=s rate base and its use of short-term debt to fund other needs for cash.

Q. What is the effect of the Committee’s inclusion of short-term debt in QGC’s capital structure?

A. Mr. Parcell's proposal has the effect of concluding that QGC finances 10.28% of its rate base with short-term debt whose recent cost has been 2.27%. Even using the Committee=s value for rate base of $533 million, this is tantamount to claiming that $55 million of the assets that make up the Company=s rate base are financed by commercial paper and other short-term instruments that are rolled over from every few days to a few months. This is just not the way the Company=s rate base is financed.

The effect on annual revenues from this proposal would be a shortfall of over $5.7 million.

Q. Explain the connection between capital structure and rate base.

A. The fundamental ratemaking role of the capital structure of a utility is to determine the "mix" of capital that is used to support the rate base of the utility. The rate base is composed of elements specified by the regulatory agency, primarily consisting of plant in service and other permanent assets used to carry out the utility's operations. The utility's capital structure is, then, the mixture of financial instruments such as equity, preferred stock and debt that are used to finance the utility=s rate base. Mr. Parcell recognizes this principle in his testimony where he states that capital structure should approximately equal the rate base that it finances.

Q. Does QGC use short-term debt to finance some of its operations?

A. Yes. Virtually all companies, including utilities, use short-term debt from time to time and for a variety of purposes. Questar Gas uses short-term debt for the following purposes:

To fund monthly swings in cash requirements—Gas supply costs are paid at the end of each month causing an intra-month swing in cash requirements. This swing is typically $20 million and at times, as when gas costs were high in the winter of 2000-2001, have been as high as $80 million.

To fund seasonal swings in cash requirements—The level of short-term debt is typically highest at the end of each year because of seasonally high levels of accounts receivable and gas stored underground.

To fund construction work in progress—Short-term debt is used to finance projects during the construction period until permanent financing can be obtained.

To fund the balance in the 191 Account—Short-term debt is used to fund the 191 Account when it is a debit balance (representing gas costs owed by customers to Questar Gas).

Q. Are construction work in progress and the 191 Account included in QGC's rate base?

A. No. Neither of these types of transactions result in additions to rate base and, therefore, the capital structure on which return on rate base is determined should not contain any short-term-debt component.

As to gas purchases, these are not a part of the utility operating plant, and their rate-making treatment is handled entirely through QGC's Commission-approved 191 Account procedures. Gas purchased by the Company is not included in any rate base account.

In accordance with past Commission orders, CWIP (Account 107) is also not included in rate base. CWIP is accorded rate treatment in Utah through an allowance for funds used during construction (AFUDC). This allowance is calculated at the short-term-debt rate that is specified by the formula in Account

107 of the Uniform System of Accounts.

Q. Isn't working capital included in the rate base?

A. Yes. The rate base includes an allowance for cash working capital of $3.3 million. However, this rate base amount is calculated on an average need throughout the year. As discussed earlier, the monthly and seasonal needs are very significant. These monthly and seasonal requirements are typically at the greatest on December 31 of each year.

Q. Please explain Exhibit QGC 7.3R.

A. I prepared this exhibit to show that the amount of short-term debt incurred by QGC closely tracks the combined funds committed to the 191 Account and CWIP since 1997. As the graph shows, the overall match is quite close. Large amounts of short-term debt are incurred in concert with the need for immediate cash to support gas purchases, as shown by month-end spikes in the short-term debt balance.

For example, when gas prices increased sharply in the period starting in December 2000, the need for short-term funds increased correspondingly, as shown on Exhibit QGC 7.3R. It then tailed off in late 2001, in part because QGC obtained long-term financing. QGC's short-term debt has been zero from March of this year to September 29. On September 30, short-term borrowings were $4.8 million.

Q. What is your conclusion on the short-term-debt component in Mr. Parcell's capital structure for QGC?

A. The Company's short-term borrowings do not support its utility rate base and should not be included as a component of the capital structure on which an overall return is applied to the rate base.

Q. Are there other indicators to show that QGC's rate base is not financed by short-term debt?

A. Yes. The following table compares rate base, long-term financing and short-term debt:

	December 31, 2001 (millions)	June 30, 2002 (millions)
Rate base[1]	$594.8	$579.6
Long-term financing		
Long-term debt	$285.0	$285.0
Common equity	305.9	314.3
	$590.9	$599.3
Short-term debt	$ 66.6	$ 0.0

[1]Including gas storage of $22.8 million on 12-31-01 and $12.8 million on 6-30-2002.

This table shows the rate base is closely matched with long-term financing and that use of short-term debt is unrelated to the funding of rate base. It also shows that, as of June 2002, there is no short-term debt—another piece of evidence to show that short-term debt is not a part of the capital structure used to finance rate base. The authorized return is applied to rate base. Thus, no return is provided on capital above rate base.

DEPRECIATION

Q. Mr. Peel for the Division has proposed that the test-year depreciation expense be reduced by $1,449,000. What do you understand to be the basis

for this reduction, and do you agree with it?

A. I strongly disagree with it. Mr. Peel's testimony devotes one paragraph to the unsupported conclusion that something he calls "the appropriate weighted composite depreciation rate" for QGC's utility plant should be 3.5%. He provided no study or foundation for the number—only that the Division conducted an "analysis" that is not otherwise explained.

The depreciation expense included in the Company's revised filing was based on a detailed asset-by-asset compilation of depreciation costs using asset lives that have been incorporated in prior Commission orders establishing rates.

Exhibit QGC 7.4R shows a six-year history of depreciation rates compared with average gross plant. Mr. Peel appears to have selected a depreciation rate lower than the lowest in this period and applied it to the test year. This adjustment is not supported by any detailed analysis.

Although it may be appropriate to reassess the various depreciation rates associated with different classes of utility assets, standard utility accounting practice does not simply toss all assets into one aggregated mass and assign a composite depreciation rate. To do so would require a major modification to QGC's utility accounting practices and far more background, study, data gathering and analysis than Mr. Peel presents in a single paragraph of testimony. The 2002 test-year depreciation expense used by the Company, as modified to reflect the changes to the 2003 capital budget, have been determined by the long-established and Commission-approved methods and should be incorporated in the 2002 test-year revenue-deficiency calculation.

Division witness Ron Burrup recognizes that any change to this important ratemaking element requires an appropriate study, and he has so recommended. It=s unclear to me what the Division's position on this subject is in view of the inconsistent recommendations of the two witnesses.

To address the issue on the merits, however, I believe that any change from the current rate and methodology must be supported by an analysis and study of the Company's assets. Although neither Mr. Peel nor Mr. Burrup have identified any problem or departure from actual experience involving the current composite rate, QGC is not opposed to performing an updated study to look at the general issue. However, to be fair, there should be consideration of the cost that the Company would incur in carrying it out with an appropriate adjustment to the Company's annual revenue requirement.

Q. Committee witness Donna DeRonne makes an adjustment for depreciation expense. Do you agree with this adjustment?

A. No. For the same reasons discussed earlier. Ms. DeRonne looks at depreciation expense in aggregate and applies an average rate to her test-year plant in service. The Company does not calculate depreciation expense in this manner. Rather, depreciation is calculated on an asset-by-asset basis, or asset-group basis, using depreciation lives that have been incorporated in past Commission-approved general rate orders. Using an average rate for all plant in service is far too simplistic and ignores the fact that different assets have different depreciable lives.

The Company cannot change its depreciation methods to apply some kind of composite rate to all plant. To do so would violate generally accepted accounting principles, which require the Company to depreciate assets over their useful lives.

Q. Division witness Ronald Burrup also proposes an adjustment for

depreciation expense. Do you agree with this adjustment?

A. No. Mr. Burrup adjusts depreciation for two proposed audit adjustments to the recorded 2001 depreciation expense. However, the Company did not use the recorded 2001 depreciation expense as the basis for its filing. As stated earlier, the Company calculated test-year depreciation using the asset listing as of December 31, 2001, adjusted for changes during 2002. These proposed audit adjustments were already included in the Company's test-year depreciation. The result of Mr. Burrup's proposal would result in double-counting the adjustment.

Q. With respect to these depreciation issues, what is your understanding of the current position of the Committee and Division?

A. The Company has had various conversations with Division and Committee witnesses on these issues, and it is my understanding that, since the Division and Committee filed their cases, the three parties have agreed on the Company's positions as reflected in the rebuttal testimony and exhibits of Mr. Robinson. If that is the case, the foregoing discussion of depreciation issues has become moot.

IRC SECTION 29 TAX CREDITS

Q. The Division and the Committee have proposed to include "Section 29 tax credits" that will have the effect of reducing the test-year revenue requirement by $2,717,000. Do you agree with this adjustment?

A. No. Tax credits corresponding to these revenue requirements were available in 2001, and somewhat smaller amounts will be available in 2002. However, there is little likelihood that *any* credits will be available in 2003—and certainly not at those levels if they were.

Q. What is the current tax law on Section 29 tax credits and their status?

A. Current tax law allows a credit for gas production from tight-sands formations. These tax credits end for production after December 31, 2002.

Q. Will there be an extension of these tax credits for gas production from tight-sands formations past that date?

A. It seems very unlikely. Both the House of Representatives and Senate have passed different versions of an "energy bill," and these bills are currently before a conference committee to reconcile differences. Any final bill must be signed by the President to become law. The tight-sands gas credit provisions in these two bills are very different. The House bill allows tight-sands credits to continue on wells currently qualified for the credit, but puts limits on the length of time and the amount of production qualifying for the credit. The Senate bill allows a credit only on qualifying wells drilled after the date of enactment. Resolution before the end of 2002 seems remote in view of the other matters that Congress must address by the end of the year and the fact that this is an election year.

Q. If either the House or Senate version of these tax credits were to become law, would the amount of credits realized by QGC be the same as the credits available in 2002?

A. No. If the Senate version were to become law, the allowed credits would start at zero and would only be allowed to the extent that Wexpro Company were to conduct new drilling in qualified tight-sands formations beginning in 2003. The House version has new restrictions on the amount of credit allowed and the time period over which the credits are allowed. Questar Gas and Wexpro have been unable to obtain enough information to fully understand what those restrictions mean for the current credits. But, it is quite clear that *any* mechanism currently being considered would not produce the levels of credits previously available.

And, of course, there is no reasonable way to predict that either version will become law in the near future, if at all.

CONTRACTOR RETAINAGE

Q. Ms. DeRonne has proposed a rate base adjustment of $1,151,000 related to contractors' funds retained by the Company in connection with certain construction projects. Is this a proper adjustment?

A. No. The contractor retainage consists of amounts owed on construction projects and withheld from contractors until the project is completed. This should not reduce rate base, because the retainage relates entirely to construction work in progress, which is not included in rate base.

Q. When is the amount owed to contractors paid?

A. It is typically paid at the time the project is completed. This corresponds to the time the project is recorded as plant in service and included in rate base.

Q. Does that complete your rebuttal testimony?

A. Yes.