

Docket No. 05-057-T01
Mary H. Cleveland
Exhibit No. DPU 3.0

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the 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

PREFILED DIRECT TESTIMONY OF

MARY H. CLEVELAND

FOR THE

DIVISION OF PUBLIC UTILITIES

DEPARTMENT OF COMMERCE

STATE OF UTAH

January 13, 2006

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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. Technical Consultant.

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

1 regulatory proceedings in the states of Alaska, Arizona, Connecticut, Kansas,
2 Missouri, New Mexico, Ohio, Utah and Wisconsin. I have also testified before
3 the Kansas Supreme Court. Further details regarding my background are
4 provided in Appendix A.

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II. PURPOSE OF TESTIMONY

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Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

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A. The purpose of my testimony is to describe the review process undertaken
9 by the Division which resulted in the \$10.2 million rate decrease contained in the
10 Joint Application. I will also address the Pipeline Safety Improvement Act
11 Implementation Costs.

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I was primarily responsible for reviewing Questar's actual results of
operations for the twelve months ending September 2005 and the adjustments
thereto supporting a voluntary rate decrease offered by the Company. The
purpose of this review was to provide some assurance that the operating results
and the adjustments thereto provided by the Company supporting its proposed
rate decrease were complete, accurate and in compliance with previous
Commission orders. I was assisted by Division staff member David Thomson.

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III. REVIEW PROCESS

Q. PLEASE DESCRIBE THE REVIEW PROCESS.

A. Questar initially provided its adjusted results of operations, which incorporated the depreciation study, for the 12 months ending September 2005. The Division performed an independent review of Questar's adjusted results.

First, we obtained Questar Gas' detailed general ledger accounts, as well as the detailed general ledger accounts of its affiliates that were allocated to Questar Gas. In addition we obtained Questar Gas' workpapers supporting its proposed adjustments to the results of operations for the twelve months ending September 2005.

Next, we verified the results of operations to the Company's general ledger. Adjustments to general ledger accounts were also traced to the Company's general ledger to verify their accuracy and completeness. For example, we traced institutional advertising and lobbying expenses to general ledger accounts, as well as reviewed the general ledger accounts to ensure ourselves that all institutional advertising and lobbying expenses had been removed from operating results.

For those adjustments that were based on budgeted data or other assumptions (i.e. payroll), we obtained corroborative evidence supporting the assumptions used. Additionally we obtained the most recent budgeted data for the remainder of calendar year 2005 available at time of our review and updated the adjustments made by Questar accordingly.

1 All adjustments proposed by Questar were reviewed for compliance with
2 previous Commission orders. Prior Commission orders were also reviewed to
3 determine that all adjustments previously ordered by the Commission for the
4 purpose of setting rates had been made. Two adjustments proposed by the
5 Company, the amortization of previously deferred pipeline safety improvement
6 act implementation costs and depreciation, require accounting orders.

7 Next, we tested the overall reasonableness of the results of operations for
8 the twelve months ending September 2005. We compared operating results for
9 the twelve months ending September 2005 to prior years to identify any
10 irregularities. Additionally, we reviewed the detailed general ledger accounts for
11 the 12 months ending September 2005 to identify any extraordinary items. We
12 also examined the detailed general ledger accounts for October and November
13 2005 for any subsequent adjustments to expenditures previously recorded during
14 the twelve month period ending September 2005, as well to identify any
15 significant subsequent changes to expenses on a going forward basis.

16 Additionally we reviewed changes in the Company's organizational
17 structure that took place during 2004 and examined the accounting associated
18 with the current organizational structure.

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1 **Q. WOULD YOU PLEASE DESCRIBE THE CHANGES IN THE**
2 **ORGANIZATIONAL STRUCTURE AND YOUR REVIEW OF THE**
3 **ASSOCIATED ACCOUNTING.**

4 **A.** During 2004, both Questar Infocom and Questar Regulated Services were
5 merged into Questar Gas Company. Previously these were separate entities that
6 maintained separate books and records and provided services not only to Questar
7 Gas Company, but to other affiliated Questar entities as well. Since these entities
8 operations are now being accounted for on Questar Gas Company's books and
9 records, Questar is now charging the other affiliated entities for the services
10 previously provided to them by Questar Infocom and Questar Regulated Services.
11 We examined the allocations and direct billings from Questar to the other
12 affiliated entities to confirm that all costs were being allocated and/or charged to
13 the other entities as they would have been if Questar InfoCom and Questar
14 Regulated Services were separate entities, i.e. to determine that no additional
15 costs resulted to Questar Gas Company as a result of this organizational change.

16 We noted that the operating costs previously recorded on both Questar
17 Infocom's and Questar Regulated Service's books and records were separately
18 identified on Questar Gas Company's books and records. Additionally, the
19 methodology used by Questar Gas Company to allocate and/or charge these costs
20 to the other affiliated entities was the same as that previously used by both
21 Questar Infocom and Questar Regulated Services to allocate their costs.

22 The merger of these two entities into Questar Gas Company also resulted
23 in additional corporate cost being allocated to Questar Gas, i.e. the corporate costs

1 that would have been allocated to Questar Infocom and Questar Regulated
2 Services were now being allocated to Questar Gas through the Distringas formula.
3 We confirmed that these additional corporate costs were also being allocated to
4 the other affiliated entities.

5 In addition to examining the allocation methodology we also reviewed a
6 sampling of billings from Questar Gas to the other affiliated entities.

7 Based on our examination of the methodology used by Questar Gas
8 Company to allocate and/or charge cost to other affiliated entities as well as our
9 review of a sampling of billings from Questar Gas to the other affiliated entities,
10 we are comfortable that Questar Gas Company was not adversely affected by this
11 organizational change.

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14 **Q. HAS THE DIVISION PREVIOUSLY RECOMMENDED CHANGES TO**
15 **QUESTAR'S RATES BASED SOLEY ON A REVIEW OF THE**
16 **COMPANY'S PREPARED RESULTS OF OPERATIONS WITHOUT**
17 **UNDERGOING A FULL FLEDGED RATE CASE INVESTIGATION?**

18 **A.** Yes, this is precisely what occurred in Docket No. 97-035-03. However,
19 in this instance the Company did not initially volunteer to lower rates, rather
20 based on its review of Questar's filed results of operations for calendar year 1996,
21 the Division determined that Questar was over-earning and requested a show
22 cause. Ultimately Questar and the Division stipulated to a \$ 2.8 million dollar
23 rate reduction.

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2 **Q. DID YOU ALSO PARTICIPATE IN DOCKET NO. 97-057-03 ON BEHALF**
3 **OF THE DIVISION?**

4 **A.** No, at that time I was employed as an auditor for the Committee of
5 Consumer Services.

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7 **Q. DID THE COMMITTEE CONDUCT A SIMILAR REVIEW IN DOCKET**
8 **NO. 97-057-03?**

9 **A.** Yes, in that instance I participated with the Division in its review of
10 Questar's operating results.

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12 **Q. HAVE YOU PARTICIPATED IN OTHER QUESTAR RATE CASES?**

13 **A.** Yes, I have performed an active role in all Questar rate filing since I was
14 employed as a regulatory auditor with the State of Utah in October 1988. I have
15 been primarily responsible for auditing operating expenditures and affiliated
16 allocations and charges. In addition I also regularly review Questar Gas
17 Company's adjusted results of operations which it files with the Division. As
18 such I'm very familiar with the Company's books and records, allocation
19 methodologies and organizational structure.

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1 **Q. HOW DID THIS REVIEW DIFFER FROM A FULL FLEDGED RATE**
2 **CASE INVESTIGATION?**

3 **A.** Actually the review we conducted in this instance would have been done
4 as an initial step in a full fledged rate case investigation. However, a full fledged
5 rate case investigation would include a more detailed analysis of all accounts,
6 including greater examination of invoices. Additionally, 100% of all affiliated
7 charges would have been examined. However, it should be noted that the
8 majority, in terms of dollars, of our adjustments are usually identified in our
9 initial review. Although the more detailed analysis does identify additional
10 adjustments, these adjustments can be offset at times by a mere tweak in the
11 allowed rate of return.

12 Also under the current statute, one would have to determine the
13 appropriate test year for setting rates, i.e. whether a historical test year with
14 known and measurable adjustments or a fully forecasted test year best represents
15 conditions in the rate setting period. In this instance the voluntary rate decrease
16 was based on results of operations for the 12 months ending September 2005.
17 Test year was not considered.

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19 **Q. WOULD YOU BRIEFLY DESCRIBE THE RESULTS OF YOUR**
20 **INDEPENDENT REVIEW IN THIS INSTANCE?**

21 **A.** Our initial review identified approximately an additional \$ 2 million dollar
22 decrease to Questar's initial proposed rate decrease. This additional \$ 2 million is
23 included in the \$10.2 million dollar decrease.

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III. PIPELINE SAFETY IMPROVEMENT ACT
IMPLEMENTATION COSTS

Q. WHY IS AN ACCOUNTING ORDER BEING REQUESTED FOR THE AMORTIZATION OF PIPELINE SAFETY IMPROVEMENT ACT IMPLEMENTATION COSTS?

A. Previously in its Order in Docket No. 04-057-03, the Commission authorized Questar Gas Company to establish a deferred account for incremental costs incurred from January 1, 2004 forward to implement the requirements of the Pipeline Safety Improvement Act. The Commission and all parties to this docket accepted the Company’s proposal to defer these costs until January 1, 2007, or until the next rate case, whichever is sooner, at which time amortization would begin over a five year period.

Although, not a rate case, the current docket does adjust rates in a similar manner as would occur in a rate case, and thus the Division believes this an appropriate time to begin amortization of these costs. The sooner amortization begins, the lesser the spike in expenses in future years. This is particularly true in this instance, where compliance costs are ramping up and expected to maintain a higher level in future years. Therefore we request the Commission to amend its previously issued accounting order in Docket No. 04-057-03, to allow amortization to begin currently.

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IV. CONCLUSION

2 **Q. BASED ON YOUR EXAMINATION DO YOU BELIEVE THE \$10.2**
3 **MILLION DOLLAR DECREASE IS REASONABLE?**

4 **A.** Yes. Although this decrease is not based on a full fledged rate case
5 investigation, if the Joint Application is approved, it will be effective January 1,
6 2006, during a time period when customer usage is at its highest level, and thus
7 provides an immediate benefit. Additionally, a full fledged rate case would have
8 contained other contested issues, including the test period used to establish rates,
9 and would not have necessarily resulted in a decrease.

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11 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

12 **A.** Yes.

RESUME
MARY H. CLEVELAND

EDUCATION:

BBA-Accounting: University of Missouri-Kansas City, 1971
MBA-Accounting: University of Missouri-Kansas City, 1974

HONORS:

Beta Gamma Sigma

CPA STATUS:

Licensed in Kansas

EMPLOYMENT:

Mar. 1998 to present:	Utah Division of Public Utilities 160 East 300 South, Suite 400 Salt Lake City, UT 84114
Position:	Utility Regulatory Analyst IV
Description:	Primarily responsibilities include reviewing utilities' affiliated transactions and accounting for regulated and non-regulated activities. Most recently involved in the evaluation of the ScottishPower / PacifiCorp merger. Also review gas procurement activities, participate in rate case investigations, prepare written testimony and testify before the Utah Public Service Commission.
Aug. 1991 to Mar. 1998:	Utah Committee of Consumer Services 160 East 300 South, Suite 408 Salt Lake City, UT 84114
Position:	Utility Regulatory Analyst IV
Description:	Represented residential, small commercial and agricultural customers in utility matters. Monitored, assessed and reported on current issues facing the utility industry. Planned and conducted audits of gas and electric utilities in conjunction with rate applications, prepared written testimony and testified before the Utah Public Service Commission. Assignments included participation in the IndeGO (proposed independent system operator for the Northwest region) Pricing Work Group and Steering Committee, evaluating PacifiCorp's integrated resource planning process, participating in PacifiCorp's Demand-Side

Management Advisory Group, and assisting in the evaluation of PacifiCorp's stranded cost exposure. Also evaluated gas procurement activities of Questar Gas.

- Oct. 1998 - Aug. 1991: Utah Division of Public Utilities
 160 East 300 South
 Salt Lake City, UT 84114
- Position: Utility Rate Engineer
- Description: Participated in audits of utilities in conjunction with rate applications, prepared written testimony and testified before the Utah Public Service Commission. Evaluated and prepared written recommendations on utility tariff and special contract filings. Assisted in the evaluation of the PacifiCorp / Utah Power & Light merger.
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- Apr. 1985 - Oct. 1998: LMSL, Inc.
 10955 Lowell
 Overland Park, KS 66210
- Position: Senior Regulatory Consultant
- Description: Participated in rate case investigations and other special studies on behalf of state utility commissions, prepared written testimony and testified in various proceedings.
-
- Aug. 1983 - Apr. 1985: Troupe Kehoe Whiteaker and Kent
 800 Penn Tower Building
 3100 Broadway
 Kansas City, MO 64111
- Position: Senior Regulatory Consultant
- Description: Local CPA firm specializing in regulated industries. Work included rate case investigations, preparation of written testimony and testifying before various state regulatory commissions. Also participated in year-end financial audits of small independent telephone companies and rural electric companies and assisted in tax return preparation.
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- Mar. 1981 - Aug. 1983: Kansas Corporation Commission
 Utilities Division
 1500 S.W. Arrowhead Road
 Topeka, KS 66604-4027
- Position: Senior Utility Regulatory Auditor
- Description: Planned and conducted audits of utilities in conjunction with rate case applications, prepared written testimony and served as an expert witness in rate hearings before the Commission.

Aug. 1977 - Mar. 1981: University of Kansas Medical Center
Institutional Research & Planning / Budget Office
3900 Rainbow Boulevard
Kansas City, KS
Position: Analyst / Accountant
Description: Conducted special operational and long-range planning studies.
Work involved programming with SPSS, SAS and Mark IV;
program documentation and report writing.

Jun. 1973 - Aug. 1977: Midwest Research Institute
425 Volker
Kansas City, MO 64110
Position: Operations Analyst
Description: Performed operational audits and developed management
information systems for a variety of clients. Also conducted
workshops on long-range planning. Work involved programming
with FORTRAN and SPSS, program documentation and report
writing.

Apr. 1969 - Jun 1973: University of Missouri - Kansas City
Library Accounting / Acquisitions
5100 Rockhill Road
Kansas City, MO 64110
Position: Accountant
Description: General accounting, budget preparation and fiscal reporting.

MEMBERSHIPS:

American Institute of Certified Public Accountants.
