

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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Joint Application of Questar Gas Company,	:	Docket No. 05-057-T01
the Division of Public Utilities, and Utah	:	Utah Division of Public Utilities
Clean Energy, for the Approval of the	:	Exhibit No. DPU 4.0
Conservation Enabling Tariff Adjustment	:	
Option and Accounting Orders	:	
	:	

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**Prefiled Direct Testimony of**

**David T. Thomson**

**For the Division of Public Utilities**

**Department of Commerce**

**State of Utah**

**January 23, 2006**

1 **Q. Please state your name and business address for the record.**

2 A. David T. Thomson. My business address is Heber M. Wells Building 4<sup>th</sup> Floor,  
3 160 East 300 South, Salt Lake City, Utah 84114-6751.

4 **Q. For which party will you be offering testimony in this case?**

5 A. I will be offering testimony on behalf of the Utah Division of Public Utilities  
6 (Division).

7 **Q. Please describe your position and duties with the Division of Public Utilities?**

8 A. I am a Utility Analyst II. Among other things, I serve as an in-house consultant  
9 on issues concerning the terms, conditions and prices of utility service; industry  
10 and utility trends and issues; and regulatory form, compliance and practice  
11 relating to public utilities. I examine public utility financial data for  
12 determination of rates; review applications for rate increases; conduct research,  
13 examine, analyze, organize, document and establish regulatory positions on a  
14 variety of regulatory matters; review operations reports and ensure compliance  
15 with laws and regulations, etc.; testify in hearings before the Utah Public Service  
16 Commission (Commission); assist in analysis of testimony and case preparation;  
17 and participate in settlement conferences, etc.

18 **Q. What is the purpose of your testimony?**

19 A. The purpose of my testimony is to discuss the meetings attended and explain the  
20 review work performed by the Division in relation to the depreciation study  
21 referenced in the joint application.

22 **Q. Please describe the meetings and review work performed by the Division.**

1 A. The Company has engaged Gannett Fleming, Inc. (Gannett), a consulting firm  
2 that specializes in depreciation studies, to conduct a review of its depreciation  
3 policies. Gannett reviewed the following three depreciation methods; 1) the  
4 current method used by the Company, 2) the Equal Life Group (ELG) method,  
5 and 3) the Average Service Life (ASL) method.

6 The Division was made aware during discussions with the Company  
7 regarding the Conservation Enabling Tariff that a rate reduction could be a part of  
8 the overall joint application. The Company communicated that one of the main  
9 items that would contribute to the rate reduction would be the results of the  
10 depreciation study. This information was made known to the Division sometime  
11 towards the end of October, 2005. This was also communicated to the  
12 Commission during the technical conference on November 9, 2005 as previously  
13 discussed in Section 17 of the joint application.

14 Prior to the filing of the joint application, individuals from the Division,  
15 the Company and the Committee of Consumer Services (Committee) attended  
16 two informal meetings that directly related to the depreciation study and its  
17 results. Those meetings were on December 1, and December 9, 2005.  
18 Depreciation was also indirectly discussed among other matters as part of a  
19 meeting attended by the Division and Company personnel on December 14, 2005.

20 During the meetings attended it was represented that a majority of the  
21 natural gas utilities in the United States use the ASL method. Company  
22 management indicated that based on their analysis of the information and results  
23 obtain during the study that this is the method that it would adopt from the three

1 presented. The Division notes that it appears that the adoption of the EGL  
2 method would increase rates. Thus, the majority of the review was done on the  
3 ASL method.

4 Each of the meeting's discussion and review was done on a conceptual  
5 basis to gain an understanding of the results of the study with no in-depth analysis  
6 or review by the Division. At the meetings there were discussions about the  
7 depreciation study, the methodologies of the three depreciation methods in the  
8 study and a review of initial summary and detailed depreciation schedules as  
9 prepared by the Company based on its understanding of the affects of the study at  
10 the time the schedules were presented.

11 Also in these meetings, questions and concerns were discussed and  
12 potential problems or benefits were communicated. Some of the questions and  
13 concerns came about after initial review of the material provided by the Company  
14 during previous meetings. The ramifications of implementing ASL to certain  
15 major dollar asset categories' depreciation expense and depreciation reserve  
16 amounts were also discussed.

17 From December 1 to December 15, 2005 the Company was updating its  
18 summary depreciation schedule until it arrived at a final amount that was to be  
19 used in the final revenue requirement reduction in the filing. The Company  
20 appears to be comfortable with the fact that the ASL, method, if adopted, would  
21 overall reduce depreciation rates. Thus this updating appears to be the Company  
22 fine tuning its numbers to arrive at its best determination of the amount to be used  
23 for the depreciation part of the revenue requirement computation.

1           Division personnel had one final meeting with Company personnel  
2 regarding depreciation on December 15, 2005. In this meeting the Division  
3 clarified with the Company that the amortization and adoption of the ASL method  
4 would be treated prospectively in the Company's accounting and reviewed how  
5 the amortization adjustment would be entered into the accounting records.

6           The Division has just only recently received a copy of the Gannett  
7 depreciation study. It has not performed a detailed review or analysis of the study  
8 or its results prior to the issuance of this testimony.

9           The Division is relying on the good faith effort of the Company in its  
10 determination of the results of the adoption of the ASL method to its depreciation  
11 expense and its depreciation reserve. It appears that the adoption of the ASL  
12 method would cause an overall impact of lengthening of asset category service  
13 lives and thus would reduce depreciation and depreciation reserves. The  
14 amortization of the affect of the above contributes approximately \$4.8 million to  
15 the overall rate reduction of \$10.2 million mentioned in the joint application.

16           The Division believes that the adoption of the ASL method would require  
17 that an Accounting Order be obtained from the Commission. This method is a  
18 change from the method currently being used by the Company and thus is a  
19 change in accounting method for rate making purposes.

20 **Q. Is there any thing else you would like to add to your testimony before it is**  
21 **concluded?**

22 **A.** Yes, I would like to emphasize that the Division did not do an in-depth review or  
23 investigation of the depreciation study at this time. The Division understands that

1 the depreciation amounts provided to it were done by a good faith best effort of  
2 the Company based on its understanding and comprehension of the affects of  
3 adopting the ASL method. However, it does appear at this time to the Division  
4 that the adoption of this method will materially reduce the depreciation expense  
5 and depreciation reserve of the Company thus contributing to a reduction of the  
6 revenue requirement of the Company.

7 For the purpose of this filing the Division has agreed to the adoption of the  
8 ASL methodology. Based on the Division's limited review and discussions with  
9 the Company and the Company's consultant, it appears to be an acceptable and  
10 reasonable method for determining depreciation and its adoption would now  
11 generate a rate reduction for Utah ratepayers. However, the Division also  
12 understands that it has reserved the right to have its personnel or its consultants, at  
13 any time in the future, do a much more in-depth and complete review and  
14 investigation of this methodology and the final report of Gannett. The acceptance  
15 of the ASL method and its rates or other methods and their rates is subject to and  
16 contingent upon a more detailed examination and review of current and future  
17 information if and when it is generated, having to do with depreciation accounting  
18 methods.

19 **Q. Does this conclude your testimony?**

20 A. Yes.