BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF QUESTAR GAS COMPANY TO INCREASE DISTRIBUTION NON-GAS RATES AND CHARGES AND MAKE TARIFF MODIFICATIONS	Docket No. 07-057-13

DIRECT TESTIMONY OF BARRIE L. McKAY

FOR QUESTAR GAS COMPANY

December 19, 2007

QGC Exhibit 1.0

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Barrie L. McKay. My business address is 180 East First South Street, Salt Lake City, Utah.

Q. By whom are you employed and what is your position?

A. I am employed by Questar Gas Company (Questar Gas or Company) as Manager of State Regulatory Affairs. I am responsible for state regulatory matters in Utah and Wyoming.

Q. Attached to your written testimony are QGC Exhibits 1.1 through 1.5. Were these prepared by you or under your direction?

A. Yes.

Q. What are your qualifications to testify in this proceeding?

A. I have listed my qualifications in QGC Exhibit 1.1.

Q. What is the purpose of your testimony in this Docket?

A. The purpose of my testimony is to introduce Company witnesses and to (i) show why a forecasted test year should be used as the test period in this case; (ii) propose a new level of funding for research and development costs; and (iii) provide the allowed revenue per customer for each month for the residential and commercial classes given the proposed increase in revenue requirement to be used in the Conservation Enabling Tariff (CET).

II. INTRODUCTION OF WITNESSES

Q. Would you please identify the Company's witnesses?

A. Yes.

Mr. Alan K. Allred, the President and CEO of Questar Gas Company, will provide testimony on the Company's high level of performance, the benefit of the Questar Corporation organization, the affiliate expenses included in rates, the need for significant

investment in capital improvements, the need for an adequate return to allow the Company to fund the capital investment and the driving factors for this rate case.

Mr. Robert Hevert, President of Concentric Energy Advisors, an independent consultant, will present testimony on the Company's allowed cost of equity capital and the reasonableness of its capital structure. Mr. Hevert will also address why the approval of the CET does not justify any additional adjustments to his recommended cost of equity capital.

Mr. John Reed, Chairman & CEO of Concentric Energy Advisors, an independent consultant, will present testimony comparing Questar Gas with other utilities and explain why the Company's allowed return on equity (ROE) should be at or near the top of the reasonable range of ROEs.

Mr. David M. Curtis, Vice President and Controller of Questar Gas, will provide testimony supporting the forecast for revenues, operation and maintenance expenses, rate base and other related costs/expenses used in the Company's proposed test period.

Mr. Kelly B. Mendenhall, Senior Rate Analyst in the regulatory affairs department for Questar Gas, will provide testimony showing the revenue requirement deficiency that results from the proposed test period after all currently required Commission adjustments are made. Additionally, he will present the results of the Company's 2007 Lead Lag study and make recommendations on the expense level and amortization of pipeline integrity costs.

Mr. Gary L. Robinson, Director of State Regulatory Affairs for Questar Gas, will provide testimony supporting the Company's proposed class Cost of Service (COS) and Rate Design. He will recommend that the combined (residential and small commercial general service) GS class be separated into a Residential and Commercial class. Finally, he will support the termination of the F-3 and F-4 firm sales rate schedules and will propose new transportation schedules.

Mr. Steven R. Bateson, an independent consultant to the regulatory affairs department, will provide testimony supporting the allocation factors used in the COS model and propose new

basic service fees, administrative charges and firm transportation charges.

Mr. Brent A. Bakker, Senior Rate Analyst in Regulatory Affairs for Questar Gas, will provide testimony on the proposed tariff changes for residential security deposits, after-hours charges for service initiation requests, the elimination of the Natural Gas Vehicle (NGV) equipment lease program, and clarification regarding property owner duties regarding Questar Gas' rights-of-way. Finally, he will propose the use of five additional weather zones.

III. TEST YEAR

Q. What is the test year that the Company proposes to use in this case?

A. The Company proposes to use a 12-month forecasted test period commencing July 1, 2008 and ending June 30, 2009.

Q. Why was this test period chosen?

A. As QGC Exhibit 1.2 illustrates, this test period best reflects the conditions that Questar Gas will encounter during the period when rates will be in effect.

Q. Is the proposed test period consistent with the statute that governs this proceeding?

A. Yes. Utah Code Ann. § 54-4-4 provides that, "the [C]ommission may use a future test period that is determined on the basis of projected data not exceeding 20 months from the date a proposed rate increase or decrease is filed." The statute further provides that, "the [C]omission shall select a test period that, on the basis of evidence, the [C]ommission finds best reflects conditions that a public utility will encounter during the period when the rates determined by the Commission will be in effect." The test period ending June 2009 meets these criteria.

Q. Why is a test period composed of the 12 months ending June 2009 more representative of conditions expected to be encountered during the rate-effective period than a historical or intermediate test period?

A. There are several reasons. First, given the 240-day statutory deadline for the implementation of the rate request in this docket (Utah Code Ann. § 54-7-12(3)(a)), the rate change should go into effect no later than mid-August of 2008. Therefore, the proposed test period is consistent with the rate-effective period.

Second, and more importantly, the Company's capital expenditures are significantly increasing from the $95 million per year level in 2007 to approximately $135 million per year for the next five years. Mr. Allred will explain the reason for this increased level of expenditures and how customers will benefit in more detail. I will note that the expenditures are primarily associated with necessary system expansion and feeder line replacement that will allow the Company to continue to provide safe and reliable service to its growing number of customers. A test period that does not fully include these expenditures would not be reflective of the costs the Company will incur for system expansion and feeder line replacement during the rate-effective period.

Third, operation and maintenance expenses (O&M) are increasing. Although Mr. Curtis' QGC Exhibit 5.6 shows that the Company has done an excellent job controlling O&M costs for the past two decades, which has benefited both customers and the Company's investors, these costs are rising. This same exhibit shows that the recent trend of declining costs per customer has flattened. QGC Exhibit 5.7 shows labor costs increasing in recent years. This same exhibit shows the increase in medical insurance and other overhead costs during the last few years. These exhibits illustrate that costs in total, as well as on a per customer basis, are increasing. The Company has included the expected increase in O&M costs necessary to meet continued customer growth and the expansion and replacement of its system that will occur during the test period. Mr. Curtis has explained in his testimony conclusion that the Company has made conservative estimates for O&M costs. These costs are most representative of what is expected to be encountered during the rate-effective period.

Fourth, continued customer growth will increase revenues. Additionally, there is a large industrial customer that will come on line during the test period and has been included in the forecast. Using the revenues from these additional customers will be more reflective of what

will actually occur during the rate-effective period. This increase in revenue has been included in the projection of the test year.

Q. In the past, the Commission has favored use of historical test periods because they were based on actual rather than forecasted results. What assurances can the Company provide that its forecasted test period is reliable?

A. With respect to the capital expenditure forecast, Mr. Curtis has shown in QGC Exhibit 5.2 that for the last six years the Company's actual expenditures have been on average within 5.5 percent of forecasted levels. If 2003 is excluded for reasons that it is anomalous as explained by Mr. Curtis, then the average is within 3.5 percent of forecasted levels. In addition, the Company's engineers have developed detailed plans and budgets for actual feeder line replacements that will occur in 2008 and 2009. This shows that the new plant investment is not only needed but will occur at the forecasted level.

With respect to O&M expense, Mr. Curtis' QGC Exhibit 5.2 shows that for the last six years the Company's actual expenditures have been, on average, 3.2 percent of forecasted levels. If 2003 is excluded for reasons that it is anomalous as explained by Mr. Curtis, our budgets on average equal actuals. Overall, the Company's budgeting and planning process has been very accurate.

With respect to total system sales and usage per customer basis, the Company has tracked system sales and usage in the Integrated Resource Plan (IRP) process on a historical and forecasted basis since at least 1992. QGC Exhibit 1.3 shows what has been forecasted in the last five IRP's for system sales and temperature adjusted usage per customer and compares the forecasts with actual results. Column C shows that the forecast has been within plus or minus a few percentage points of actual for the last five years. System sales and usage per customer can be accurately forecasted and reflected in the test period. Additionally, as noted above, the forecast includes anticipated revenues and costs from large industrial customers that will come on line during the test period. Both the revenues from these customers and the cost of serving them can be accurately forecasted.

Q. Does the CET alleviate some of the arguments against the use of a forecasted test period?

A. Yes. One of the benefits of the CET is that it corrects for any variance that may occur in the usage per customer forecasted. Although declining use per customer is generally understood and accepted by all parties, determining how much the customer usage will decline during a forecasted test period can be an issue of debate in a rate case. Test-period revenues are dependent upon accurately forecasting usage. The CET resolves this potentially contentious issue.

Q. Please explain how the CET corrects for variances in the usage forecast.

A. The goal of the ratemaking process should be to arrive at an unbiased estimate of customer usage during the rate-effective period. An unbiased estimate is as likely to be high as it is to be low. Actual results will undoubtedly be different. If the reduction in use per customer is smaller than forecasted, then the CET accrual will credit (reduce what the Company can collect) an adjustment to the CET balancing account. In contrast, if the reduction in use per customer is greater than forecasted then the CET accrual will debit (increase what the Company can collect) an adjustment to the CET balancing account. This CET accrual is made on a monthly basis. Since it is as likely that forecasted usage will be too high as it is too low, then customers are benefited by having the CET.

Q. Are there other reasons that the Commission should use the Company's recommended forecasted test period in this case?

A. Yes. Use of historical information without updating it based on known trends and plans puts the Company in a position of always trying to "catch up" with the increasing costs of providing utility service. Although this has eliminated debate about the accuracy of forecasts and thus perhaps made setting rates a bit easier, it doesn't satisfy the more important goal which is to set rates to be in effect in the future that will provide the Company with sufficient revenues to recover its costs of providing service, including an appropriate return on investment. If a utility is in a period of rising costs and customer growth, as Questar Gas is at this time, using a historical test period virtually guarantees that the Company will not have a reasonable opportunity to earn its authorized return. Thus, the Company is put in a position

of being expected to devote its property to public service without a realistic opportunity for fair compensation.

One alternative for the Company is to attempt to decrease its costs of providing service between rate cases in an effort to come closer to earning the returns to which its investors are entitled. In fact, creating this incentive has been used as a justification for setting rates based on historical data even though it was undisputed that costs were increasing. While there may be some merit to this position with respect to some utilities in some circumstances, it is fundamentally wrong for two reasons. First, utilities do not need this incentive to be efficient. Whether rates are set on the basis of historical or forecasted results, utilities still have the incentive to be efficient to increase earnings between rate cases. Second, there is a point of diminishing returns in gaining reasonable efficiencies. During Questar Gas' last general rate case, this subject was thoroughly explored and I believe there was a consensus that the Company was on the verge of cutting services customers wanted in its continuing struggle to catch up.

As Mr. Allred and Mr. Hevert mention in their testimony, if rates are set at a level that allows the Company a reasonable opportunity to earn a fair rate of return, neither customers or shareholders are disadvantaged. Customers will be paying a fair price for service, and the Company will be financially healthy and have access to capital on reasonable terms so that it can continue to provide safe and reliable service to its customers. If the Company can consistently, over an extended period of time, provide safe, reliable service in an efficient, effective manner and earn a rate of return around its authorized rate of return, then the regulatory process will have been successful for all concerned. Use of a forecasted test period ending June 2009 in this case is vital to achieving that proper balance.

IV. RESEARCH AND DEVELOPMENT

Q. Please describe how the current level of R&D expense in rates was established?

A. In 2000, FERC Order FP99-323-000 began phasing out of pipeline rates the Gas Research Institute (GRI) surcharge. This FERC-approved surcharge was a part of pipeline tariff rates

and was included in the pass-through portion of rates. More efficient gas appliances and reduced O&M costs resulted from GRI's R&D and continue to be the primary focus of Questar Gas' support for R&D. To continue its support for R&D, the Company proposed that the Commission not change customers' total rates, but instead increase the distribution non-gas (DNG) portion of rates by the same amount that the supplier non-gas (SNG) portion of rates was decreasing. The Commission approved this request in Docket No. 99-057-19. Over the next four years, the GRI charge was phased out of pipeline rates, and SNG rates were transferred into the DNG portion of rates. This process resulted in $1.4 million of R&D expenses being included in the DNG portion of rates.

Q. What are some of the projects and organizations that the R&D funds have been invested in?

A. Questar Gas has worked closely with the following organizations on various R&D projects:

Operations Technology Development (OTD). The OTD is a Gas Technology Institute (GTI)-administered program for operations R&D. This R&D program includes various operations-related projects to improve efficiency and reduce cost, enhance safety and integrity, and improve reliability. The program includes near, mid, and long term technology development. GTI performs most of the research, but some projects are contracted out to third-parties with expertise in the subject matter.

Utilization Technology Development (UTD). The UTD is a GTI-administered program for end-use research. This R&D program includes various end-use projects to improve efficiency and reliability and reduce emissions from residential, commercial and industrial gas equipment.

Northeast Gas Association (NGA) – NYSEARCH. NYSEARCH is a program for operations R& D and demonstrations. It includes a robust portfolio of valuable operations projects, including projects dealing with pipeline integrity, leak detection, third party damage prevention and others. NYSEARCH develops and manages the projects. The projects are contracted out to companies with the expertise in the subject matter.

Q. Please provide some examples of R&D projects that Questar Gas participated in.

A. One such project is the Remote Methane Leak Detector (RMLD) sponsored by NYSEARCH. RMLD is a hand held remote inspection tool capable of identifying methane concentrations as small as five ppm-meter at distances of up to 100 feet. The development of this project is considered a quantum leap in technology, since it is the first instrument that is not required to be in the plume of the venting gas to detect it. Where RMLD is employed, there are gains in productivity due to not having to walk the entire service length, by avoiding access problems due to dogs, gates/fences, and from a more rapid walking rate. Technicians also are safer using the RMLD along the roadways because surveys can be completed without walking in vehicle traffic lanes.

In addition to participating with the above mentioned collaborative organizations, Questar Gas has worked on other R&D projects developed internally and contracted to other research companies. Recently, Questar Gas participated in the Gas Meter Hardening at High Elevation Project. This project developed a meter shelter to provide meter protection from falling ice and snow, especially at high elevation locations. GTI designed and tested the prototype. PlastiPanel has commercialized the product. To date, approximately 300 units have been installed to protect meters in Questar Gas' service territory.

Q. Has the Company been able to consistently participate in R&D projects likely to benefit Questar Gas' customers?

A. Yes; however, on an annual basis the R&D projects we have participated in have required less expenditures by the Company than the $1.4 million included in rates.

Q. What has the Company done with the unused funds?

A. The Company has specifically tracked these costs, rather than take these unused funds to the bottom line, which would be the typical treatment for expense accounts between rate cases. By 2005, the unused R&D funds had grown to $1.3 million and the Company proposed to transfer these dollars to the demand-side management (DSM) deferral account. The Commission approved this request when it approved the Settlement Stipulation in Docket 05-057-T01.

Q. Has the unused R&D balance continued to grow?

A. Yes, the balance is currently $1.3 million.

Q. What does the Company propose to do with this balance and what level of R&D funding is proposed for the future?

A. The Company proposes to transfer the $1.3 million to the DSM 182.4 account. This is the same thing that was done previously and will have the effect of reducing rate increases associated with DSM projects. The Company then proposes to reduce the level of R&D funding from $1.4 million to $1.1 million annually. This will bring actual costs more in line with what is currently spent on an annual basis.

V. CONSERVATION ENABLING TARIFF

Q. How will the proposed change to the Company's revenue requirement and the proposal to divide the GS class into residential and commercial classes impact the allowed revenue per customer calculation used for the CET?

A. Attached as QGC Exhibit 1.4, page 1, is a summary and calculation of the monthly allowed CET amounts for the residential class. Line 1 column B is the total COS assigned to the GS residential class and comes from Mr. Robinson's QGC Exhibit 7.4, page 2. This amount is divided by the average number of residential customers in the test period to arrive at the average annual revenue per customer of $262.09. On page 2 of this Exhibit, the $262.09 is spread over the 12 months based on the average actual revenues for the three years 2005, 2006 and 2007.

Q. Please explain the calculation for the GS commercial class.

A. Attached as QGC Exhibit 1.5, page 1, is a summary and calculation of the monthly allowed CET amounts for the commercial class. Line 1 column B is the total COS assigned to the GS commercial class and comes from Mr. Robinson's QGC Exhibit 7.4. This amount is divided by the average number of commercial customers in the test period to arrive at the average annual revenue per customer of $770.11. On page 2 of this exhibit the $770.11 is spread

over the 12 months based on the average actual revenues for the three years 2005, 2006 and 2007.

Q. Have you prepared tariff sheets with these changes?

A. Yes, attached to Mr. Bakker's testimony as QGC Exhibit 9.5 are the tariff sheets reflecting these changes in legislative format.

Q. Does this conclude your testimony?

A. Yes.

State of Utah)

) ss.

County of Salt Lake)

I, Barrie L. McKay, being first duly sworn on oath, state that the answers in the foregoing written testimony are true and correct to the best of my knowledge, information and belief. Except as stated in the testimony, the exhibits attached to the testimony were prepared by me or under my direction and supervision, and they are true and correct to the best of my knowledge, information and belief. Any exhibits not prepared by me or under my direction and supervision are true and correct copies of the documents they purport to be.

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Barrie L McKay

SUBSCRIBED AND SWORN TO this ___ day of December 2007.

_____

Notary Public