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 KELLY B. MENDENHALL

FOR QUESTAR GAS COMPANY

December 19, 2007

QGC Exhibit 6.0

TABLE OF CONTENTS

I. INTRODUCTION 1

II. THE JUNE 2009 TEST YEAR 2

- **A. Rate Base 2**
- **B. Forecasted Expenses 3**
- **C. Revenue 5**
- **D. Underground Storage 5**
- **E. Wexpro Adjustment to Production Plant 5**
- **F. Oak City Revenue 5**
- **G. Minimum Bills 6**
- **H. Other Revenues 6**
- **I. Bad Debt Expense 6**
- **J. Banked Paid Time Off 7**
- **K. Incentive Compensation 7**
- **L. Stock Incentive Adjustment 8**
- **M. Sporting Events 8**
- **N. State Tax 9**
- **O. Advertising 9**
- **P. Donations and Memberships 10**
- **Q. Reserve Accrual 10**
- **R. Pipeline Integrity Expense 11**
- **S. Industrial Customer Adjustment 13**
- **T. Aircraft 13**
- **U. R&D Expense Adjustment 13**
- **V. Lead-Lag Study 14**
- **W. Distrigas Allocation 14**
- **X. Capital Structure and Rate of Return 15**
- **Y. Return on Equity 15**
- **Z. Revenue Deficiency 15**

I. INTRODUCTION

Q. Please state your name and business address.

A. Kelly B. Mendenhall, 180 East 100 South, Salt Lake City, Utah 84111

Q. By whom are you employed and in what capacity?

A. I am employed by Questar Gas Company (Questar Gas, QGC or Company) as a Senior Regulatory Affairs Analyst. My qualifications are detailed in QGC Exhibit 6.1.

Q. Were your attached exhibits prepared by you or under your direction?

A. Yes.

Q. What general areas will your testimony address?

A**.** My testimony will address the calculation of the revenue requirement for the June 2009 test period in this proceeding.

Q. What is the test year the Company will use in this case?

A. As explained in the direct testimony of Mr. McKay, the test year is the 12-month period that will end on June 30, 2009.

Q. What is the general approach you have taken to develop the 2009 test period and revenue requirement?

A. The foundation for the June 2009 test year is the Company's historical financial results for the 12 months ended June 2007. These amounts can be found on page 1 column B of QGC Exhibit 6.2.

Beginning with the June 2007 historical amounts, I made adjustments to the revenues, expenses and rate base (see sections A through C below) to reflect the forecasted amounts discussed by Mr. Curtis in his direct testimony. These forecasted numbers were then used to make regulatory adjustments (see sections II. D through U, below) required in past cases. The total of these adjustments is summarized on page 1 column C of Exhibit 6.2. Column D presents the imputed tax adjustment. Columns B, C and D are added together to calculate the adjusted system total in column E. Finally, the forecasted, adjusted numbers are allocated to the Utah and Wyoming jurisdictions.

After all regulatory adjustments were made, taxes imputed and jurisdictional amounts were allocated, the result in column F is an adjusted Results of Operations for the Utah Jurisdiction for the 12 months ended June 30, 2009 ("June 2009 results").

Column G calculates the test-year revenue deficiency by comparing the adjusted net operating income without rate relief (column F, line 31) to the required net operating income (column H, line 31) using the Utah jurisdictional adjusted rate base (column H, line 53) and the return on equity of 11.25% as recommended by Mr. Hevert (column H, line 55). The resulting deficiency shown in column G, line 31 is then grossed up for taxes (line 28) and uncollectibles (line 21) to arrive at a test-year revenue requirement of $261,181,307 (column H, line 3) and a revenue deficiency of $26,996,271 (column G, line 3).

II. THE JUNE 2009 TEST YEAR

Q. Please explain the adjustments you have made to revenue, expense, and rate base accounts that you expect to occur and have included in the June 2009 test-year values.

A. Column C, page 1 of QGC Exhibit 6.2 provides the total of all material changes in the test year from June 2007. Pages 2 - 4 of QGC Exhibit 6.2 provide a summary of the changes in revenue, expenses and rate base by adjustment, and show how these adjustments add up to the total shown in column C of page 1. QGC Exhibit 6.3 provides a detailed calculation of each adjustment. In the narration that follows I will provide a reference of where each adjustment can be found in the summary Exhibit 6.2 and I will discuss the detail of each adjustment in Exhibit 6.3.

A. Rate Base

QGC Exhibit 6.2, page 2, column 1 and QGC Exhibit 6.3, pages 1 – 5.

As explained by Mr. Allred in his Direct Testimony and shown by Mr. Curtis in QGC Exhibit 5.14, to add customers and replace feeder lines, Questar Gas will need to raise additional capital and increase investment in the system. As Mr. Curtis discussed in his testimony, Questar Gas projects that Gas Plant in Service/Completed Construction not Classified (Account 101/Account 106) will increase by $174 million from December 2007 to June 2009, resulting in an ending balance of $1.7 billion for the test year (QGC Exhibit 5.11, column G, line 19). Questar Gas has also projected the Accumulated Depreciation/Amortization (Account 108/111) will increase by $53 million from December 2007 to June 2009, resulting in an ending balance of $681 million for the test year (QGC Exhibit 5.15, column H, line 11).

The remaining rate base accounts of Materials and Supplies (QGC Exhibit 5.19), Prepayments (QGC Exhibit 5.20), Customer Deposits (QGC Exhibit 5.18), Contributions in Aid of Construction (QGC Exhibit 5.17), Deferred Income Tax Credits (QGC Exhibit 5.16) and Accumulated Deferred Income Taxes (QGC Exhibit 5.16) were also projected for 2008 and June 2009.

To incorporate the rate base numbers into the June 2009 Results, we calculated the investment incurred each month by using the historical pattern of additions to rate base. After the monthly additions from January 2008 through June 2009 for each account were calculated, these monthly balances from June 2008 through June 2009 were used to derive a 13-month average. The monthly spread and 13-month average calculation of all of these rate base accounts can be found in QGC Exhibit 6.4, pages 1 - 4.

The gas plant, accumulated depreciation and the deferred income taxes were allocated to their respective FERC accounts using the September 2007, 13-month average balances as a proxy. This allocation can be found in QGC Exhibit 6.4, pages 5 – 12.

B. Forecasted Expenses

QGC Exhibit 6.2, page 2, column 2 and QGC Exhibit 6.3, pages 6 – 11.

Expenses for the 12-months ended June 2009 were forecasted based on the budget amounts as discussed by Mr. Curtis in QGC Exhibit 5.0. Mr. Curtis' forecasted Operations and Maintenance expense (O&M) of $128.2 million is $4.4 million higher than the $123.8 million (QGC Exhibit 6.3, page 10, line 242, Column B) forecasted

O&M used in the June 2009 results. The difference is caused by bad debt related to SNG and commodity revenues. Mr. Curtis has included this bad debt in his budgeted number; I have removed it because the bad debt expense related to SNG and Commodity revenues is not included when calculating Distribution Non-Gas (DNG) rates.

Q. Mr. Curtis has testified that he did not forecast each account included in the test period. How did you implement his forecast on the detailed account level shown in QGC Exhibit 6.3, pages 6-11?

A. During the budget process, costs are budgeted at the department level rather than the FERC account level. Thus, the aggregate O&M expenses found in QGC Exhibit 5.5 column H must be allocated to individual FERC accounts. On QGC Exhibit 6.4, page 19, lines 275 – 286, I have removed the bad debt related to SNG and Commodity and directly assigned the DNG portion of bad debt expense to Account 904. The remaining O&M expenses have been spread over all of the FERC accounts based on the historical pattern during the 13 months ended September 30, 2007. This spread can be found in QGC Exhibit 6.4, pages 13 -19.

Q. Why is it necessary to forecast at that account level?

A. There are two reasons. First, regulatory adjustments are typically made at the account level. Therefore, it is necessary to have a forecast of the account as well as the total for several accounts. Second, the Company's model uses account level information in determining the cost of service for each rate class and in determining an appropriate rate design as discussed by Mr. Robinson in his direct testimony.

Q. Is providing a pro rata change to each account included in a total based on Mr. Curtis' forecast of the total reasonable?

A. Yes. The costs or revenues included in accounts are of the same nature as the costs or revenues included in the total. Therefore, it is reasonable to assume that the amounts in the accounts will change in proportion to the change in the total.

C. Revenue

QGC Exhibit 6.2, page 2, column 3 and QGC Exhibit 6.3, pages 12 – 13.

Revenues for the GS class were based on projected customers and allowed CET revenues. Revenues for the other rate classes were based on projected customers and where applicable usage per customer through June 2009. Revenues for the 12 months ended June 2009 are provided by Mr. Curtis in QGC Exhibit 5.22.

D. Underground Storage

QGC Exhibit 6.2, page 2, column 4 and QGC Exhibit 6.3, page 14.

Pursuant to the final order in Docket No. 93-057-01, Account 164, Gas Stored Underground - Current, is to be accounted for in the Company's pass-through cases and excluded from test-year rate base. This is accomplished in the pass-through cases by allowing a return on the actual average balance in this account to be entered as a gas cost in the 191 Account. This adjustment removes the total balance of Account 164 from the rate-base calculation.

E. Wexpro Adjustment to Production Plant

QGC Exhibit 6.2, page 2, column 5 and QGC Exhibit 6.3, page 15.

In accordance with the Wexpro Agreement, Wexpro adds 6.3% of Questar Gas' production plant to the Wexpro investment as a general plant allowance when calculating the Wexpro service fee charged to Questar Gas. The Wexpro Agreement also provides that the production plant component in each Questar Gas rate base plant account be reduced by 6.3%.

F. Oak City Revenue

QGC Exhibit 6.2, page 2, column 6 and QGC Exhibit 6.3, page 16.

This adjustment imputes Extension Area Charge (EAC) revenues for the Oak City area. The adjustment is necessary to correct for the miscalculation that occurred during the canvas of Oak City. The canvas was conducted with an EAC $10 less per month than was appropriate. In its original application in Docket No. 98-057-04, the Company agreed to run the system at the EAC used during the canvas and impute additional revenues in future rate proceedings.

G. Minimum Bills

QGC Exhibit 6.2, page 2, column 7 and QGC Exhibit 6.3, page 17

Utah FT and FT-2 service is subject to a minimum charge, regardless of whether volumes are transported. The revenue run used to forecast revenues for the 12 months ended June 30, 2009, does not include a projection of minimum bill amounts. This adjustment assumes that minimum bills going forward will follow historical levels by using the minimum-bill amounts for the 12 months ended June 2007.

H. Other Revenues

QGC Exhibit 6.2, page 3, column 8 and QGC Exhibit 6.3, page 18

This adjustment trues up the other revenues related to interest on past due accounts, NGV related revenues, fees for connecting gas service and other operating revenues with the projections made by Mr. Curtis in QGC Exhibit 5.23.

I. Bad Debt Expense

QGC Exhibit 6.2, page 3, column 9 and QGC Exhibit 6.3, page 19.

This adjustment annualizes the DNG portion of bad debt expense forecasted to occur for the 12 months ended June 2009 to the 3-year average level of bad debt expense. This methodology was ordered by the Commission in Docket No. 95-057-02 and used by the Company in Docket Nos. 99-057-20 and 02-057-02. The calculation of this adjustment is calculated in Exhibit 6.3, page 19, lines 14 through 19. Net Charge offs for each year (Line 16) are divided by booked system revenues (Line 18) to calculate a bad debt ratio (Line 21). The ratios of 0.90%, 0.53% and 0.40% have been calculated for 2005, 2006 and 2007, respectively, and the three year average of 0.6% has been calculated in column I line 21. During the test period, it is expected that the bad debt percentage will be lower than the historical three-year average due to the increase in security deposits that Mr. Bakker has proposed in his testimony. Rather than use the three-year average, an adjustment has been made (Lines 22 – 23) to reduce the bad debt percentage down to the 0.4% incurred in 2007. The allowed DNG related bad debt is calculated in column H, lines 26-33. Test Period Distribution Non Gas revenue of $244,132,544 (Line 26) is multiplied by the adjusted three year average of 0.40% (Line 27) to calculate an allowed DNG bad debt of $969,026 (Line 28). The test period system DNG bad debt expense is $1,589,629 (Line 31). The resulting adjustment to the test period is a reduction to expenses of $620,603 (Line 33).

J. Banked Paid Time Off

QGC Exhibit 6.2, page 3, column 10 and QGC Exhibit 6.3, page 20.

Questar Gas employees accrue paid time off (PTO) each month based on the number of hours worked and the number of years employed. The use of the allowed PTO does not have to occur in the calendar year in which it was accrued. Because the total cost of PTO accrued during each year is included in the labor overhead of that year, the monthly balance of unused or banked vacation represents compensation owed for labor performed but not yet paid. Consistent with the Commission's order in Docket No. 93-057-01, the adjustment is calculated as the 12-month average of banked PTO. In order to forecast this balance, the balance on September 2007 was increased by the amount of 4.5% in September of each year to match the forecasted increase in labor. A 12-month average was then taken for the period ending June 2009 and this amount of $4,157,379 was removed from Rate Base. For regulatory purposes, the adjustment is made to Account 165, Prepayments.

K. Incentive Compensation

QGC Exhibit 6.2, page 3, column 11 and QGC Exhibit 6.3, pages 21 – 24.

In accordance with previous Commission orders in Docket Nos. 93-057-01, 95-057-02, 99-057-20 and 02-057-02, Questar Gas has removed, for ratemaking purposes, incentive compensation expenses related to net income, earnings per share and return on equity goals either paid directly by Questar Gas or allocated from Questar Corporation for incentive payouts. In these dockets the Commission allowed incentives paid based on operating goals. These operating goals include reducing O&M per customer, increasing customer satisfaction and reducing accidents. This adjustment involves two steps. First, a weighted three-year average from 2004 to 2006 is calculated for the percentage of incentive payouts related to Questar Gas operating and financial goals. As can be seen on page 24 of QGC Exhibit 6.3, the average payout related to Questar Gas operating goals was 7.55% for Questar Corporation's management plan (Column D, Line 6), 7.19% for Questar Corporation's Employee Plan (Column D, Line 14), 64.8% for Questar Gas' management plan (Column D, Line 22) and 65.4% for Questar Gas' employee plan (Column D, Line 30). These percentages are then multiplied by the incentive amounts forecasted to be paid out during the test period (Pages 22 – 23). In addition to the management and employee incentive plans, Questar Corporation has a long term incentive plan that it pays to corporate officers. The $582,000 related to this incentive plan has been removed on page 22, column D, line 5. The end result of these calculations is a removal of $2.6 million.

L. Stock Incentive Adjustment

QGC Exhibit 6.2, page 3, column 12 and QGC Exhibit 6.3, page 25.

Certain deferred compensation is accounted for by using a stock based incentive. The stock incentive expense is adjusted up or down based on the price of Questar Corporation's stock. Consistent with the Commission order in Docket No. 93-057-01, an adjustment of $542,653 has been made to decrease expenses for the 12 months ending June 30, 2009 by removing all projected expenses related to phantom stock and mark-to-market stock directly charged to Questar Gas and indirectly allocated from Questar Corporation.

M. Sporting Events

QGC Exhibit 6.2, page 3, column 13 and QGC Exhibit 6.3, pages 26 – 27.

During the 2006 – 2007 athletic season, Questar Gas received allocated expenses from Questar Corporation for tickets to sporting events at the Energy Solutions Arena, Franklin Quest Field and the E Center. During this period, 48.68% of the tickets were used in a Questar Gas employee-recognition plan. That is, those employees who had performed in an exemplary manner were awarded tickets to the games. The remaining tickets were used for marketing or other purposes. Pursuant to Commission orders in Docket Nos. 99-057-20 and 02-057-02, the portion of these expenses related to employee recognition is allowed in rates. We have applied an escalation factor of 2.5% per year, or 5.06% total, to the historical amounts to project test year expenses. This escalation rate is consistent with the forecasted increase in general expenses discussed by Mr. Curtis. This adjustment reduces test period expenses by $20,167.

N. State Tax

QGC Exhibit 6.2, page 3, column 14 and QGC Exhibit 6.3, page 28.

Pursuant to Commission order in Docket No. 99-057-20, an adjustment has been made to remove all entries related to state income taxes passed from Questar Corporation to Questar Gas. The test year forecast includes $250,000. This amount has been removed from the June 2009 results.

O. Advertising

QGC Exhibit 6.2, page 4, column 15 and QGC Exhibit 6.3, pages 29 – 33.

Consistent with the Commission order in Docket No. 93-057-01, an adjustment has been made to decrease forecasted expenses by $20,375 (QGC Exhibit 6.3, page 29, line 18) for the 12 months ending June 30, 2009 by removing the advertising expenses related to promotional and institutional advertising and the Parade of Homes. Included in this adjustment, in the amount of $4,844, is a portion of the American Gas Association (AGA) dues that have been determined to be related to promotional advertising or lobbying. The forecast for advertising expense was calculated by taking the actual expenses for the 12 months ended June 2007 and escalating that number by 2.5% per year, or 5.06% total. This escalation rate is consistent with the forecasted increase in general expenses discussed by Mr. Curtis.

P. Donations and Memberships

QGC Exhibit 6.2, page 4, column 16 and QGC Exhibit 6.3, pages 34 – 36.

In the order in Docket No. 93-057-01, the Commission prescribed which types of donations and memberships are recoverable in rates. This adjustment of $194,756 identifies and removes similar entries that are included in the test period, and the same types of expenses allocated from Questar Corporation. There were three types of costs removed in this adjustment: donations, lobbying, labor and overhead from Questar Corporation and expenses paid to consultants related to lobbying. QGC Exhibit 6.3, page 35, lines 2 – 4, were donations paid by Questar Corporation during the base period. These amounts had an escalation rate of 5.06% applied to them to calculate a forecasted donation amount in column D. Government relations A&G expense on line 5 was calculated the same way. Labor and overhead related to government relations was calculated using an escalation rate of 9.2%. This represents a 4.5% annual increase in labor and overhead as discussed by Mr. Curtis in his direct testimony. Page 36 of QGC Exhibit 6.3 shows the projected consultant expenses. Lines 1 through 4 show payments made to various lobbying consultants. Column D shows the amount applicable to Questar Gas. Column E shows that an escalation rate of 2.5% per year, or 5.06% in total was applied to reach a projected adjustment for the test period.

Q. Reserve Accrual

QGC Exhibit 6.2, page 4, column 17 and QGC Exhibit 6.3, page 37.

Q. Please explain the Reserve Accrual.

A. This accrual is associated with legal liabilities related to the Company's self-insurance program. In Docket No. 99-057-02, the Company had incurred a liability of $879,100 and we sought recovery of the total expense. The Division argued that this expense level was not representative of costs going forward and argued that it should be spread over five years. In the Order, the Commission approved a five-year amortization. For the June 2009 test period, rather than forecast unknown future liabilities, this adjustment averages the last five years of legal liabilities. QGC Exhibit 6.3, page 37, column A, lines 1 through 5, show the amounts accrued each year from 2003 through 2007. Line 7, column A, shows the five year average amounts to $720,000. This amount has been included in expenses for the test year.

R. Pipeline Integrity Expense

QGC Exhibit 6.2, page 4, column 18 and QGC Exhibit 6.3, page 38.

Q. Please provide the background on the pipeline integrity expense.

A. On April 21, 2004, in Docket No. 04-057-03 Questar Gas filed with the Commission an application for a deferred accounting order authorizing it to establish an account for costs the Company will incur in order to remain in compliance with the new federal requirements of the Pipeline Safety Improvement Act of 2002, and the Final Rule regarding "Pipeline Integrity Management in High Consequence Areas." On June 24, 2004, the Commission approved the application and authorized Questar Gas to defer the incremental gas transmission line safety compliance costs incurred on or after January 1, 2004.

Q. Has the Company begun to amortize any of these costs into rates?

A. Yes. Effective June 1, 2006 in Docket No. 05-057-T01, the Commission approved the Settlement Stipulation that allowed Questar Gas to begin expensing $2 million per year to cover pipeline integrity costs. Of the $2 million, $1.4 million is related to ongoing pipeline integrity expenses and $600,000 is related to expenses incurred prior to January 1, 2006. The order also required the Company to continue recording costs incurred above the $1.4 million level in the 182.3 account.

Q. What is the Company proposing to do on a going-forward basis?

A. Questar Gas is proposing to increase the accrual for ongoing expenses and the amortization of the 182.3 account.

Q. Please explain the Company's proposed annual expense level.

A. During the 12 months ended June 30, 2007, Questar Gas actually incurred $3.7 million in pipeline integrity expenses. That means that $2.3 million ($3.7 - $1.4) was deferred. Rather than continue to defer an amount of this size, Questar Gas proposes that $3.5 million be expensed each year for current pipeline integrity expenses.

Q. How does the Company propose to amortize the current deferred balance?

A. The pipeline integrity deferred account had a balance of $7 million as of September 30, 2007. When this rate case is completed in the latter half of 2008, I estimate that the deferred account will have a balance near $8.4 million. The Company proposes that the $8.4 million be amortized over 5 years. This is consistent with the length of time approved in Docket No. 04-057-03. When amortized over 5 years, the annual amortization would be $1.68 million.

Q. What is the resulting adjustment associated with these proposed changes?

A. The annual ongoing expenses of $3.5 million and the $1.68 million amortization result in a total annual pipeline integrity expense of $5.18 million. Page 38 of QGC Exhibit 6.3 shows the regulatory adjustment that has been made to increase pipeline integrity costs to $5.18 million. In Column A, actual expenses of $3.5 million (Line 2) and the proposed amortization of $1.68 million (Line 4) are added together to calculate the total pipeline integrity expense of $5.18 million (Line 5). Questar Gas has included $2 million in the 2008 and 2009 O&M expense forecast provided by Mr. Curtis in QGC Exhibit 5.5. The current allowed expense of $1.4 million (Line 7) and the current allowed amortization of $0.6 million (Line 8) are then subtracted from the total amount because these costs are already included in the forecasted O&M expenses. The result of this subtraction is an adjustment of $3.18 million (Line 9).

Q. What will be the accounting treatment if the Company does not incur $3.5 million of ongoing expenses in a given year?

A. To the extent that actual on-going expenses are less than $3.5 million per year, the difference will be credited to the deferred account. To the extent that actual on-going expenses are greater than $3.5 million, the difference will be debited to the deferred account.

S. Industrial Customer Adjustment

QGC Exhibit 6.2, page 4, column 19 and QGC Exhibit 6.3, page 39.

Q. Please explain the basis for the industrial customer adjustment?

A. Questar Gas expects to finalize an agreement with a large industrial customer to provide service to its proposed facility by December 1, 2008. Due to the large size of this customer, we believe it is appropriate to include the impact of this service in the test year outside of the normal increases in revenues and costs associated with new customers.

Q. What adjustment are you proposing?

A. QGC Exhibit 6.3, page 39, column A, shows the effects of this new facility. Revenues, will increase by $576,000 (row 1). The projected capital cost of the service will be $3.4 million (column A, line 5). The resulting impact to the O&M expense, accumulated depreciation, depreciation expense, deferred income taxes and other taxes can be found on lines 2, 7, 9, 11 and 13 respectively. The footnotes on page 39 of this exhibit explain how these amounts were calculated.

T. Aircraft

QGC Exhibit 6.2, page 4, column 20 and QGC Exhibit 6.3, page 40.

Questar Gas pays a fixed charge of about $98,436 related to its use of the Company airplane. Most of the flights taken are related to business in Wyoming and as a result I have removed the entire fixed charge from Utah jurisdictional expenses.

U. R&D Expense Adjustment

QGC Exhibit 6.2, page 4, column 21 and QGC Exhibit 6.3, page 41.

As Mr. McKay discussed in his testimony, Questar Gas has been collecting $1.4 million and is projecting to spend $1.1 million per year for Research and Development costs. Mr. Curtis has included $1.4 million in costs in his forecast for the test period (QGC Exhibit 5.5, line 9). This adjustment removes $342,520 to match the projected level of R&D expenses.

V. Lead-Lag Study

Q. In Docket No. 02-057-02, the Company updated the lead-lag study through 2001 for calculating the required cash working capital allowance. Have you made a similar update in this case?

A. Yes. The lead-lag study was updated with 2006 actual data. The 2006 study and the supporting documentation will be provided in response to master data request, number B.42. The result of the study provides a net lead of about 2.7 days, which is about 0.5 days more than the days calculated in the lead-lag study provided in Docket No. 02-057-20. The use of the updated study results in a test-year cash working capital requirement of $6,040,254 (Exhibit 6.2, page 1, line 51, column F).

Q. Please explain how the lead-lag study affects cash working capital.

A. The cash working capital is defined as the amount of cash needed on hand by a utility to pay its daily operating expenses for the period between the time it provides services to its customers and the time it receives payment for those services. If, on average, the time to collect revenues for services exceeds the time to pay the expenses for those services, the utility is experiencing a "net revenue lag" which requires cash on hand. If, on the other hand, the lag to pay expenses is longer than the lag to collect revenues, it is experiencing a negative "net revenue lag."

W. Distrigas Allocation

Many Questar Corporation expenses are charged directly to the affiliates where there is a direct connection between the affiliate and the expense. As Mr. Allred has already stated, the Distrigas formula has been adopted by the Commission as a reasonable method for allocating Questar Corporation common costs to subsidiaries. QGC Exhibit 5.8 shows projections of what the percentages will be during 2008 and 2009. This shows that QGC's portion of the Distrigas allocation is dropping. For the June 2009 test period, the average of 2008 and 2009 is used.

X. Capital Structure and Rate of Return

Q. What is the capital structure and overall rate of return being used for the test year?

A. As Mr. Curtis explained in his testimony, year-end December 2008, which is the midpoint of the test period, has been used as the capital structure for the test year. The Company has used an equity ratio of 52.3% and an overall return of 9.01% as shown in page 3 of QGC Exhibit 5.21.

Y. Return on Equity

Q. At current rates, what would the expected rate of return on equity for Questar Gas be for its Utah operations in the test year?

A. QGC Exhibit 6.2, page 1, line 55 column F presents this calculation. The exhibit shows that for the test year, the Utah operations of the Company would be expected to earn 7.01% on common equity during the rate-effective period absent rate relief in this docket.

Z. Revenue Deficiency

Q. What is the calculated revenue deficiency for Questar Gas for its Utah operations in the test year?

A. QGC Exhibit 6.2 page 1, column G, line 3, shows a deficiency of $26,966,271. Line 3 of column H shows that the Company would need to collect $261,181,307 in revenue in order to earn its proposed return of 11.25%. Mr. Robinson will explain how the revenues will be spread between different rate classes.

Q. Does that conclude your testimony?

A. Yes.

State of Utah)
) ss.
County of Salt Lake)

I, Kelly B. Mendenhall, 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.

____
Kelly B. Mendenhall

SUBSCRIBED AND SWORN TO this ___ day of December 2007.

____
Notary Public