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Exhibit CCS – 2D TY

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the)	Docket No. 07-057-13
Application of Questar Gas)	Test Year
Company to Increase)	Testimony of
Distribution Non-Gas Rates)	Donna DeRonne
And Charges and Make)	For the Committee of
Tariff Modifications)	Consumer Services

January 28, 2008

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1 **INTRODUCTION**

2 **Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?**

3 A. My name is Donna DeRonne. I am a Certified Public Accountant licensed
4 in the State of Michigan and a senior regulatory analyst at Larkin &
5 Associates, PLLC, Certified Public Accountants, with offices at 15728
6 Farmington Road, Livonia, Michigan 48154.

7

8 **Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.**

9 A. Larkin & Associates, PLLC, is a Certified Public Accounting Firm. The firm
10 performs independent regulatory consulting primarily for public
11 service/utility commission staffs and consumer interest groups (public
12 counsels, public advocates, consumer counsels, attorneys general, etc.).
13 Larkin & Associates, PLLC has extensive experience in the utility
14 regulatory field as expert witnesses in over 600 regulatory proceedings,
15 including numerous electric, water and wastewater, gas and telephone
16 utility cases.

17

18 **Q. HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR**
19 **QUALIFICATIONS AND EXPERIENCE?**

20 A. Yes. I have attached Appendix I, which is a summary of my regulatory
21 experience and qualifications.

22

23 **Q. ON WHOSE BEHALF ARE YOU APPEARING?**

24 A. Larkin & Associates, PLLC, was retained by the Utah Committee of
25 Consumer Services (Committee) to review Questar Gas Company's (the
26 Company or Questar Gas) application for an increase in rates in the State
27 of Utah. Accordingly, I am appearing on behalf of the Committee.

28

29 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

30 A. My testimony addresses: (1) the test year alternatives that the
31 Commission can select from as set forth in the statutory provision
32 addressing test year; (2) the Committee's position that the Company's
33 proposed test year, if adjusted appropriately, can be reasonably reflective
34 of the conditions Questar Gas is likely to encounter during the rate
35 effective period; and (3) reasons why it is imperative that the Commission
36 resolve the test year issue in a timely manner.

37

38 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY ON THE ISSUE**
39 **OF TEST YEAR SELECTION BEFORE THE PUBLIC SERVICE**
40 **COMMISSION OF UTAH?**

41 A. Yes. In Docket No. 06-035-23 involving Rocky Mountain Power
42 Company, I submitted testimony on behalf of the Committee of Consumer
43 Services regarding the appropriate test year. I also submitted testimony
44 on the test year on January 25, 2008 in Docket No. 07-035-93 involving
45 Rocky Mountain Power Company in its current rate case proceeding.

46

- 77 (ii) a test period that is:
78
79 (A) determined on the basis of historic data; and
80 (B) adjusted for known and measurable changes; or
81
82 (iii) a test period that is determined on the basis of a
83 combination of:
84
85 (A) future projections; and
86 (B) historic data.
87
88 (c) If pursuant to this Subsection (3), the commission establishes
89 a test period that is not determined exclusively on the basis of
90 future projections, in determining just and reasonable rates the
91 commission shall consider changes outside the test period that:
92
93 (i) occur during a time period that is close in time to the test
94 period;
95
96 (ii) are known in nature; and
97
98 (iii) are measurable in amount.
99
100

101 According to the statutory language, the Commission can select from
102 three basic test year options. These options include a historical test year
103 adjusted for known and measurable changes, a future test year for which
104 the end date does not exceed 20 months from the date the case is filed,
105 and a mixed test year that is a combination of historical information and
106 future projections. While the future test year may not exceed 20 months
107 from the date the case is filed, it may consist of almost any twelve month
108 period prior to that 20 month limitation. A mixed test year also results in
109 many test year options.

110 In selecting the appropriate test year, therefore, the key criteria for
111 the Commission is that the test year, based on the evidence presented,

112 needs to reflect the conditions that will be encountered by a utility during
113 the rate effective period.

114 **TEST YEAR RECOMMENDATION**

115 **Q. WHAT IS THE COMMITTEE'S POSITION WITH REGARDS TO THE**
116 **TEST YEAR REQUESTED BY QUESTAR GAS IN THIS CASE?**

117 A. As previously indicated, Questar Gas has requested a future test year
118 ending June 30, 2009. The forecasted test period was presented by the
119 Company in QGC Exhibits 6.2 and 6.3 attached to the Direct Testimony of
120 Kelly B. Mendenhall. It is the Committee's view that the information and
121 calculations presented in Questar Gas' filing can be adjusted such that
122 the requested period can be reasonably reflective of the conditions
123 Questar Gas will face in the rate effective period.

124 Section 54-4-4(3)(a) of the Utah Statutes requires that the
125 Commission select a test period that, on the basis of the evidence, it finds
126 best reflects the conditions that a utility is expected to encounter during
127 the rate effective period. Given the amount of capital investments
128 projected by Questar Gas for replacing infrastructure, the twelve month
129 period requested by the Company can be reasonably reflective of the rate
130 effective period if reasonable projections, forecasting methodologies, and
131 assumptions are utilized in deriving the forecasted amounts. If the future
132 test period is selected, appropriate ratepayer safeguards should also be
133 put in place.

134

135 **Q. WHAT TYPES OF POTENTIAL RATEPAYER SAFEGUARDS DO YOU**
136 **ENVISION AT THIS TIME?**

137 A. While the Committee is still in the process of analyzing the Company's
138 recent responses to discovery and a significant amount of analysis and
139 discovery remains to be conducted, there is a concern that the substantial
140 level of projected capital expenditures contained in the filing may not be
141 achieved. If a future test year is adopted by the Commission, the
142 Committee believes that safeguards should be established in this case to
143 protect ratepayers in the event that actual capital spending falls
144 substantially short of projected levels and actual costs in the areas of
145 operation and maintenance expenses fall short of budgeted levels.
146 Safeguards could take various forms. Two types of potential safeguards
147 to protect customers include: (1) the establishment of deferral
148 mechanisms (perhaps in the form of a regulatory liability) to mitigate future
149 cost increases; or (2) customer credits (refunds) on bills essentially
150 reflecting the difference between amounts collected in rates and actual
151 spend levels in certain areas. As the Committee continues its analysis,
152 potential safeguards will be developed and further addressed in its
153 revenue requirement testimony.

154

155 **TIMELINESS OF TEST YEAR RESOLUTION**

156 **Q. IN YOUR EXPERIENCE ADDRESSING REVENUE REQUIREMENTS IN**
157 **UTILITY RATE CASE PROCEEDINGS, WHAT TYPES OF TEST YEARS**
158 **HAVE YOU ADDRESSED?**

159 A. As regulatory policies and practices can differ somewhat between the
160 various state jurisdictions, I have addressed many different test periods.
161 These have included historic test years, historic test years with limited
162 post-test year adjustments, mixed test years consisting of part actual and
163 part forecasted information, and future test periods. However, in each of
164 the proceedings, the test year that is being utilized for the development of
165 the revenue requirement is typically known at the on-set of the case or
166 close thereto. This gives some certainty as to the direction of the review
167 process. Parties know what test period to use for their review, analysis
168 and adjustments in making an appropriate revenue requirement
169 determination. Certainty with regards to the test period is imperative to
170 the review process.

171

172 **Q. WHY IS IT IMPERATIVE THAT THE ISSUE OF TEST YEAR BE**
173 **RESOLVED EARLY IN THE CASE?**

174 A. There are many factors making it imperative that the resolution of the test
175 period be determined early in the rate case schedule. An unresolved test
176 period will result in a very inefficient audit and review process, greatly
177 increasing the costs associated with the review of the rate case filing.

178 Parties would need to perform a detailed audit and review of all potential
179 test periods. While each of the periods used in building-up to the future
180 test period would need to be reviewed irregardless, different periods will
181 incorporate differing assumptions and forecasts. It would not be possible
182 for parties to quantify and present each and every recommended
183 adjustment or revision in each and every of the potential twelve-month test
184 period option available.

185 Additionally, if a twelve-month period is selected for the test year
186 which differs from the test period presented by the Company in its filing, a
187 great deal of revisions and calculations in many areas must be made to
188 present a complete twelve-month period with all of the aspects of the
189 revenue requirement calculation being coordinated and matched.

190

191 **Q. COULD YOU PLEASE GIVE SOME EXAMPLES OF HOW**
192 **ADJUSTMENTS WOULD HAVE DIFFERENT IMPACTS IN DIFFERENT**
193 **TEST PERIODS?**

194 A. Yes. For example, the sales forecast considers projected customer
195 additions and projected changes in usage per customer. The customer
196 counts, and in some cases the usage per customer, will differ depending
197 upon the period selected. Additionally, the Company's filing coordinates
198 the customer levels, or customer additions, with the plant additions,
199 accumulated depreciation and depreciation expense in the filing.

200 Depending upon the twelve month period selected, the impact of
201 the additions to plant will differ. As an average rate base is used, analysts
202 must know how many months the addition should be included in plant in
203 service, accumulated depreciation and depreciation expense, among
204 other factors. If parties recommend adjustments to any of the projected
205 plant additions or plant replacements, such as revised cost estimates or
206 revised in-service dates, the impact on revenue requirement will be
207 different for each distinct twelve-month period selected.

208 Almost every adjustment made in the filing and every forecast will
209 vary in differing test periods. Some adjustments will differ more
210 substantially than others depending upon the nature of the forecast and
211 the differing conditions between periods. Some differences may be as
212 simple as incorporating alternate escalation factors, but some will be much
213 more complex. If parties advocate different test periods in the case, the
214 adjustments will not be comparable from one party to the next making the
215 hearing process and final revenue requirement calculation unwieldy.
216

217 **Q. WOULD PARTIES BE PUT AT A DISADVANTAGE SHOULD THE TEST**
218 **PERIOD THEY ARE ADVOCATING NOT BE SELECTED?**

219 A. If the Commission does not resolve the test year issue early in the case,
220 parties that utilize a test period that differs from the one ultimately utilized
221 by the Commission in reaching its final decision would be put at a great
222 disadvantage. The quantification of adjustments or revisions they are

223 advocating may differ substantially between potential test periods. Under
224 the existing legislation, an almost endless number of potential test periods
225 exist. It is not feasible or practical for parties to present their
226 recommended adjustments in numerous potential undetermined twelve-
227 month periods.

228

229 **Q. WOULD FAILURE TO RESOLVE THE ISSUE OF TEST YEAR EARLY**
230 **IN THE PROCEEDING ALSO MAKE THE COMMISSION'S**
231 **OBLIGATION TO DETERMINE A FAIR AND REASONABLE REVENUE**
232 **REQUIREMENT MORE DIFFICULT?**

233 A. Yes, substantially so. If parties present their recommended adjustments
234 and revenue requirements based on different test periods, the
235 Commission may not have all of the facts and evidence necessary in the
236 record to incorporate all of the adjustments it determines are necessary
237 and appropriate in the test period it ultimately determines is best reflective
238 of the conditions in the rate effective period. The quantification of almost
239 every aspect considered in a rate case proceeding will be different
240 depending on the test period. It will also be much more difficult to ensure
241 that there is a matching of the different components of the ratemaking
242 formula.

243

244 **Q. DOES THIS COMPLETE YOUR PREFILED TESTIMONY ON TEST**
245 **YEAR ISSUES?**

246 A. Yes.