BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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IN THE MATTER OF THE APPLICATION OF QUESTAR GAS COMPANY TO)	Docket No. 07-057-13
INCREASE DISTRIBUTION NON-GAS RATES AND CHARGES AND MAKE)	DPU Exhibit No. 1.0R
TARIFF MODIFICATIONS))	
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Rebuttal Testimony of

Joni S. Zenger, Ph.D.

TEST PERIOD

(Redacted Version)

For the Division of Public Utilities

Department of Commerce

State of Utah

February 5, 2008

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Rebuttal Testimony of Joni S. Zenger, Ph.D. 1 2 I. INTRODUCTION 3 Q. Please state your name and occupation. 4 A. My name is Joni S. Zenger. I am employed by the Division of Public Utilities of the Utah Department of Commerce as a Technical Consultant. 5 6 Q. What is your business address? 7 A. Heber M. Wells Office Building, 160 East 300 South, Salt Lake City, Utah, 84114. 8 Q. Are you the same Joni S. Zenger who filed direct testimony on test period I this 9 proceeding? 10 Q. Yes, I am. 11 Q. What is the purpose of your rebuttal testimony that you are now filing? 12 A. My testimony responds to certain issues raised in the testimonies of Mr. Kevin C. Higgins 13 and of Ms. Donna DeRonne. I also reiterate several issues that I described in my Direct 14 Testimony on January 28, 2008, as they pertain to the aforementioned testimonies. 15 16 II. REBUTTAL TO PREFILED DIRECT TESTIMONY OF KEVIN C. HIGGINS 17 Q. What test period does Mr. Higgins recommend to be used by the Commission in 18 this case and why? 19 A. Mr. Higgins states: 20 "I conclude that the best test period to be used in this general rate 21 case proceeding is Calendar Year 2008, consisting of the period January 1, 2008 through December 31, 2008.¹ 22 23

¹ Direct Testimony of Kevin C. Higgins, p. 3, lines 1-3.

24 25 As for the reason why, Mr. Higgins states the following: 26 27 I believe that a projected test period that is closer in time than 28 QGC's proposed period is a more reasonable choice. For this 29 reason, Calendar Year 2008 is a more appropriate choice, as it will 30 provide a more certain basis for establishing rates that would go into effect in August 2008.² 31 32 33 Further, on page 15, lines 11-14 he writes: 34 A future test period such as Calendar Year 2008 will use forecasts 35 that are nearer in time than those proposed by the Company, and 36 thus will provide a more certain basis for establishing rates that would go into effect in August 2008.³ 37 38 39 Q. Do you believe that "closer in time" or "nearer in time" makes the Calendar 40 Year 2008 Test Year a more reasonable choice? A. No, not necessarily. There is no debate regarding the truism that forecasts that are closer in 41 42 time tend to be more accurate in that the forecast error is diminished. However, Mr. Higgins 43 also acknowledges that his proposed test period is in itself a forecast: 44 I acknowledge that the Calendar Year 2008 test period I am 45 recommending relies entirely on projections of data, and from that 46 standpoint, is also a future test period. 47 However, just because a forecast is closer in time is not grounds to dismiss another 48 49 forecasted test period, which may more closely reflect the conditions that the utility will 50 encounter during the rate effective period, and of which any forecasted projections could be 51 adjusted to ensure the accuracy of the assumptions of the alternative forecast. In other 52 words, I propose that all other factors and conditions that I outlined in my Direct Testimony

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² Direct Testimony of Kevin C. Higgins, p. 8, lines 5-8.

³ Id, p. 15, lines 11-14.

should be taken into account in determining which test period to use. I would advocate not selecting the test period based on that one truism – that a forecast that this is closer in time will have less forecasting error.

As I described in my Direct Testimony, there are several factors that should be considered in the test period selection – the need for feeder line replacement and upgrades to capital projects, the need to respond to growth in peak-day demand, new customers coming online, and maintaining pipeline integrity programs.

Q. Have there been any changes in these conditions since you filed your Direct Testimony?

A. Yes. In my Direct Testimony I described the inflationary pressures currently facing the utilities, as well as the economy as a whole. Consumer prices rose by 4.1 percent in 2007-the largest increase in 17 years. The Federal Reserve had just lowered the Federal Funds rate by 75 basis points or ¾ of a percent (on January 22). During these few days between when I wrote my Direct Testimony, and as I am currently writing by Rebuttal Testimony, the Federal Reserve on January 30, yet again lowered its target for the Federal Funds rate 50 basis points to 3 percent in an attempt to ward off what it sees as a pending recession In a Wall Street Journal Article, one author states, "Seeking to nip an incipient recession in the bud, the Federal Reserve cut interest rates for the second time in nine days, in one of its most aggressive campaigns in decades to boost the nation's economy."

In my Direct Testimony, I also described the various feeder replacement projects and associated costs to the Company in the amount of \$45 million per year for the next several

⁴ Direct Testimony of Joni S. Zenger, Ph.D., P. 12, lines 251-256.

⁵ http://www.federalreserve.gov/newsevents/press/monetary/20080130a.htm.

⁶ Greg Ip, "Central Bank Keeps Up Aggressive Campaign to Fend Off Recession," Wall Street Journal, January 31, 2008, p. 1.

years. Since that time I received back from Questar a response to my DPU Data Request #3.16. In the data request I asked for supporting documentation of the escalating costs of pipeline replacements. I was amazed when I reviewed the (Confidential) response listed below: (Begin Confidential) (End Confidential). Besides the mandated pipeline integrity programs, this may yet be another reason that Company has chosen to accelerate its feeder replacement projects. Q. How is this relevant to the test period selection again? A. It is relevant in that the test period that is selected should match the conditions the utility will face during the rate effective period. The cost of new facilities are going to be higher, not just because the general level of inflation appears to be increasing, but because of other escalating costs and construction conditions and requirements as outlined in Questar's response to DPU Data Request 3.16.

102 Q. Do you have any other general comments you wish to make in response to Kevin 103 **Higgins' Testimony?** 104 A. Mr. Higgins and I both pointed out the factors that the Commission identified to be 105 considered in selecting a test period (which arose from a PacifiCorp general rate case.)⁷ 106 Questar participated in the various task forces, but was never a party to the Stipulation of the 107 Parties that resulted in the Commission's acceptance of the Stipulation. Mr. Higgins and I 108 both have assumed that these factors could be considered in this case--a gas docket. The 109 factors that we have both looked at are listed below: 110 The general level of inflation 111 Changes in the utility's investment, revenues or expenses 112 Changes in utility services 113 Availability and accuracy of data to the parties 114 Ability to synchronize the utility's investment, revenues and expense 115 Whether the utility is in a cost increasing or cost declining status 116 Incentives to efficient management and operation, and length of time the 117 new rates are expected to be in effect. 118 Other than the statute and this 2004 Commission order, we have never had an order from 119 the Commission resulting from the Stipulation of the Parties or directing us how to determine 120 the test period and if it in fact needs to be determined up front or can be determined at a later 121 time as part of the general rate case.

⁷ Docket No. 04-035-42, Commission Order Approving the Test Period Stipulation, October 20, 2004.

The Division has been neutral as to when the test period selection needs to be determined. However, we have no objections to using the Company's proposed test period ending June 2009. This is based on the analysis that was available to us at the time, within the limited time that we were allowed by the scheduling order in this case and our ability to make adjustments to the Company's data. REBUTTAL TO DONNA DERONNE'S PRE-FILED DIRECT TEST YEAR **TESTIMONY** O. Will you please comment on the timeliness of the test year resolution? A. Yes. As mentioned above, the Division is neutral on the decision of whether the test period selection needs to be made up front or whether it can be determined as part of the revenue requirement portion of the case. Ms. DeRonne states that "it is imperative that the Commission resolve the test year issue in a timely manner." The Division recognizes the benefits to the auditors and others working on the case to have the test year decision up front, and we agree that Ms. DeRonne has pointed out some valid reasons for resolving the test vear issue early in the case.9 Q. Will you please comment regarding Ms. DeRonne's view regarding the selection of the appropriate test period? A. The Division and Ms. DeRonne do not oppose using the Company's forecasted test year,

with conditions.

Q. What are the conditions?

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⁸ Pre-Filed Direct Test Year Testimony of Donna DeRonne, p. 2, lines 35-36.

⁹ Id, p. 7, lines 174-177; p. 8, lines 178-189.

143 A. There are two main areas of conditions: the adjustments and the safeguards. The Division 144 believes that adjustments can, and will need, to be made to the Company's June 2009 test 145 period, as I described in my Direct Testimony: 146 The Division believes that its auditors and other staff can appropriately adjust the test period proposed by the Company for 147 148 any appropriate reason, including, but not limited to, forecasting 149 issues. This could include bringing the expenses or rate base back 150 to an earlier time period than proposed by the Company in the 151 event of a forecasting error or due to a lack of sufficient evidence presented by the Company that would support the expense 152 proposed. 10 153 154 155 In a similar line of thought, Ms. DeRonne writes: 156 It is the Committee's view that the information and calculations 157 presented in Questar Gas' filing can be adjusted such that the requested period can be reasonably reflective of the conditions 158 159 Questar Gas will face in the rate effective period. 11 160 161 Regarding the safeguard conditions, the Division agrees with Ms. DeRonne in that there 162 are valid reasons to consider implementing some form of rate payer safeguards. Ms. DeRonne discusses two potential types--deferral mechanisms and customer credits. 12 163 164 However, the Division did not address the safeguards in the test year testimony, other then to 165 mention the need for ratepayer safeguards and the future need for parties to be able to 166 analyze and have access to Company data. The Division's policy witness will present 167 testimony in the revenue requirement phase of this case regarding ratepayer safeguards. 168 Q. Does this complete your testimony? 169 A. Yes it does.

¹⁰ Direct Testimony of Joni S. Zenger, Ph.D., p. 4, lines 45-51.

¹¹ Pre-Filed Direct Test Year Testimony of Donna DeRonne, p. 5, lines 120-123.

¹² Id, at p. 6, lines 146-153.