BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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| 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 |

**UPDATED DIRECT TESTIMONY OF DAVID M. CURTIS**

**FOR QUESTAR GAS COMPANY**

February 28, 2008

**QGC Exhibit 5.0 U**

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## I. INTRODUCTION

**Q. Please state your name and position.**

A. David M. Curtis, I am employed by Questar Gas Company as Vice President and Controller.

**Q. State your qualifications and experience testifying before the regulatory commissions.**

A. My qualifications and experience are listed on QGC Exhibit 5.1U.

**Q. Have you updated your direct testimony to comply with the Commission's test period order dated February 14, 2008?**

A. Yes, I have updated my testimony to adjust the test year to the year ending December 31, 2008 as ordered by the Commission, and to update December 31, 2007 amounts to the actual results.

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

A. I will testify on the components of the revenue requirement portion of the cost of service to be used in setting rates for Utah customers in this general rate case. These revenue-requirement components are based on the 12-months ending December 31, 2008 test year.

The amounts in my testimony are for the entire Questar Gas system and are not broken down into the individual Uniform System of Account details needed for the calculation of revenue requirement and cost of service allocations. Mr. Mendenhall will allocate these components among the detailed accounts and between jurisdictions and make regulatory adjustments in order to determine the cost of service recognized by the Commission for Utah customers. An outline of the balance of my testimony is as follows:

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## II. PLANNING, BUDGETING AND FORECASTING PROCESSES

**Q. Describe the planning, budgeting and forecasting processes used to develop the components of the revenue requirement in this rate case.**

A. Our objective in preparing the revenue requirement in this rate case is to project the amount of each of the components of the revenue requirement that will be in effect during the rate-effective period. To achieve this objective we used a variety of methods.

In the late summer and early fall of each year, we prepare a detailed budget for the next year's operations. This budget has three main components: operating, workforce and capital. Budget center managers for each Company department submit budget requests to the planning and budget department.

The operating budget amounts are based on the last twelve months of actual operations adjusted for planned and expected changes. A written justification is prepared for amounts that are significantly different from the actual results.

The workforce budget is prepared based on existing employees and salaries. A standard merit increase is applied to salaries effective September of the following year. Vacant positions are resubmitted for approval if the intent is to fill these positions. Any new positions require executive approval.

The capital budget is developed by the operating, engineering and administration departments. They accumulate requests for capital budget items and narrow them down to projects that are most necessary and achievable during the next year. The capital budget for new customers is based on customer projections from the Integrated Resource Plan (IRP) prepared in the spring.

QGC Exhibit 5.2U shows a comparison of the capital and operating budgets from 2002 through 2007. This exhibit shows that capital and operating budgets have been accurate forecasts of actual results with the exception of 2003 and 2007. Several unusual items occurred in 2003: (1) Questar Gas recorded a significant expense for the disallowance of $CO_2$-processing costs and (2) Capital expenditures were less than budget due to lower than expected costs of a customer information system and a delay in a feeder line project. In 2007, Questar Gas incurred higher capital expenditures than forecast, primarily because pipe was purchased in advance for the 2008 feeder line replacement projects and recorded as construction work in progress as required by our auditors rather than materials and supplies inventory.

We prepare a five-year plan each fall to present to Questar Corporation management in September and the Board of Directors in October. The first year of the five year plan is the budget for the next year. The first year amounts in the plan are based on information gathered from the operating, workforce and capital budgeting processes.

Years two through five of the plan are based on historical trends and known changes to the business. The capital budget forecasts for these years are based on customer growth projections from the IRP, specific planned major projects such as feeder line replacements, and trends for other items. The expense projections for these years are based on historical results and the first year’s budget adjusted for general inflation, wage inflation, changes in employees and other trends identified in the planning and budgeting process.

**Q. Do the amounts used to calculate the revenue requirement in this rate case agree with Questar Gas' five-year business plan prepared in the fall of 2007?**

A. Not entirely. We have continued to refine our estimates so that the revenue-requirement request in this rate case is most representative of the amounts expected during the test year. Operating and maintenance, depreciation, taxes other than income taxes and customer additions forecast for the 2008 period used in preparation of test-year results are slightly lower than the 2008 budget and most recent five-year plan.

**Q. Do you believe that the amounts included in the calculation of the revenue requirement in this case are a fair estimate of the actual amounts expected to be realized during the rate-effective period?**

A. I believe that the amounts projected are the most likely amounts to be realized during the rate-effective period.

As with any forecast of financial results there will be differences between the forecast and actual results. We make no attempt at adjusting or modifying actual reported results to match a forecast or goal. However, we have prepared a complete forecast that matches and synchronizes all components of our cost of service, and I would expect that actual results would come within a narrow range of the forecast amounts. Any differences would not make a significant difference to the calculation of customer rates.

It is important to note that even though forecasts of financial results have some degree of inaccuracy, a forecast test year, given the circumstances the Company is facing, is a far more accurate representation of conditions during the rate-effective period than simply using a historical test year. This is shown in Mr. McKay's QGC Exhibit 1.2. These specific circumstances include: a significant feeder line upgrade and replacement plan, inflationary pressures on operating expenses, a need to raise debt and equity capital and a decline in natural gas demand potentially exceeding the Conservation Enabling Tariff accrual limits.

**Q. How have you estimated the growth in the number of customers?**

A. We are aware of significant changes in the real estate markets and availability of mortgage loans. There is some uncertainty about how this will impact the rate of customer growth over the next several years. We have assumed that the rate of growth decreases off of the strong rate we have seen for the last several years. The slow down could be more dramatic than we have estimated, or alternatively, migration into the state could overcome national trends and keep the growth rate high. Our estimate of customer growth is lower than the 2007 IRP because the changes in the credit market that may affect this estimate have occurred in recent months. I will discuss this later in my testimony.

To match all components of the revenue requirement, our forecasts have been integrated so that the same level of customer growth is used to calculate revenues, rate base and operating costs. Variation in our estimate of customer growth will not significantly change the rates charged to customers during the rate-effective period.

**Q. How have you estimated usage per customer?**

A. Natural gas usage per general service customer has been generally declining for over 20 years due to more efficient appliances and better home construction. However, as shown on QGC Exhibit 5.3U, there have been times during this period when the rate of decline has been steep, other times when usage has been flat, and short periods of time when usage has increased.

Our forecast assumes a decline in natural gas usage per customer consistent with the long-term trend. In 2007, we began a Demand Side Management (DSM) program to encourage customers to use more efficient appliances and reduce heat loss through their home exterior. Because we do not have results from the DSM program through a complete heating season, we have not considered it in forecasting usage per customer.

A precise estimate of usage per customer during the rate-effective period is not as critical as it has been in the past to either Questar Gas or our customers. Because of the Conservation Enabling Tariff (CET), differences in usage per customer from those assumed in the rate case are calculated each month and future bills are adjusted through amortization of the CET deferral account. We nonetheless have tried to estimate the usage per customer during the test year as accurately as possible to avoid significant rate changes as a result of the CET.

**Q. Do you have plans that would significantly alter the level of operating costs forecast in this rate case?**

A. We do not have any plans that would significantly change the level of operating costs included in this forecast. For example, we are not planning any layoffs, early retirement programs or closure of facilities.

## III. TEST YEAR OPERATING EXPENSES

**Q. What is your forecast of general and wage inflation for the test year?**

A. As shown in QGC Exhibit 5.4U, we forecast general inflation of 2.5% in 2008. This estimate is based on recent trends in inflation rates as measured by the US Bureau of Labor Statistics in the Consumer Price Index for All Urban Consumers. For 2007 the inflation rate was 2.8%. Recent forecasts estimate the general inflation rate as follows: 2008 – from 2.0% to 3.3%; and 2009 – from 1.7% to 2.9%. We believe our estimates are reasonable, yet conservative in light of recent inflationary trends.

Also on QGC Exhibit 5.4U is our estimate of wage inflation for 2008. Wages are the largest portion of O&M expense. We estimate that the merit increases will be 4.5% for 2008. This estimate is based on our recent experience with employee turnover and economic forecasts. Recent forecasts estimate the wage inflation rate as follows: 2007 – 4.5% to 5.5% and 2008 – 4.0% to 4.8%. We believe our estimates are reasonable and necessary to remain competitive in the labor market.

**Q. What level of operating and maintenance expenses are you forecasting for the test year?**

A. As shown in QGC Exhibit 5.5U, we forecast a system operating and maintenance expense of $123.2 million for the 12 months ending December 31, 2008. This represents a 3.6% increase over the actual 12 months ended December 31, 2007. As stated previously, Kelly Mendenhall will allocate this amount among detailed accounts and between jurisdictions and make certain regulatory adjustments to determine the revenue requirement.

**Q. Why are you forecasting an increase in O&M expenses?**

A. As shown by declining O&M expenses per customer on QGC Exhibit 5.6U, we have a long history of improving our operating efficiency. However, the measure of O&M per customer has flattened in recent years and has started to increase at the rate of inflation as we have already taken advantage of many opportunities to reduce costs. Short of significantly changing the level of service offered to customers, we do not believe that there are opportunities to materially lower our costs to serve customers. Of course, we will continue to manage our costs to remain one of the most efficient gas-distribution utilities in the nation. Our incentive programs for management and employees will continue to have factors that reward efficiency along with factors that reward customer service and safety.

**Q. Discuss the level of labor and labor overhead expenses included in this amount.**

A. A summary of labor and labor overhead is shown on QGC Exhibit 5.7U. Labor and labor overhead expense is estimated to be $74.4 million for the 2008 test-year period compared with $72.4 million for the 12 months ended December 31, 2007. The number of employees is estimated to be 1,206 at the end of the test period. As described above, we are assuming a 4.5% annual merit increase in September 2008.

**Q. What is the Company observing with respect to trends in labor overhead costs?**

A. Overall labor overhead costs are increasing at about the same rate as labor costs. Pension costs are projected to be relatively flat in the test year based on projections from our actuary. Post-retirement medical and life insurance costs are projected to decrease because of the return on investments being held in trust for these obligations. On the other hand, medical and dental costs continue to increase at a rate greater than the general inflation rate.

**Q. What costs do you estimate will change significantly between the 12 months ended December 31, 2007 and the 2008 test year?**

A. Three areas of costs are projected to change significantly: bad debt, outside service and computer software costs.

Bad debt costs are projected to increase from $2.6 million for the 12 months ended December 31, 2007 to $4.5 million for the 2008 test year. 2007 was one of the lower years in the recent past for bad debt costs, while the amount for the test year represents our expectation based on experience over several recent years. Mr. Mendenhall has made regulatory adjustments to the bad debt expense including separating out the amount attributable to gas costs and normalizing the amount over a three-year period.

Outside service costs include contract services for such items as line locating, pipeline maintenance, consulting services, etc. Our estimate of these costs for the test year is based on our 2008 detailed budget. These costs are rising at a faster rate than inflation because rates charged by service providers are increasing in a tight labor market, and levels of service are increasing because of specific changing needs such as environmental issues and new employee recruitment.

Computer software costs consist primarily of maintenance fees and annual renewal costs of systems used to serve customers. The market rate for these fees has been rising faster than inflation. This rate of increase is expected to continue through the test year.

**Q. What other factors are used to estimate O&M expenses for the test year?**

A. Most other non-labor expenses are expected to increase at approximately the rate of general inflation. As described above, we have estimated this inflation rate to be 2.5% per year for 2008. Recent problems in the economy with the real estate lending market and possible recession have caused the Federal Reserve Board to lower short-term interest rates. A possible result of this loosening of credit could be an increase in inflation especially since labor markets remain tight. This has not been factored into our forecasts to be conservative.

**Q. Discuss the level of corporate costs allocated to Questar Gas in your forecast.**

A. We estimate corporate costs of $7.6 million for the 12 months ending December 31, 2008 compared to $7.5 million for the 12 months ended December 31, 2007, a 2.5% increase. The Distrigas allocation has been adjusted to account for the continued growth in the Questar Market Resources and Questar Pipeline segments of Questar. QGC Exhibit 5.8U summarizes the Distrigas allocation percentages from 1991 through 2008. Mr. Mendenhall has made regulatory adjustments to the corporate cost allocation.

**Q. What costs are allocated from Questar Gas to Questar Pipeline for shared services?**

A. We have estimated costs of $12.9 million will be allocated to Questar Pipeline for shared services during the 2008 test year compared with $12.3 million for 2007. Our test year estimate includes changes in the allocation amounts based on the growth of Questar Pipeline over this period.

**Q. What is your estimate of depreciation and amortization expense for the test year ending December 31, 2008?**

A. Our estimate of depreciation and amortization expense for the 2008 test year is $42.2 million not including $2.9 million charged to clearing accounts and recorded as operating and maintenance expense. See QGC Exhibit 5.9U. This estimate is based on the projected property, plant and equipment in service during the test year. A discussion of the property, plant and equipment estimate is included later in this testimony. The depreciation expense estimate was based on plant in service at December 31, 2007, adjusted for plant additions and retirements through December 31, 2008. We should note that the estimate of depreciation expense is based upon depreciation rates approved by the Commission effective on June 1, 2006 in Docket No 05-057-T01. In compliance with that order, the Company will complete another depreciation study by December 31, 2008 based on plant in service as of December 31, 2007.

**Q. Discuss your estimate of taxes other than income taxes for the test year.**

A. QGC Exhibit 5.10U shows the estimate of taxes other than income taxes for the test year. As shown on this exhibit, property taxes are the largest component of this line item.

Property taxes are lower in 2007 than the past several years due to lower levies charged by taxing districts. We have assumed these lower levies will continue during the test period and have increased the property tax expense only slightly during the test period over the 2007 amount for the increased investment in property, plant and equipment in service. However, proposed legislative changes to the property tax system have the potential of shifting property taxes to centrally-assessed taxpayers. My testimony may need to be updated if significant changes are enacted in the current Utah legislative session.

## IV. TEST YEAR RATE BASE

**Q. What is your estimate of property, plant and equipment as of December 31, 2008?**

A. As shown on QGC Exhibit 5.11U, we estimate property, plant and equipment in service at December 31, 2008 to be $1,639.9 million compared to $1,520.2 million at December 31, 2007. This estimate includes projected capital expenditures, closing of plant from construction work in progress and retirements over this period. As with other components of rate base, Mr. Mendenhall uses an average monthly rate base for the 12 months ending December 31, 2008 for the calculation of the revenue requirement.

**Q. What level of capital expenditures is projected in this forecast?**

A. QGC Exhibit 5.12U shows the capital budget for 2008 used in our projection of rate base. The level of capital expenditures is expected to increase through the test period. QCG Exhibit 5.13U shows the level of customer additions over the last several years as well as the projected level through the end of the test year. Total Utah GS1 customers are estimated to be 859,000 at December 31, 2008, compared to 840,000 at December 31, 2007. As noted previously, this same customer level is used in forecasting other components of the revenue requirement forecast.

**Q. What impact do feeder line replacements and upgrades have on this forecast?**

A. As noted in Mr. Allred’s testimony, feeder line replacements are the largest single driver for this rate case. QGC Exhibit 5.14U shows the feeder line projects for the past several years and forecast for the test period. This is a significant investment that is necessary to meet customer growth and continue to provide safe and reliable service. These estimates were prepared by the Company's engineers based on expected capacity requirements and the need to replace existing pipelines. The construction cost is based on current experience with pipeline replacement projects. This cost has risen significantly over the past several years due to a tight labor market and rising steel and material costs.

**Q. What level of plant retirements is forecast through the test year?**

A. QGC Exhibit 5.11U shows the projected retirements of property, plant and equipment. The majority of these retirements are due to the vintage accounting of general plant as adopted with the depreciation rate change order effective June 1, 2006. These retirements do not impact the net rate base since an equal amount of plant and accumulated depreciation are retired. These retirements lower the level of depreciation expense since depreciation is calculated on gross plant in service.

**Q. What is your estimate of accumulated depreciation and amortization as of December 31, 2008?**

A. QGC Exhibit 5.15U shows an accumulated depreciation estimate of $663.3 million at December 31, 2008 compared to $629.3 million at December 31, 2007. This estimate incorporates the previously discussed estimates of depreciation expense and retirements.

**Q. What level of deferred income taxes do you estimate as a reduction of rate base as of December 31, 2008?**

A. QGC Exhibit 5.16U shows an estimate of deferred income taxes in Accounts 190 and 282 of $141.6 million as of December 31, 2008. The primary drivers of changes in these balances are tax depreciation in excess of book depreciation and the tax treatment of contributions in aid of construction as revenues. The depreciation amounts and contributions in aid of construction amounts are consistent with our forecasts of other test-year amounts. The calculation assumes a 50% bonus depreciation for assets acquired during 2008 that was part of economic stimulus legislation recently signed into law. This had a significant impact on the accumulated deferred income taxes. Also shown on this exhibit is an estimate of deferred investment tax credits, which also reduces rate base.

**Q. What is your estimate of refundable contributions in aid of construction as of December 31, 2008?**

A. QGC Exhibit 5.17U shows an estimate of refundable contributions in aid of construction of $55.2 million as of December 31, 2008 compared to $51.2 as of December 31, 2007. The amounts in this account have been growing since the accounting methodology was changed in Docket No. 02-057-02 from recording contributions as revenue to recording them as a reduction to rate base. This account represents a liability for main contributions that may be refundable to customers if additional customers connect to the main segment within five years. We expect the balance in this account to level off since five years have passed since we changed the accounting method. The estimate is based on the customer growth in the forecast and refund trends experienced over the last five years.

**Q. What is your estimate of customer deposits as of December 31, 2008?**

A. QGC Exhibit 5.18U shows an estimate of customer deposits of $6.3 million as of December 31, 2008 compared to $5.2 million as of December 31, 2007. This estimate assumes a tariff change as proposed by Mr. Bakker to require a deposit from new customers without a credit history with the Company equal to the highest estimated monthly bill and to increase the deposit required for bad credit customers to two times the highest estimated monthly bill. If this tariff change is not adopted, the customer deposit forecast will need to be adjusted to reflect the existing circumstances.

**Q. What is your estimate of materials and supplies inventory as of December 31, 2008?**

A. QGC Exhibit 5.19U shows an estimate of materials and supplies inventory of $9.3 million as of December 31, 2008, the same as forecast for December 31, 2007. Although the level of activity in the account is expected to increase with the higher level of capital expenditures, we do not expect the balance in the account to change significantly.

**Q. What is your estimate of prepaid expenses as of December 31, 2008?**

A. QGC Exhibit 5.20U shows an estimate of prepaid expenses for such items as insurance and software maintenance as of December 31, 2008 of $3.7 million, compared with $3.2

million at December 31, 2007. The balance has increased due to growing software maintenance payments.

## V. TEST YEAR CAPITAL STRUCTURE AND COST OF CAPITAL

**Q. What is your estimate of capital structure for the test year?**

A. QGC Exhibit 5.21U shows the actual capital structure of Questar Gas as of December 31, 2006 and December 31, 2007 and projected for December 31, 2008. We have used the capital structure as of December 31, 2008, the end of our test year, for determining our revenue requirement. Using a year-end capital structure annualizes the changes that will occur during the test year and is reflective of the capital structure that will be in effect during the rate-effective period. We estimate our long-term debt balance to be $344.3 million, or 47.6% of capital and our common equity balance to be $379.6 million, or 52.4% of capital as shown on page 3 of the exhibit.

The long-term debt balance assumes the repayment of existing medium-term notes as they mature, the repayment of our bank loan from the Bank of Montreal, and the issuance of $135 million of 30-year notes at a coupon rate of 6.50%. In November 2007, we filed a registration statement with the Securities and Exchange Commission to issue publicly traded notes. The SEC has reviewed the filing. We expect to issue these notes during the first quarter of 2008 once we have filed our Annual Report on Form 10-K, depending upon market conditions. We can update this exhibit once actual terms of these notes are known.

Our estimate of common equity at December 31, 2008 includes forecast net income and dividends for 2007 and 2008 as well as an additional equity contribution of $30 million from Questar Corporation in the first quarter of 2008 to keep our capital structure in line with our bond ratings after the issuance of long-term debt as described above.

**Q. What is your estimate of cost of capital for the test year?**

A. As shown on the previous exhibit, we calculate a long-term debt cost of 6.56% as of December 31, 2008. The weighted cost of capital is estimated at 9.02% using Mr. Hevert's cost of equity of 11.25% and the capital structure described above.

## VI. TEST YEAR GAS SALES AND TRANSPORTATION VOLUMES

**Q. What is your estimate of gas sales and transportation volumes during the test year?**

A. QGC Exhibit 5.22U shows our estimate of gas sales and transportation volumes by rate class and associated number of customers for the test year compared to historical amounts.

The estimate of customers is consistent with customer growth projections used elsewhere in the revenue requirement forecasts. We have separated Utah GS1 customers into Residential and Commercial customers based on sales-tax factors (residential customers are eligible for a reduced sales-tax rate). Mr. Robinson will discuss this separation in more detail in his testimony.

We estimate the usage per Utah GS1 customer before this separation of the class will be 105.13 dth for the 12 months ending June 30, 2009, compared to 110.15 dth for the 12 months ended December 31, 2007. This forecast assumes usage will continue to decline in-line with the long-term trends of customer usage.

We have assumed the 2007 Integrated Resources Plan levels of customers and volumes for all rate classes except Utah GS1.

We have included all known significant changes in volumes for large customers, including the addition of a large industrial customer in northern Utah.

**Q. What is your estimate of other service revenues for the test year ending December 31, 2008?**

A. QGC Exhibit 5.23U shows an estimate of other service revenues of $5.7 million for the test year compared with $5.5 million for the 12 months ended December 31, 2007. We expect the level of fees for connecting gas service to decrease slightly due to our expected slowing of customer additions during the test period. Interest on past due receivables is expected to increase slightly to prior-year levels. Other revenues are expected to stay consistent with current amounts.

## VII. CONCLUSION

**Q. Please summarize your testimony?**

A. Questar Gas has filed a general rate case with a forecast test year primarily to recover increased capital costs necessary to meet growing customer requirements and maintain safe and reliable system operations. The general rate case also reflects increased operating expenses due to increasing costs and growing rate base.

We have estimated the various components of the revenue requirement for this test year based on the best information we have available. When there is uncertainty about the level of required expenditures we have attempted to be conservative in our estimates. I expect the actual experience during the test year will fall within a narrow range of our estimates.

Our estimates have been synchronized so the same level of customer additions is consistent in our forecast of plant additions, depreciation expense, operating and maintenance expense, property tax expense, deferred income taxes and sales volumes. Although the actual rate of customer additions could vary from our forecast, all these other components will change consistent with that variation. The overall result will be that a revenue requirement calculated from this forecast test year will be consistent with the actual cost of service during the test year.

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

A. Yes.

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

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

____________________________________
David M. Curtis

SUBSCRIBED AND SWORN TO this 28th day of February 2008.

____________________________________
Notary Public