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 |
|---|---|

**UPDATED DIRECT TESTIMONY OF KELLY B. MENDENHALL**

**FOR QUESTAR GAS COMPANY**

February 28, 2008

**QGC Exhibit 6.0U**

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1 **I. INTRODUCTION**

2

3 **Q. Please state your name and business address.**

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

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

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

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

9 A. Yes.

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

12 A. My updated direct testimony will address the calculation of the revenue requirement for
13 the test period in this proceeding that was ordered by the Commission on February 14th,
14 2008. The test year is the 12-month period that will end on December 31, 2008. I have
15 updated the exhibits included with my original testimony for the ordered test period and
16 have pre-marked them as QGC Exhibits labeled them 6.2U through 6.4U.

17 **Q. What changes have you made to your updated testimony?**

18 A. I have updated the historical financial amounts through 2007 and have updated all
19 forecasted rate base, expense and revenue amounts to match the exhibits in Mr. Curtis's
20 testimony. In addition I have updated all regulatory adjustments with year end 2007 data.

21 **Q. What is the general approach you have taken to develop the 2008 test period and**
22 **revenue requirement?**

23 A. The foundation for the December 2008 test year is the Company's historical financial
24 results for the 12 months ended December 2007. These amounts can be found on page 1
25 column B of QGC Exhibit 6.2U.

26

27 Beginning with the December 2007 historical amounts, I made adjustments to the

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

35 After all regulatory adjustments were made, taxes imputed and jurisdictional amounts
36 were allocated, the result in column F is an adjusted Results of Operations for the Utah
37 Jurisdiction for the 12 months ended December 31, 2008 ("December 2008 Results").

38 Column G calculates the test-year revenue deficiency by comparing the adjusted net
39 operating income without rate relief (column F, line 31) to the required net operating
40 income (column H, line 31) using the Utah jurisdictional adjusted rate base (column H,
41 line 53) and the return on equity of 11.25% as recommended by Mr. Hevert (column H,
42 line 55). The resulting deficiency shown in column G, line 31 is then grossed up for
43 taxes (line 28) to arrive at a test-year revenue requirement of $255,321,482 (column H,
44 line 3) and a revenue deficiency of $22,157,542 (column G, line 3).

## 45 II. THE DECEMBER 2008 TEST YEAR

46 **Q. Please explain the adjustments you have made to revenue, expense, and rate base**
47 **accounts that you expect to occur and have included in the December 2008 test-year**
48 **values.**

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

56 ***A. Rate Base***

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

58 As explained by Mr. Allred in his Direct Testimony and shown by Mr. Curtis in QGC
59 Exhibit 5.14U, to add customers and replace feeder lines, Questar Gas will need to raise
60 additional capital and increase investment in the system. As Mr. Curtis discussed in his
61 testimony, Questar Gas projects that Gas Plant in Service/Completed Construction not
62 Classified (Account 101/Account 106) will increase by $119.7 million from December
63 2007 to December 2008, resulting in an ending balance of $1.6 billion for the test year
64 (QGC Exhibit 5.11U, column D, line 19). Questar Gas has also projected the
65 Accumulated Depreciation/Amortization (Account 108/111) will increase by $34 million
66 from December 2007 to December 2008, resulting in an ending balance of $663 million
67 for the test year (QGC Exhibit 5.15U, column D, line 11).

68 The remaining rate base accounts of Materials and Supplies (QGC Exhibit 5.19U),
69 Prepayments (QGC Exhibit 5.20U), Customer Deposits (QGC Exhibit 5.18U),
70 Contributions in Aid of Construction (QGC Exhibit 5.17U), Deferred Income Tax
71 Credits (QGC Exhibit 5.16U) and Accumulated Deferred Income Taxes (QGC Exhibit
72 5.16U) were also projected for December 2008.

73 To incorporate the rate base numbers into the December 2008 Results, the investment
74 incurred each month was calculatecd using the historical pattern of additions to rate base.
75 After the monthly additions from December 2007 through December 2008 for each
76 account were calculated, these monthly balances from December 2007 through December
77 2008 were used to derive a 13-month average. The monthly spread and 13-month
78 average calculation of all of these rate base accounts can be found in QGC Exhibit 6.4U,
79 pages 1 - 4.

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

83 ***B. Forecasted Expenses***
84
85 **QGC Exhibit 6.2U, page 2, column 2 and QGC Exhibit 6.3U, pages 6 – 11.**
86 Expenses for the 12 months ended December 2008 were forecasted based on the budget
87 amounts as discussed by Mr. Curtis in QGC Exhibit 5.0U. Mr. Curtis' forecasted
88 Operations and Maintenance expense (O&M) of $123.2 million (QGC Exhibit 5.5U line
89 17, column E) is $2.6 million higher than the $120.6 million (QGC Exhibit 6.3U, page
90 10, line 242, column C) forecasted O&M used in the December 2008 results. The
91 difference is caused by bad debt related to SNG and commodity revenues. Mr. Curtis has
92 included this bad debt in his budgeted number; I have removed it because the bad debt
93 expense related to SNG and Commodity revenues is not included when calculating
94 Distribution Non-Gas (DNG) rates.

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

98 A. During the budget process, costs are budgeted at the department and expense type level
99 rather than the FERC account level. Thus, the aggregate O&M expenses found in QGC
100 Exhibit 5.5U column E must be allocated to individual FERC accounts. This allocation
101 is shown in QGC Exhibit 6.4U pages 13 through 16. The historical amounts for the year
102 ended December 2007 are shown by FERC account in rows 1 through 41 and by budget
103 expense type in columns A through P on pages 13 and 14. This matrix format shows
104 how much of each expense type was booked to each FERC account. Row 42 of these
105 pages shows the total O&M amounts spent in 2007. Row 43 shows the test year 2008
106 O&M amounts as shown by Mr. Curtis QGC exhibit 5.5U. Row 44 shows the year over
107 year percentage change expected to occur for each budget expense type. In order to
108 calculate the 2008 expense by FERC account, each 2007 FERC account amount was
109 escalated by the percentage change in line 44. These 2008 amounts are shown on lines
110 46 through 86 on pages 15 and 16. These total amounts were then split between
111 jurisdictions in QGC Exhibit 6.3U pages 6 through 11.

112

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

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

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

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

124 ***C. Revenue***

125 **QGC Exhibit 6.2U, page 2, column 3 and QGC Exhibit 6.3U, pages 12 – 13.**
126 Revenues for the GS class were based on projected customers and allowed CET
127 revenues. Revenues for the other rate classes were based on projected customers and
128 where applicable usage per customer through December 2008. Revenues for the 12
129 months ended December 2008 are provided by Mr. Curtis in QGC Exhibit 5.22U.
130

131 ***D. Underground Storage***

132 **QGC Exhibit 6.2U, page 2, column 4 and QGC Exhibit 6.3U, page 14.**
133 Pursuant to the final order in Docket No. 93-057-01, Account 164, Gas Stored
134 Underground - Current, is to be accounted for in the Company's pass-through cases and
135 excluded from test-year rate base. This is accomplished in the pass-through cases by
136 allowing a return on the actual average balance in this account to be entered as a gas cost
137 in the 191 Account. This adjustment removes the total balance of Account 164 from the
138 rate-base calculation.

139 ***E. Wexpro Adjustment to Production Plant***

140 **QGC Exhibit 6.2U, page 2, column 5 and QGC Exhibit 6.3U, page 15.**
141 In accordance with the Wexpro Agreement, Wexpro adds 6.3% of Questar Gas'
142 production plant to the Wexpro investment as a general plant allowance when calculating
143 the Wexpro service fee charged to Questar Gas. The Wexpro Agreement also provides
144 that the production plant component in each Questar Gas rate base plant account be
145 reduced by 6.3%.

146 ***F. Oak City Revenue***

147 **QGC Exhibit 6.2U, page 2, column 6 and QGC Exhibit 6.3U, page 16.**
148 This adjustment imputes Extension Area Charge (EAC) revenues for the Oak City area.
149 The adjustment is necessary to correct for the miscalculation that occurred during the
150 canvas of Oak City. The canvas was conducted with an EAC $10 less per month than
151 was appropriate. In its original application in Docket No. 98-057-04, the Company
152 agreed to run the system at the EAC used during the canvas and impute additional
153 revenues in future rate proceedings.

154 ***G. Minimum Bills***

155 **QGC Exhibit 6.2U, page 2, column 7 and QGC Exhibit 6.3U, page 17**
156 Utah FT-1 and FT-2 service is subject to a minimum charge, regardless of whether
157 volumes are transported. The revenue run used to forecast revenues for the 12 months
158 ended December 31, 2008, does not include a projection of minimum bill amounts. This
159 adjustment assumes that minimum bills going forward will follow historical levels by
160 using the minimum-bill amounts for the 12 months ended December 2007.

161 ***H. Other Revenues***

162 **QGC Exhibit 6.2U, page 3, column 8 and QGC Exhibit 6.3U, page 18**
163 This adjustment trues up the other revenues related to interest on past due accounts, NGV
164 related revenues, fees for connecting gas service and other operating revenues with the
165 projections made by Mr. Curtis in QGC Exhibit 5.23U.

166 ### *I. Bad Debt Expense*

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

168 This adjustment annualizes the DNG portion of bad debt expense forecasted to occur for
169 the 12 months ended December 2008 to the 3-year average level of bad debt expense.
170 This methodology was ordered by the Commission in Docket No. 95-057-02 and used by
171 the Company in Docket Nos. 99-057-20 and 02-057-02. The calculation of this
172 adjustment is calculated in Exhibit 6.3U, page 19, lines 14 through 19. Net Charge Offs
173 for each year (Line 16) are divided by booked system revenues (Line 18) to calculate a
174 bad debt ratio (Line 21). The ratios of 0.90%, 0.53% and 0.35% have been calculated for
175 2005, 2006 and 2007, respectively, and the three year average of 0.58% has been
176 calculated in column I line 21. During the test period, it is expected that the bad debt
177 percentage will be lower than the historical three-year average due to the increase in
178 security deposits that Mr. Bakker has proposed in his testimony. The Company also
179 believes that the percentage will be higher than the 2007 0.35% due to the weakness in
180 the economy over the last few months. The Company has adjusted the three-year average
181 from 0.58% to 0.50%. The allowed DNG related bad debt is calculated in column H,
182 lines 26-33. Test Period Distribution Non Gas revenue of $243,027,052 (Line 26) is
183 multiplied by the adjusted three year average of 0.50% (Line 27) to calculate an allowed
184 DNG bad debt of $1,219,638 (Line 28). The test period system DNG bad debt expense is
185 $1,905,109 (Line 31). The resulting adjustment to the test period is a reduction to
186 expenses of $685,471 (Line 33).

187 ### *J. Banked Paid Time Off*

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

189 Questar Gas employees accrue paid time off (PTO) each month based on the number of
190 hours worked and the number of years employed. The use of the allowed PTO does not
191 have to occur in the calendar year in which it was accrued. Because the total cost of PTO
192 accrued during each year is included in the labor overhead of that year, the monthly
193 balance of unused or banked vacation represents compensation owed for labor performed
194 but not yet paid. Consistent with the Commission's order in Docket No. 93-057-01, the

195 adjustment is calculated as the 12-month average of banked PTO. In order to forecast
196 this balance, the balance on December 2007 was increased by the amount of 4.5% in
197 September of 2008 to match the forecasted increase in labor. A 12-month average was
198 then taken for the period ending December 2008 and this amount of $3,941,621 was
199 removed from Rate Base. For regulatory purposes, the adjustment is made to Account
200 165, Prepayments.

201 ***K. Incentive Compensation***

202 **QGC Exhibit 6.2U, page 3, column 11 and QGC Exhibit 6.3U, pages 21 – 24.**
203 In accordance with previous Commission orders in Docket Nos. 93-057-01, 95-057-02,
204 99-057-20 and 02-057-02, Questar Gas has removed, for ratemaking purposes, incentive
205 compensation expenses related to net income, earnings per share and return on equity
206 goals either paid directly by Questar Gas or allocated from Questar Corporation for
207 incentive payouts. In these dockets the Commission allowed incentives paid based on
208 operating goals. These operating goals include reducing O&M per customer, increasing
209 customer satisfaction and reducing accidents. This adjustment involves two steps. First,
210 a weighted three-year average from 2005 to 2007 is calculated for the percentage of
211 incentive payouts related to Questar Gas operating and financial goals. As can be seen
212 on page 24 of QGC Exhibit 6.3U, the average payout related to Questar Gas operating
213 goals was 11.22% for Questar Corporation's management plan (Column D, Line 6),
214 10.97% for Questar Corporation's Employee Plan (Column D, Line 14), 62.44% for
215 Questar Gas' management plan (Column D, Line 22) and 63.95% for Questar Gas'
216 employee plan (Column D, Line 30). These percentages are then multiplied by the
217 incentive amounts forecasted to be paid out during the test period (Pages 22 – 23). In
218 addition to the management and employee incentive plans, Questar Corporation has a
219 long term incentive plan that it pays to corporate officers. The $582,000 related to this
220 incentive plan has been removed on page 22, column D, line 5. The end result of these
221 calculations is a removal of $2.7 million.

222 *L. Stock Incentive Adjustment*

223 **QGC Exhibit 6.2U, page 3, column 12 and QGC Exhibit 6.3U, page 25.**
224 Certain deferred compensation is accounted for by using a stock-based incentive. The
225 stock incentive expense is adjusted up or down based on the price of Questar
226 Corporation's stock. Consistent with the Commission order in Docket No. 93-057-01, an
227 adjustment of $547,797 has been made to decrease expenses for the 12 months ending
228 December 31, 2008 by removing all projected expenses related to phantom stock and
229 mark-to-market stock directly charged to Questar Gas and indirectly allocated from
230 Questar Corporation.

231 *M. Sporting Events*

232 **QGC Exhibit 6.2U, page 3, column 13 and QGC Exhibit 6.3U, pages 26 – 27.**
233 During the 2006 – 2007 athletic season, Questar Gas received allocated expenses from
234 Questar Corporation for tickets to sporting events at the Energy Solutions Arena,
235 Franklin Quest Field and the E Center. During this period, 49% of the tickets were used
236 in a Questar Gas employee-recognition plan. That is, those employees who had
237 performed in an exemplary manner were awarded tickets to the games. The remaining
238 tickets were used for marketing or other purposes. Pursuant to Commission orders in
239 Docket Nos. 99-057-20 and 02-057-02, the portion of these expenses related to employee
240 recognition is allowed in rates. We have applied an escalation factor of 2.5% to the
241 historical amounts to project test year expenses. This escalation rate is consistent with
242 the forecasted increase in general expenses discussed by Mr. Curtis. This adjustment
243 reduces test period expenses by $22,967.

244 *N. State Tax*

245 **QGC Exhibit 6.2U, page 3, column 14 and QGC Exhibit 6.3U, page 28.**
246 The test-period forecast does not have any estimate for a state income tax adjustment
247 therefore no adjustment has been made for state taxes.

248 ***O. Advertising***

249 **QGC Exhibit 6.2U, page 4, column 15 and QGC Exhibit 6.3U, pages 29 – 33.**
250 Consistent with the Commission order in Docket No. 93-057-01, an adjustment has been
251 made to decrease forecasted expenses by $17,705 (QGC Exhibit 6.3U, page 29, line 18)
252 for the 12 months ending December 31, 2008 by removing the advertising expenses
253 related to promotional and institutional advertising and the Parade of Homes. Included in
254 this adjustment, in the amount of $4,838, is a portion of the American Gas Association
255 (AGA) dues that have been determined to be related to promotional advertising or
256 lobbying. The forecast for advertising expense was calculated by taking the actual
257 expenses for the 12 months ended December 2008 and escalating that number by 2.5%
258 per year. This escalation rate is consistent with the forecasted increase in general
259 expenses discussed by Mr. Curtis.

260 ***P. Donations and Memberships***

261 **QGC Exhibit 6.2U, page 4, column 16 and QGC Exhibit 6.3U, pages 34 – 36.**
262 In the order in Docket No. 93-057-01, the Commission prescribed which types of
263 donations and memberships are recoverable in rates. This adjustment of $167,728
264 identifies and removes similar entries that are included in the test period, and the same
265 types of expenses allocated from Questar Corporation. There were three types of costs
266 removed in this adjustment: donations, lobbying, labor and overhead from Questar
267 Corporation and expenses paid to consultants related to lobbying. QGC Exhibit 6.3U,
268 page 35, lines 2 – 4, were donations paid by Questar Corporation during the base period.
269 These amounts had an escalation rate of 2.5% applied to them to calculate a forecasted
270 donation amount in column D. Government relations A&G expense on line 5 was
271 calculated the same way. Labor and overhead related to government relations was
272 calculated using an escalation rate of 4.5% as discussed by Mr. Curtis in his direct
273 testimony. Page 36 of QGC Exhibit 6.3 shows the projected consultant expenses. Lines
274 1 and 2 show payments made to various lobbying consultants. Column D shows the
275 amount applicable to Questar Gas. Column E shows that an escalation rate of 2.5% per
276 year was applied to reach a projected adjustment for the test period.

277 ***Q. Reserve Accrual***

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

279 **Q. Please explain the Reserve Accrual.**

280 A. This accrual is associated with legal liabilities related to the Company's self-insurance
281 program. In Docket No. 99-057-02, the Company had incurred a liability of $879,100
282 and we sought recovery of the total expense. The Division argued that this expense level
283 was not representative of costs going forward and argued that it should be spread over
284 five years. In the Order, the Commission approved a five-year amortization. For the
285 December 2008 test period, rather than forecast unknown future liabilities, this
286 adjustment averages the last five years of legal liabilities. QGC Exhibit 6.3U, page 37,
287 column A, lines 1 through 5, show the amounts accrued each year from 2003 through
288 2007. Line 7, column A, shows the five year average amounts to $714,930. This
289 amount has been included in expenses for the test year.

290 ***R. Pipeline Integrity Expense***

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

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

293 A. On April 21, 2004, in Docket No. 04-057-03 Questar Gas filed with the Commission an
294 application for a deferred accounting order authorizing it to establish an account for costs
295 the Company will incur in order to remain in compliance with the new federal
296 requirements of the Pipeline Safety Improvement Act of 2002, and the Final Rule
297 regarding "Pipeline Integrity Management in High Consequence Areas." On June 24,
298 2004, the Commission approved the application and authorized Questar Gas to defer the
299 incremental gas transmission line safety compliance costs incurred on or after January 1,
300 2004.

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

302 A. Yes. Effective June 1, 2006 in Docket No. 05-057-T01, the Commission approved the
303 Settlement Stipulation that allowed Questar Gas to begin expensing $2 million per year
304 to cover pipeline integrity costs. Of the $2 million, $1.4 million is related to ongoing

305 pipeline integrity expenses and $600,000 is related to expenses incurred prior to January
306 1, 2006. The order also required the Company to continue recording costs incurred
307 above the $1.4 million level in the 182.3 account.

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

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

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

312 A. During the 12 months ended December 31, 2007, Questar Gas actually incurred $3.3
313 million in pipeline integrity expenses. That means that $1.9 million ($3.3 - $1.4) was
314 deferred. Rather than continue to defer an amount of this size, Questar Gas proposes that
315 $3.5 million be expensed each year for current pipeline integrity expenses.

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

317 A. The pipeline integrity deferred account had a balance of $7.3 million as of December 31,
318 2007. When this rate case is completed in the latter half of 2008, I estimate that the
319 deferred account will have a balance near $8.0 million. The Company proposes that the
320 $8.0 million be amortized over 5 years. This is consistent with the length of time
321 approved in Docket No. 04-057-03. When amortized over 5 years, the annual
322 amortization would be $1.6 million.

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

324 A. The annual ongoing expenses of $3.5 million and the $1.6 million amortization result in
325 a total annual pipeline integrity expense of $5.1 million. Page 38 of QGC Exhibit 6.3U
326 shows the regulatory adjustment that has been made to increase pipeline integrity costs to
327 $5.1 million. In Column A, actual expenses of $3.5 million (Line 2) and the proposed
328 amortization of $1.6 million (Line 4) are added together to calculate the total pipeline
329 integrity expense of $5.1 million (Line 5). Questar Gas has included $2 million in the
330 2008 O&M expense forecast provided by Mr. Curtis in QGC Exhibit 5.5. The current
331 allowed expense of $1.4 million (Line 7) and the current allowed amortization of $0.6
332 million (Line 8) are then subtracted from the total amount because these costs are already

333 included in the forecasted O&M expenses. The result of this subtraction is an adjustment
334 of $3.1 million (Line 9).

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

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

341 ***S. Industrial Customer Adjustment***

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

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

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

348 **Q. What adjustment are you proposing?**

349 **A.** QGC Exhibit 6.3U, page 39, column A, shows the effects of this new facility. Revenues,
350 will increase by $576,000 (line 1). The projected capital cost of the service will be $3.4
351 million (line 5). The resulting impact to the O&M expense, accumulated depreciation,
352 depreciation expense, deferred income taxes and other taxes can be found on lines 2, 7, 9,
353 11 and 13 respectively. The footnotes on page 39 of this exhibit explain how these
354 amounts were calculated.

355 ***T. Aircraft***

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

357 Questar Gas pays a fixed charge of about $98,436 related to its use of the Company
358 airplane. This amount has been escalated by the 2.5% inflation rate. Most of the flights
359 taken are related to business in Wyoming and as a result I have removed the entire fixed

360 charge from Utah jurisdictional expenses.

361 ***U. R&D Expense Adjustment***

362 **QGC Exhibit 6.2U, page 4, column 21 and QGC Exhibit 6.3U, page 41.**
363 As Mr. McKay discussed in his testimony, Questar Gas has been collecting $1.4 million
364 and is projecting to spend $1.1 million per year for Research and Development costs.
365 Mr. Curtis has included $1.4 million in costs in his forecast for the test period (QGC
366 Exhibit 5.5U, line 9). This adjustment removes $342,520 to match the projected level of
367 R&D expenses.

368 ***V. Labor Annualization Adjustment***

369 **QGC Exhibit 6.2U, page 4, column 22 and QGC Exhibit 6.3U, page 42.**
370 In accordance with the methodology adopted by this Commission in Docket No. 93-057-
371 01, this adjustment annualizes the test period labor expense. The QGC compensation
372 plan specifies that merit increases for employees will be effective on September 1 of each
373 year. In order to reflect the labor expenses that will occur during the rate effective
374 period, the Company has annualized the September 1, 2008 merit increases. This is
375 shown in QGC Exhibit 6.3U, page 42. Lines 1 – 4 show what the monthly labor expense
376 will be during the months of the rate effective period. The average of $4,128,821 is
377 calculated in line 5. The amount is then annualized in line 12 by taking the monthly
378 amount and multiplying by 12 months. Finally the projected 2008 labor expense is
379 subtracted in line 7 leaving the adjustment of $1,324,166 in line 8.

380 ***W. Lead-Lag Study***

381 **Q. In Docket No. 02-057-02, the Company updated the lead-lag study through 2001 for**
382 **calculating the required cash working capital allowance. Have you made a similar**
383 **update in this case?**
384 A. Yes. The lead-lag study was updated with 2006 actual data. The 2006 study and the
385 supporting documentation will be provided in response to master data request, number
386 B.42. The result of the study provides a net lead of about 2.7 days, which is about 0.5

387 days more than the days calculated in the lead-lag study provided in Docket No. 02-057-
388 20. The use of the updated study results in a test-year cash working capital requirement
389 of $6,036,108 (Exhibit 6.2U, page 1, line 51, column F).

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

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

398 ***X. Distrigas Allocation***

399 Many Questar Corporation expenses are charged directly to the affiliates where there is a
400 direct connection between the affiliate and the expense. As Mr. Allred has already
401 stated, the Distrigas formula has been adopted by the Commission as a reasonable
402 method for allocating Questar Corporation common costs to subsidiaries. QGC Exhibit
403 5.8U shows projections of what the percentages will be during 2008. This shows that
404 QGC's portion of the Distrigas allocation is dropping. For the December 2008 test
405 period, the 2008 Distrigas percentages were used.

406 ***Y. Capital Structure and Rate of Return***

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

408 A. As Mr. Curtis explained in his testimony, year-end December 2008 capital structure has
409 been used as the capital structure for the test year. The Company has used an equity ratio
410 of 52.44% and an overall return of 9.02% as shown in page 3 of QGC Exhibit 5.21.
411 Using the year-end capital structure annualizes the changes that will occur during the test
412 year and is reflective of the capital structure that will be in effect during the rate-effective
413 period.

414 ***Z. Return on Equity***

415 **Q. At current rates, what would the expected rate of return on equity for Questar**
416 **Gas be for its Utah operations in the test year?**
417 A. QGC Exhibit 6.2U, page 1, line 55 column F presents this calculation. The exhibit
418 shows that for the test year, the Utah operations of the Company would be expected to
419 earn 7.69% on common equity during the rate-effective period absent rate relief in
420 this docket.

421 ***AA. Revenue Deficiency***

422 **Q. What is the calculated revenue deficiency for Questar Gas for its Utah operations in**
423 **the test year?**
424 A. QGC Exhibit 6.2U page 1, column G, line 3, shows a deficiency of $22,157,542.
425 Line 3 of column H shows that the Company would need to collect $255,321,482
426 in revenue in order to earn its proposed return of 11.25%. Mr. Robinson will
427 explain how the revenues will be spread between different rate classes.

428 **Q. Does that conclude your testimony?**
429 A. Yes.
430

State of Utah )<br>
) ss.<br>
County of Salt Lake )

I, Kelly B. Mendenhall, 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 testimony, the updated 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 February 2008.

____________________________________
Notary Public