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 DPU EXHIBIT 4.0

PRE-FILED DIRECT TESTIMONY

MARLIN BARROW

ON BEHALF OF THE

UTAH DIVISION OF PUBLIC UTILITIES

REVENUE REQUIREMENT AND POLICY ISSUES

April 21, 2008

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I. INTRODUCTION

Q: Please state your name, business address, employer, and current position or title for the record.

A: My name is Marlin H. Barrow; my business address is the Heber Wells Building, 160 East 300 South, Salt Lake City, Utah. I am employed by the Utah Division of Public Utilities (Division or DPU) as a Technical Consultant.

Q: Would you briefly describe your qualifications?

A: I have a Bachelors Degree in Business Administration from Brigham Young University and a Masters Degree in Business Administration from Westminster College. I have been with the Division since August 2001. Prior to coming to the Division, I worked at Northwest Energy/ The Williams Companies, located in Salt Lake City, for more than twenty-six years.

Q: **Have you testified before this Commission before this?**

A: Yes. I testified in several Questar Gas Company (the Company) pass-through dockets and more recently last June as the Division's witness in what is commonly called the CET case, Docket No. 05-057-T01.

Q: What is the purpose of your testimony in this proceeding?

A: My testimony introduces the Division's witnesses, as well as any adjustments to the revenue requirement that the Division recommends in this phase of this docket. I also present one of my own adjustments to the Company's proposed rate base, which is included in the Division's recommended revenue requirement. I will address the Division's position and recommendations regarding some policy issues which includes future reporting requirements and rate case filing requirements, recommendations on the interim rate-spread that should be used between this phase of the case and the rate design phase scheduled for later this year, and recommendations on the Conservation Enabling Tariff (CET). Finally, I present the Division's comments on Questar's Customer Service Standards and the Division's recommendation on issues raised by the Company's witness Mr. Brent Bakker in his testimony.

II. BACKGROUND AND OVERVIEW

Q. Will you briefly review the background and factual framework surrounding this docket?

A. Yes. On December 19, 2007, Questar Gas filed an application with the Utah Public Service Commission (Commission) for an increase in its distribution non-gas (DNG) rates in Utah to recover additional annual revenues of approximately $26.7 million. The DNG rates cover approximately 27% of the Company's total costs with the other 73%, consisting of gas supply costs, that are recovered in pass-through filings the Company typically makes bi-annually. The $26.7 million request was based on a forecasted test year ending June 30, 2009 and a return on equity (ROE) of 11.25 percent. The Division filed testimony that did not oppose using the June 2009 test period proposed by the Company, as we determined that our auditors could appropriately and adequately adjust revenues, expenses, rate base, or forecasts to ensure that the test year best reflects the conditions that the Company will encounter during the rate-effective period.

However, on January 11, 2008, the Utah Association of Energy Users (UAE Intervention Group) requested a hearing for the Commission to determine the appropriate test period to be used for purposes of this general rate case. A hearing was held on February 8, 2008, in which the intervening parties presented evidence regarding the appropriate test period to be used in this matter. On February 14, 2008, the Commission issued its Test Period Order requiring the Company to resubmit the rate increase application using a calendar year 2008 test period. Therefore, on February 28, 2008, the Company filed a revised overall revenue requirement request of $22.2 million.

III. INTRODUCTION OF WITNESSES AND THE DIVISION'S PROPOSED ADJUSTMENTS

Q. Please identify the Division's witnesses who have or will provide testimony in this case.

A. DPU witness 1.0 is Dr. Joni Zenger, who previously filed Test Year testimony in this case on January 28, 2008. DPU witness 2.0 is Mr. Charles Peterson, who filed testimony on March 31, 2008. His testimony addressed issues related to the cost of capital requested by the Company. DPU witness 3.0 is Dr. William (Artie) Powell who also filed cost of capital testimony on March 31, 2008. His testimony reviewed general concepts on cost of capital and addressed some issues on revenue stabilization mechanisms. I am DPU witness 4.0 and will discuss an adjustment to the Company's recommended rate base, as well as the Division's recommendations on certain policies in this case. DPU witness 5.0 is Mr. Bryant Norman. He will address the Division's recommended adjustments to some revenue and expense elements.

Q: Can you summarize the Division's recommendation regarding the revenue requirement?

A: The Division recommends a revenue requirement of $5.4 million. This adjusted number represents the result of Division witness Mr. Peterson's adjustments to the Company's proposed capital structure and return on equity (ROE), as well as the other adjustments the Division is proposing to the Company's rate base and other revenue and expense items.

Q. Have you prepared a summary of the Division's adjustments that you describe above?

A. Yes. Attached to my testimony is DPU Exhibit 4.1 which contains a summary of each of the Division's adjustments and the resulting effect on the Company's revenue requirement. Line #2, in DPU Exhibit 4.1, is the result of Mr. Peterson's recommended capital structure and ROE.[1] His adjustment reduces the revenue requirement by $12.5 million. Line #3 is the result of the adjustments made to the Company's rate base that involved several specific adjustments to capital costs, depreciation, property taxes, accumulated depreciation, and accumulated deferred income taxes. The detail of these individual adjustments is shown in Exhibit 4.1 as 3a through 3f. These adjustments collectively reduced the revenue requirement by $0.8 million. Lines #4 through #8 are the adjustments made to the revenue and expense elements by Division witness Mr. Norman. The total of his adjustments reduce the revenue requirement by a $3.4 million resulting in a recommended revenue requirement of $5.4 million.

Q. Please explain the methodology used to model the adjustments proposed by the Division.

A. In order to model the Division's adjustments, the Division used the Company's model, QGCMODEL_02_28, which the Company filed with its updated test year filing on February 28, 2008.

[1] Docket No. 07-057-13, DPU Exhibit 2.0, Direct Testimony of Charles E. Peterson, lines 140-143.

Q: Could you briefly describe in more detail your adjustment to the Company's forecasted capital expenditures?

A: Yes, first I reduced the $131.6 million[2] by $4.6 million due to the Company's response to DPU data request 22.03 in which the Company stated that $4.6 million of the total $129.9 million of capital dollars spent in 2007 was actually dollars budgeted in 2008 for the feeder line projects 4, 5, and 11.

Q: Couldn't the $4.6 million dollar difference you just mentioned account for the difference between the Company's actual 2008 capital budget of $136.4 million and Mr. Curtis's estimate of $131.6 which is a difference of $4.8 million?

A: I thought of that possibility. However, it doesn't appear that is the case as Mr. Curtis, in his testimony, states that the test year results are slightly lower than the 2008 budget.[3] I also checked Mr. Curtis's original testimony filed with the June 2009 test year and noticed that the 2008 estimated capital expenditures were originally at $131.6 million, while the estimated capital expenditures for 2007 were expected to be $121.4 million. Again, actual capital expenditures for 2007 came in at $129.9 million, $8.5 million more than the first estimate. I could see no evidence that the Company considered the $4.6 million of 2008 budgeted costs

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[2] Exhibit QGC 5.12U, Test Year 2008, line 9.

[3] Direct Testimony David M. Curtis, QGC Exhibit 5.0U, page 4, lines 89-91.

in the original 2007 estimate. Therefore because the Company's 2008 estimate of capital did not change with the refilling for the 2008 test year, I deducted $4.6 million from Mr. Curtis's estimate of $131.6 million to arrive at an adjusted capital expenditure amount of $127.0 million before doing any other adjustments.

Q: Didn't the Company state in its response to DPU data request 22.03 that it still expects to spend $45 million on feeder lines during 2008 because the Feeder Line Replacement program is a multiyear program and 2008 dollars, spent in 2007, will be taken from preliminary 2009 projects to equal $45 million for 2008?

A: They did, but the Division has no evidence of what capital projects these dollars are part of at this time and therefore the $4.6 million was deducted from Mr. Curtis's estimate of $131.6. However, it is more important to keep in mind that capital dollars spent on projects are not part of the Company's rate base until they become *used and use-full*.

Q: Could you explain more fully?

A: Yes. QGC Exhibit 5.2U presents a comparison of budgeted capital expenditures to actual capital expenditures between 2002 and 2007. The ratio of actual spending to budgeted spending has varied from 84.1% in 2003 to 111.6% in 2007.[4] The six-year average of this ratio is 96.4%. Therefore, I adjusted my previous $127.0 million adjustment by 96.4% to arrive at an estimated capital

[4] Exhibit QGC 5.2U

expenditure for 2008 of $122.5 million. This amount is shown in DPU Exhibit 4.2, which is a replication of QGC Exhibit 5.11U with Column E added to show the Divisions adjustments. The $122.5 million is Column E line 3 of the exhibit (rounded up). As previously mentioned, capital dollars are not part of rate base until they are "*used and use-full*". These amounts are shown on line 5 of DPU Exhibit 4.2 with an explanation of how they were calculated indicated in the footnote.

Continuing on down in this exhibit I arrive at an estimated 2008 end-of-year forecast in Account 101/106 of $1,630.0 million compared to Mr. Curtis's estimate of $1,639.9 million (Cols D and E line 19). This includes the removal of $1.5 million included as Customer Contributions – Refunds (Col E line 14). I removed this amount based on the Company's response to DPU data request 21.01, which indicated the $1.5 million entry was to capitalize refunds made between 2003 and 2007 for contributions received prior to 2003. I concluded from this that these were prior period adjustments. The effect of these adjustments, including adjustments to depreciation and property tax expense, accumulated depreciation and deferred income tax, in the Company's Excel model, was to reduce the revenue requirement by $843,000.

IV. POLICY RECOMMENDATIONS

Q: What issues arise when a regulated utility files a rate case based on a projected test year?

A: The biggest issue is the credibility or accuracy of amounts included in revenues, expenses and rate base for the projected test year. After the passage of UCA § 54-4-4-(3) that allowed the use of a 20-month projected test period and as a result of a 2004 electricity general rate case (Docket No. 04-035-42), a task force was established to develop and propose rules relating to procedural requirements that should be considered with regard to filing requirements, discovery, and timing of the test period hearing. Although the task force was formed as the result of an electric rate case, Questar Gas did participate in that task force.

Q. What were the results of the work performed in the task force?

A. The task force filed reports with the Commission, along with several filing requirement attachments known as Attachments A through E, respectively. The attachments contained revenue requirement filing information, additional cost of service filing information, and data request filing information developed collaboratively. The attachments were filed as part of the Stipulation of the parties, with a consensus approving Attachment A, but with no agreement on the requirements of the other attachments. Questar Gas did not sign the Stipulation of the Parties.

The Commission issued a Motion for Approval of the Stipulation and the associated attachments on January 30, 2006.[5] The terms of the Stipulation specified that the agreements were to apply only to PacifiCorp's next general rate case application. Questar voluntarily provided the filing information known as MDR A and MDR B, as part of this rate case.

Q. Will you please describe the recommendations from the Discovery Task Force Report?

A. The task force report made several recommendations, including the following:

> . . . that the commission and the Parties evaluate their experience with the additional filing obligations, data requests and other discovery mechanisms that will or may be used in PacifiCorp's next general rate case. Experience gained in that proceeding will undoubtedly be useful in evaluating which proposed mechanisms are useful for their designed purposes.[6]

Q. Based on the Division's experience in this current case, what are your recommendations with respect to the above-referenced mechanisms?

A. The information found in MDR A and MDR B was useful in gaining a sense of how Questar Gas prepared its budgets and how that information is used as an internal management tool. The Division recognizes and appreciates the voluntary effort Questar Gas undertook to provide this information. Because this

[5] Motion for Approval of Stipulation on Filing Requirements, Discovery, and Timing of Test Period Hearing, Docket No. 04-035-42, January 30, 2006.

[6] Discovery Task Force Report, Docket No. 04-035-42, January 31, 2005, p. 3.

information is useful, the Division recommends that the Company now be required to continue to provide the information contained in the MDR A and B requests as part of any future rate case filings.

Q. Are there any policy issues that you would like to request the Commission to consider or implement?

A. Yes. In my rebuttal testimony filed in Docket No. 05-057-T01, the Division recommended that the Company file a twenty-four (24) month, month-by-month forward looking financial forecast at the time it files its annual results of operations.[7] With this rate case filing, where a projected test period is the basis used to determine the revenue requirement, a month-to-month forecast becomes even more relevant because of the examination that all parties conduct to help determine a recommendation that each party feels is just and reasonable. Therefore, the Division recommends that the Commission require Questar Gas provide a 24 month, month-by-month projected forecast when it files its annual results of operations.

Q: Why is this important?

A: While the Division is still able to evaluate the Company's historical financial performance using the results of operations filed by the Company, the Division finds itself at a disadvantage when a future test year is used. Under present

[7] Rebuttal Testimony of Marlin Barrow, Docket No. 05-057-T01, page 9, L154-156.

statutes, the Company is able to propose, as it originally did in this case, a test year going out twenty months from the date of filing a rate case. Having a twenty-four month forecast will provide the Commission and the Division with the same information that the Company currently controls. The Division believes that having the same information is essential in carrying out its statutory obligations. Namely, determining whether expected future circumstances warrant a rate case or other agency action. Additionally, by comparing each forecast to the Company's actual performance as it unfolds, regulators will be able to (1) evaluate the Company's forecasting performance and (2) put the Company's rate case forecasts and, thus, Company rate requests into perspective.

Q: What format does the Division believe this 24-month forecast should take?

A: By Commission rule R746-320-7, the Commission has adopted the Code of Federal Regulation Section 18, Part 201 Code of Federal Regulation (CFR) as the uniform system of accounts for gas utilities and the basis for reporting purposes. The Division believes the forecast format should be in the same format as the annual results of operations, which is also the same format the Company presents for its rate case filings. The reason for this is to develop a consistent reporting format for presentation purposes to regulatory authorities and as a means to validate the information.

Each month, the Company currently provides the Division and Commission with a monthly report known as the "grey-backs." The Division finds the "grey-backs" useful in a variety of ways. For example, currently the Division uses the "grey-backs" to estimate the earnings position of the Company on a monthly basis and to track balances in the 191 CET and pass-through accounts. However, while the "grey-backs" follow generally accepted accounting principles or "GAAP" accounting that is coded into FERC accounts, they do not include "regulatory adjustments" that are included in the semi-annual and annual results of operations filed by the Company with the Commission and Division . The Division is looking for forecasts that are based on regulatory adjustments and that can be traced back to the FERC accounts that are presented monthly in the "grey-backs".

Q: How does the Division believe this can be accomplished?

A: First, the Division feels that there needs to be an understanding of how budgeted or forecasted projections based on the Company's current internal system are converted to FERC accounts. This is a mapping of accounts depicting how the Company's chart of accounts is converted to the FERC CFR chart of accounts.

Q: Does this present an undue burden on the Company?

A: No. Although this is something that the Company has not provided in the past, since the "grey-back" monthly results are already in FERC accounts, the Company already must have some system established that identifies actual costs by FERC accounts. The Division sees no reason why monthly budget or forecast data account coding could not follow the same mapping methodology so that the budget or forecast information is presented in the same format. There needs to be a methodology identified that outlines and verifies how the reporting process is validated and how the accuracy of the reports is confirmed. In addition, with the potential use of forecasted test periods as a basis for rate case filings, the accuracy of future forecasts need to be confirmed and validated by comparison to not only actual results, but to previously submitted forecast data.

Q: Are there specifics with respect to the proposed forecast?

A: There are. As part of the semi-annual filing of the results of operations, an analysis of the past six-month's actual results of operations to the forecast presented at the prior year's filing needs to be provided. This analysis needs to include a month-by-month variance, identifying reasons for the differences in the actual results to the forecasted estimates. If, at this time, the remaining six months forecast is revised, an analysis needs to be provided as to the reasons for the revisions between the original forecast and the new revised forecast. When the annual results of operations are provided, in addition to the twenty-four month forward projection, a variance analysis comparing the last six months to the just completed forecast also needs to be provided.

Q: Can you provide some specifics?

A: I can. Referring to the testimony of Mr. Curtis in the current proceedings, Exhibit QGC 5.5U provides operating and maintenance expense detail by what I will term *expense type or element*. Examples of expense type are labor, labor overhead, affiliate labor, outside services, bad debts, and so on. If you refer to Mr. Mendenhall's Exhibit QGC 6.2U, lines 19 through 23, operation and maintenance expense items are categorized by what I will term as *operating function*. Examples of operating function are production, distribution, customer accounts, customer service and information, administrative and general. Each of these operating functions is a specific sum of predefined FERC accounts. Again, referring to Mr. Mendenhall's Exhibit QGC 6.3U, operating and maintenance expenses are presented by CFR account codes in total, with no detail linking them back to Mr. Curtis's expense type. This is where a mapping of accounts is essential. Forecasts should be presented in sufficient detail that allows analysis of what expense type(s) make up a certain CFR account or operating function. With this information being presented by expense type by month, the identification of any variances is more readily available and gives the basis for gaining a better understanding of the projected forecast as well as helping to establish the validity of the forecast.

Currently, an annual test year forecast by expense type is shown in Mr. Curtis's testimony, but there is not a means to readily identify how these expense types are affecting the respective operating function or the CFR account.

Q: Why is there a need for a monthly forecast versus one presented on an annual basis?

A: Within a given twelve-month period, all businesses operate on a very distinct business cycle. As a business proceeds through a normal operating cycle, various operating conditions are encountered that may or may not require a course change for a particular business. A change in operating environment occurring in the first part of an operating cycle may or may not have an impact on the operating philosophy in later months. When changes do occur, there is usually some impact to total year results that would suggest that a revision to the forecast may be justified. As mentioned above, if, going forward, a forecast is the basis for future test years, validation of not only the forecasting process but the actual results need to be readily available to regulators to allow confirmation of the results. A forecast is not a static event, rather one that is constantly updated for changing business conditions, reviewed for adequacy and reasonableness, and validated through monthly comparisons to the results of operations. Regulators need that information to stay current with the conditions a utility is facing.

Q. Were there any particular policy issues with regard to scheduling that were problematic in this case?

A. Yes. The issue of what an appropriate test period should be and what time-frame that decision should be made in would be less problematic if a month-to-month forecast was used, going from the base period to the end of the projected test period. In this case, if the Company had originally presented its case in the Company's model using a month-to-month buildup through June 2009, with the benefit of a map showing how the Company's budgeted or forecasted expense elements flowed in the FERC CFR accounts, it would have been much easier to focus on the months of January 2008 through December 2008, by month, instead of waiting for the Company to re-file its case after receiving the order on the test year hearing.

Q: The Commission requested comments on how the revenue requirement should be spread in this case. Does the Division have a recommendation?

A: Yes, the Division is recommending that the revenue requirement spread is on an equal basis among the current rate classes on an interim basis.

Q: Why is the Division recommending that the rate spread be on an interim basis?

A: The Company's cost of service study and rate design proposes dividing the GS-1 rate class into two rate classes, a residential class and a commercial class; elimination of some rate schedules; and modification of qualification requirements on other rate schedules. If the Commission approves the Company's proposed rate designs changes, the commercial class (and possibly other classes) will have foregone a sizable benefit over the period between the revenue requirement phase and the rate design phase of this case because of the proposed cost of service allocations among the rate classes. This, in the Division's opinion, warrants a true-up in rates. If the Commission rejects the proposed rate design changes, no true-up would be required. Spreading the revenue on an equal but interim basis preserves the Commission's options going forward.

Q: Does the Division have a position regarding the continuation of the CET beyond the pilot program period?

A: Yes. The CET or Conservation Enabling Tariff is a pilot program approved by the Commission in Docket No. 05-057-T01 to run through October 5, 2009.[8] The Division's position is that for the CET to continue beyond the pilot program period, a rate case will be required. A rate case will provide all parties an opportunity to present their conclusions regarding the CET pilot program. It also is the proper forum to decide whether to establish such a revenue decoupling mechanism on a more permanent basis. The Division assumes the Company desires to continue with the CET. If the Commission is to issue an order on the continuation of the CET before the end of the pilot program, the Division's position is that the Company will need to file another rate case no later than January 2009.

Q: What are some important elements that should be considered in each rate case filing?

A: With the filing of each rate case, it is important that the utilities provide the most up to date information possible. This includes updates to policy information as well as accounting information. Part of this updated accounting information

[8] Commission Order, Docket No. 05-057-T01, November 5, 2007, page 15.

includes recent lead-lag studies, used to calculate working cash requirement, which is a component of allowed rate base. In this case, Questar Gas used a lead-lag study based on 2006 calendar year information. The Division recommends that data in lead-lag studies used for rate cases should be no more than three years old at the time the Commission issues an order. For example, if the Company files a case in January 2009, it will need to file with its case a lead-lag study based on data from 2007 or later. The Division also recommends that the Company update its depreciation studies at least every five years. Also, the Division recommends that any changes which depart from the method used in the last rate case relating to the calculation of deferred income taxes be noted. Having such information will enable all parties involved in the cases to make the best possible recommendations to the Commission based on the most recent information available.

Q: Does the Division wish to make any comments on Questar Gas Customer Service Standards presented by Company Witness Mr. Allan Allred?

A: Yes. Mr. Allred, in QGC Exhibit 2.5, presents several statistical comparisons indicating the Company's performance relative to Company standards. These standards were agreed to by Stipulation and Settlement in Docket No. 02-057-02 and approved by Commission Order[9] as intra-Company management tools. In

[9] Commission Order, Docket No. 02-057-02, December 30,2002, Appendix 4.

other words, in its order approving the stipulation, the Commission did not require the Company to perform on any of the standards to a given level.

Division witness Mr. Peterson discusses the merit of these service standards in his testimony.[10] The Division's recommendation, as stated by Mr. Peterson, is that if the Company wishes to be rewarded with a higher ROE for achieving the stipulated to service standards, then a separate docket needs to be opened. In this separate docket, these standards can be vetted before the Commission, and the Commission will have an opportunity to rule on the appropriate service standards and associated levels of performance, with possible penalties imposed for failure to meet the Commission ordered performance levels.

V. COMMENTS ON MR. BAKKER'S TESTIMONY

Q: The Company has proposed several tariff changes. Does the Division have any comments on these proposed changes?

A: Yes. The Division wishes to defer the discussion on these proposed tariff changes presented by Mr. Bakker until the Cost of Service and Rate Design phase of this case is presented before the Commission later this year.

[10] Docket No. 07-057-13, DPU Exhibit 2.0, Page 41, line 908-915.

VI. SUMMARY

Q: Would you please summarize the main points of your testimony?

A: Yes. In summary, the Division recommends the following:

- Revenue requirement of $5.4 million.
- MDR A and B info filings required for Questar Gas.
- Twenty-four month-to-month future forecast filed annually.
- Mapping of budget information into FERC CFR accounts.
- Variance analysis of forecast to actuals-6 month and 12 month.
- Revenue spread on an interim basis.
- For CET to continue beyond pilot period, rate case by January 2009.
- Lead-lag studies-3 yr old info, Depreciation- 5 yr old info.
- Separate docket for customer service standards before reward.
- Tariff recommendations deferred to rate design phase.

Q: Does that conclude your prepared testimony?

A: Yes it does.