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Exhibit CCS – 2D RR DD

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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

April 21, 2008

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INTRODUCTION

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

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

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

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

Q. ON WHOSE BEHALF ARE YOU APPEARING?

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

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THESE PROCEEDINGS?

A. Yes. On January 28, 2008 I filed direct prefiled testimony on the issue of the appropriate test year in this docket. My qualifications were attached as Appendix I to that testimony and are not being resubmitted here.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. In this testimony I recommend several adjustments to the 2008 test year revenue requirement presented by Questar in the areas of rate base and net operating income.

RATE BASE

Plant In Service

Q. ARE YOU RECOMMENDING ANY REVISIONS TO THE COMPANY'S PROJECTED AVERAGE TEST YEAR PLANT IN SERVICE BALANCE?

A. Yes. Questar is projecting a significant level of plant additions in this case. In fact, plant additions are cited as one of the main drivers of the Company's projected increase in rates. In its filing, the Company is projecting additions in 2008 to Plant in Service, Account 101, of $129,303,962 and a net increase in Completed Plant Not Classified, Account 106, of $1,553,905, resulting in a combined increase in plant in service inclusive of both accounts of $130,857,867. In deriving the additions to plant in service, the Company is utilizing projected 2008 capital expenditures of $131.6 million. Based on the Company's historic experience with regards to its budgeted to actual capital expenditures, I recommend that the projected additions to plant in service during the 2008 test year be reduced.

Q. HOW HAS THE COMPANY'S ACTUAL CAPITAL EXPENDITURES COMPARED TO ITS BUDGETED LEVELS IN RECENT YEARS?

A. Presented below is a comparison of budged to actual capital expenditures:

	Original Budget	Actual Expenditures	Percentage Spent
2003	85,083,710	71,522,806	84.06%
2004	82,848,006	77,222,859	93.21%
2005	77,881,960	70,156,799	90.08%
2006	99,111,256	97,255,854	98.13%
2007	116,423,106	129,877,545	111.56%
Five Year Average of Actual Expenditures to Budget			95.41%

As shown above, the Company's actual expenditures are typically below the budgeted level, with the exception of 2007 expenditures, and the five-year average of actual capital expenditures to budget is 95.41%. The Company has underspent its capital budget in four of the last five years.

Q. IN YOUR OPINION, SHOULD THE PROJECTED 2008 ADDITIONS TO PLANT IN SERVICE IN THIS CASE BE REDUCED?

A. Yes. As the Company is utilizing a projected test year in this case based on its 2008 budget coupled with the fact that the Company has regularly under spent its budgeted capital expenditures, an adjustment to plant additions should be made. In utilizing a budgeted period in setting rates, the past reliability of the capital budgets should be considered. I recommend that the projected additions to plant in service be reduced by 4.59% based on the most recent five year average of actual capital expenditures to budget of 95.41%.

Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?

A. As shown on CCS Exhibit 2.1, the 2008 average test year plant in service should be reduced by $2,554,488 on a total Company and $2,477,853 on a Utah basis. After application of the average projected 2008 depreciation rate of 2.70%, depreciation expense and accumulated depreciation should each be reduced by $66,902.

Q. HOW DID YOU DETERMINE THE IMPACT OF YOUR RECOMMENDATION ON THE 13-MONTH AVERAGE PLANT IN SERVICE BALANCE?

A. I first applied the five-year average of actual expenditures to budget of 95.41% to the Company’s projected 2008 additions to plant in service and increase in completed construction not classified. This resulted in a reduction to net additions to plant in service of $6,009,681 and reduces the Company’s projected December 31, 2008 gas plant in service balance (accounts 101 and 106) from $1,639,903,645 to $1,633,893,964. I then input the resulting $1,633,893,964 into the model utilized by Questar in determining the impact on monthly plant additions and average plant in service. The result was a $2,554,488 reduction (total Company) to the average plant in service balance contained in the filing.

Q. THE COMPANY HAS INCLUDED THE IMPACT ON ACCUMULATED DEFERRED INCOME TAXES RESULTING FROM THE BONUS DEPRECIATION ALLOWANCE UNDER THE ECONOMIC STIMULAS ACT OF 2008. DOES YOUR ADJUSTMENT TO PLANT IN SERVICE IMPACT THE ADJUSTMENT MADE BY QUESTAR?

A. Yes. On CCS Exhibit 2.1 I include the impact of my recommended adjustment to plant in service on the bonus depreciation deduction included in the Company’s filing. This was estimated by applying the 50% bonus depreciation rate to the $2,477,853 reduction to average plant in service on a Utah basis. I then applied the 38% combined tax rate in deriving the impact, resulting in a $470,792 reduction to the accumulated deferred income tax offset to rate base.

<u>Cash Working Capital – Interest Component</u>

Q. WHAT IS THE PURPOSE OF INCLUDING A CASH WORKING CAPITAL COMPONENT IN RATE BASE?

A. Cash working capital represents the investment that is needed to support the day to day cash operating costs of a Company. Cash working capital is determined as the difference between the utility’s payment of current expenses and its receipt of revenues from serving customers. If the payment of expenses occurs before the receipt of revenues from customers, there is a positive cash working capital need. Likewise, if the revenues, on average, are received from customers prior to the payment of expenditures, a negative cash working capital requirement exists. In many jurisdictions a lead/lag study is utilized to determine the cash working capital needs, or the net lead/lag days experienced by a utility. While one typically sees a positive cash working capital requirement, I have been involved in cases in which a utility is experiencing a negative cash working capital in which, on average, revenues are received prior to the payment of expenses.

Q. ARE YOU RECOMMENDING ANY REVISIONS TO THE CASH WORKING CAPITAL INCLUDED IN THE FILING?

A. Yes. I recommend that the cash working capital included in the filing be adjusted to include the impact of interest expense on long term debt. The Company's lead/lag study and cash working capital calculations did not include a component for long term debt. The costs to pay the interest expense on the long term debt are collected from the Company's customers in the revenues generated. The interest expense on long term debt is paid by the Company on a semi-annual basis. Between the time the Company receives revenues from its customers and the time it is required to make a disbursement of funds to pay the interest on the long term debt, the funds are available for use by the Company in its operations. Interest expense is typically a component in utility lead lag studies and cash working capital calculations.

Q. WHAT IS THE AVERAGE INTEREST EXPENSE LAG ON LONG TERM DEBT?

A. The average expense lag determined by utilizing semi-annual interest payments is 91.25 days. Using the Company's revenue lag days in this case of 39.18 days results in net interest expense lead days of 52.07 days.

Q. WHAT IS THE IMPACT OF REFLECTING THE INTEREST ON LONG TERM DEBT IN THE DETERMINATION OF CASH WORKING CAPITAL?

A. The impact is reflected on CCS Exhibit 2.3 and results in a $3,259,270 reduction to rate base based interest expense derived from the Company's requested rate base and requested weighted cost of debt.

NET OPERATING INCOME

Advertising Expense

Q. THE COMPANY MADE AN ADJUSTMENT REDUCING ADVERTISING EXPENSE BY $17,705. ARE YOU RECOMMENDING ANY FURTHER ADJUSTMENTS TO QUESTAR'S ADVERTISING EXPENSE?

A. Yes. In its filing, Questar made adjustments to remove $10,800 in advertising costs associated with the Parade of Homes and $1,635 allocated to it from Questar Corporation. The Company has also classified American Gas Association (AGA) dues as part of its advertising expense adjustment and removed $4,838 or 2.00% of AGA dues from expense. There are additional advertising costs that should be removed. In response to CCS 21.21, the Company indicated that an additional $8,263 that was recorded in Account 909002 should be removed.

Q. WHAT ADDITIONAL ADVERTISING COSTS SHOULD BE REMOVED?

A. The Company's initial filing reflected $168,397 in base year advertising expense in Account 909002. In response to CCS 21.21, the Company provided a correction indicating that $467,060 had been included in this account in the base year, or an additional $298,663. This is the sub account in which Questar records its Co-op promotional advertising costs. Questar removed the costs charged to this account in its 2005 and 2006 Results of Operations reports and in its prior rate case filings in Docket Nos. 99-057-20 and 02-057-02. In Docket 93-057-01 the Commission determined that promotional advertising that attempts to increase sales of natural gas through co-op advertising should not be recovered from ratepayers. In this case, based on the Company's response to CCS 21.21, it is proposing to remove $8,263 included in this account, leaving the remaining $458,797 of costs incurred in the base year in rates.

The Company presented no testimony in this case regarding why costs charged to Account 909002 associated with co-op advertising should be allowed in the current case. These are costs that promote the sale of natural gas and lead to future growth in sales by incenting the installation of natural gas service in new homes. On CCS Exhibit 2.4 I remove the advertising expense charged to Account 909002.

Q. ARE YOU RECOMMENDING ANY ADDITIONAL ADJUSTMENTS TO ADVERTISING EXPENSE?

A. Yes, I am recommending two additional adjustments. The first adjustment removes $10,000 the Company recorded in Account 909001 for its "platinum" level sponsorship of the Utah Energy Summit. These sponsorship costs should not be funded by the Company's ratepayers. This $10,000 is removed on CCS Exhibit 2.4.

I also recommend that financial advertising allocated from Questar Corporation in the amount of $16,118 be excluded. Financial advertising typically serves to promote the Company's image to investors. As such, these costs should be funded by the Company's shareholders and not passed on the Questar Gas Company's operations from the parent company. In response to CCS 21.21, the Company provided further information on the costs, including the advertisements, which were clearly image building and touts that Questar delivered "…an annual 30% return to shareholders from 2002 to 2006." On CCS Exhibit 2.4, I remove the

$16,118 of financial advertising costs allocated to the Company from Questar Corporation.

Q. IS THE COMPANY'S ADJUSTMENT TO AGA DUES TO REMOVE 2.00% OF THE COST ADEQUATE?

A. No, an additional adjustment is appropriate. In removing 2.00% of AGA dues on QGC Exhibit 6.3U, page 33, Questar indicated that it was removing the percentage of such dues used for promotional and lobbying advertising. However, based on a response from AGA to an inquiry made by Questar that was provided in response to CCS data request 7.27, AGA estimated that its lobbying expenses were 2% of member company dues payments in 2007 and advertising costs were 1.39% of AGA dues in that year. Thus, at a minimum, 3.39% of the dues should be excluded to remove both the lobbying costs and the advertising costs paid to AGA. As shown on CCS Exhibit 2.4, removing an additional 1.39% of AGA dues associated with advertising costs results in an additional $3,362 reduction to expense.

Q. WHAT IS THE OVERALL IMPACT OF YOUR ADJUSTMENT TO ADVERTISING EXPENSE?

A. As shown on CCS Exhibit 2.4, advertising expense should be reduced by an additional $485,469 on a Utah basis beyond the adjustments made by the Company. This includes the removal of the escalation of 2.5% from the reductions recommended above.

Conservation Enabling Tariff Case Expense

Q. WHAT AMOUNT IS INCLUDED IN THE BASE YEAR AND THE TEST YEAR FOR OUTSIDE SERVICES ASSOCIATED WITH THE CONSERVATION ENABLING TARIFF CASE?

A. Base year expenses include $220,635 of outside services costs associated with the Conservation Enabling Tariff (CET) case. In projecting the test period expense in the filing, the Company left the CET case expense of $220,635 in the budgeted costs. This amount does not include labor costs, only non-labor related costs for outside professional services.

Q. SHOULD THE OUTSIDE SERVICE COSTS ASSOCIATED WITH THE CET CASE BE FACTORED INTO THE DETERMINATION OF BASE RATES?

A. No, they should not. The Conservation Enabling Tariff case is a historic case for which the associated outside service cost will not be recurring in the test year. As this is an out of period cost that will not be incurred in the test year, I recommend the costs be removed from the test period, reducing expenses by $220,635. Additionally, the outcome of the CET case largely protects the Company and its investors from the potential financial impacts of declining usage. As it is the Company and its shareholders that are being protected through the revenue generated under this mechanism, the costs incurred by the Company to achieve the outcome should not be passed on to customers.

Q. HAVE YOU PREPARED AN EXHIBIT IN SUPPORT OF YOUR RECOMMENDATION?

A. Yes. CCS Exhibit 2.4 provides my recommended adjustment to remove the CET case expense, reducing budgeted outside services costs included in the 2008 test year by $220,635.

Q. DOES THIS COMPLETE YOUR PREFILED DIRECT TESTIMONY?

A. Yes.