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

RATE OF RETURN REBUTTAL TESTIMONY OF

ROGER J BALL

31 MARCH 2008

Q Are you the same Roger J Ball who filed Test Year Direct Testimony in this Docket on 26 January 2008?

A Yes. On 8 February I appeared and testified during the Test Year hearing, when it was admitted into evidence as Exhibit RJB 1.0, together with a statement of my academic and professional qualifications and professional experience as Exhibit RJB 1.1 and my 4 February Test Year Rebuttal Testimony as Exhibit RJB 2.0. On 31 March, I filed my Rate of Return Direct Testimony as Exhibit RJB 3.0 and, most recently, on 21 April my Revenue Requirement Direct Testimony as Exhibit RJB 4.0.

Q What is the purpose of your Rate of Return Rebuttal Testimony?

A To comply with the requirement in the Commission's 27 December 2007 Scheduling Order in this proceeding that non-Company parties file rebuttal testimony regarding rate of return by 28 April 2008, and to respond to the rate of return direct testimony of the other parties to this proceeding.

Q Have you read the direct testimony filed by Questar Gas Company (Questar, or QGC, or Company, or LDC) witnesses Hevert and Reed on 19 December 2007 in this Docket?

A Yes. Mr Reed testifies that, on the basis of comparison with others, the Commission should reward Questar's "superior performance" with an RoE towards the high end of the range presented by his colleague. Mr Hevert wrote that his:

> analyses indicate that the Company's cost of equity currently is in the range of 10.25 percent to 11.50 percent. Based on the quantitative and qualitative analyses discussed throughout my Direct Testimony, I conclude that an ROE of 11.25 percent is reasonable and appropriate.

However, Utah Committee of Consumer Services (Committee or CCS) witness Woolridge recommended a rate of return on equity (RoE) of 9%, and Utah Division of Public Utilities

(Division or DPU) witness Peterson proposed a point estimate of 9.25% within a range of 8.65 to 9.75%.

None of these analyses addressed the added value to Questar Corporation from its ownership and operation of Wexpro, Questar Exploration & Production or Questar Pipeline Company in combination with Questar Gas Company that I described in my Rate of Return Direct Testimony.

It remains my recommendation to the Commission that, having carefully considered the dueling proposals gleaned from DCF and CAPM analysis, it should impute the added benefits realised by Questar Corporation back to the LDC before finally determining RoE in this proceeding.

Q Have you an opinion about Mr Reed's rating of Questar?

A There are a number of ways to assess performance, the most objective being in terms of cold, hard cash. From the stockholders' point of view, it's hard to fault Questar, whose share price is about four time what it was at the time of House Bill 320 in 2000. But ratepayers have a different yardstick, and they are paying 50% more than at the end of 1999.

Mr Reed's assessment relies upon several quantitative methods, the next most objective, but ratepayers are likely to use qualitative benchmarks. Customers can't understand how their meter readings are transmogrified into the dollar amount they must pay. (They can't even be confident that their meters are accurate or accurately read.) And they don't feel that the Company responds to their enquiries and complaints with the sensitivity they expect from competitive businesses. They have noticed the reduction in technical response, and they are thoroughly baffled by the Green Sticker Programme.

Least objective is “star quality”, and Questar isn’t a star in the galaxy of anybody but stockholders. The amazing rise in the Corporation’s stock price, and the LDC’s contributions (its own return, Wexpro, QE&P, QPC et al) to it, are definitely superior, and underline the questionability of the Commission allowing rates to continue at a level that support them.

Q What led QGC to file this General Rate Case?

A Although the Company’s Application omitted to refer to it, during cross-examination in the Test Year Hearing on 8 February its counsel mentioned that the Commission in its 5 November 2007 Order in the Conservation Enabling Tariff had instructed Questar to file a general rate case, which the Committee and I had requested as long ago as 2 February 2006.

In his Testimony, Mr Hevert also wrote:

> As to the effect, if any, of the CET on the Company’s cost of equity, the central issue is not investors’ perceptions of the Company’s risk profile with the CET vis-à-vis its risk profile absent the CET; rather the appropriate basis of comparison is investors’ perceptions of the Company’s risk with the CET relative to the proxy group used in my analysis to determine the Company’s cost of equity. Given the breadth of revenue stabilization structures in place at the proxy group companies, there is no basis to assume that investors would consider the Company so less risky than the proxy group that they would reduce their return requirements. Consequently, there is no reason to reduce the Company’s ROE in connection with the continuation of the CET.

I disagree with Mr Hevert’s perception of “the central issue”. Investors’ perceptions are but one of the many facets the Commission must necessarily consider in determining RoE if rates are to be just and reasonable. Ratepayers’ perceptions at least should be balanced with those of investors, and the CET is but one of the several risk reduction strategies adopted by Questar.

Q Why should the Commission not confine itself to considering statistical comparisons with other jurisdictions in determining RoE?

A Not only are there cycles in markets, but sometimes influences that take comparisons completely out of the realm of reasonableness. For example, in the late 1990s the “dot-com bubble” had many investors looking for unrealistic matching returns from traditional blue-chip utilities. When that “bubble” burst, the lack of realism became evident.

The subsequent market recovery has seen too much money chasing too little value from stocks to bonds to real-estate to commodities to gold, with resulting volatility and little security in all sectors, demonstrating that investors’ perceptions may not be the soundest basis to rely upon.

Moreover, the Commission is required to balance stockholders’ reasonable interests with the equally reasonable interests of ratepayers. Inter-company comparisons only go so far; there are other things to consider.

RoEs authorised by regulators around the country are a poor substitute for those that might be earned in a competitive arena. To the extent that a commission is politically or ideologically driven to a higher or lower RoE, the round-robin methods of RoR expert witnesses may well be tilted.

Natural gas has been introduced into some jurisdictions as the national pipeline network has grown. There, it is an expensive commodity because it must be acquired, as well as transported and distributed over new and therefore more costly infrastructure. That must be balanced against Mr Reed’s assertions as well as the various witnesses’ RoE recommendations.

It is not unreasonable for the Commission to take account of historical movements in Utah as well as recent market trends across the country in determining what RoE to authorise for QGC going forward.

That concludes my pre-filed written rebuttal rate of return testimony, thank you.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Rate of Return Rebuttal Testimony of Roger J Ball in Docket 07-057-13 was served upon the following by electronic mail on 28 April 2008:

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