

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application) Docket No.
of Questar Gas Company to Increase) 07-057-13
Distribution Non-Gas Rates and)
Charges and Make Tariff)
Modifications.)

TRANSCRIPT OF HEARING PROCEEDINGS

TAKEN AT: Public Service Commission
 160 East 300 South, Room 403
 Salt Lake City, Utah

DATE: May 21, 2008

TIME: 9:07 a.m.

REPORTED BY: Kelly L. Wilburn, CSR, RPR

(May 21, 2008 - Questar Gas - 07-057-13)

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18 (The previous exhibits and related testimony
19 were prefiled and are part of the PSC record
and filed at the Commission.)

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1 MAY 21, 2008 9:07 A.M.

2 P R O C E E D I N G S

3 COMMISSIONER BOYER: This is the time and
4 place duly noticed for the hearing In the Matter of
5 the Application of Questar Gas Company to Increase
6 Distribution Non-Gas Rates and Charges and Make Tariff
7 Modifications in Docket No. 07-057-13.

8 Now, earlier I was told that the Committee
9 witness had to leave early today. Is that still an
10 issue or not?

11 MR. PROCTOR: That was yesterday. And we --

12 COMMISSIONER BOYER: That was yesterday?

13 MR. PROCTOR: Yeah.

14 COMMISSIONER BOYER: Okay, so that resolved
15 itself yesterday. Very well. All of you should have
16 received a letter from us last week indicating how we
17 had decided to divide the witnesses. And without
18 attaching any pejorative names to the classification,
19 but we basically distinguished between technical kinds
20 of witnesses and policy witnesses.

21 And we decided to hear the technical
22 witnesses first. What we're really interested in is
23 the cross examination. We've read all of the
24 testimony, as we've said in the past, and we read it
25 again.

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1 So, and we've defined and classified the
2 following witnesses as technical witnesses:
3 Messrs. Curtis, Hevert, Peterson, Powell, Woolridge,
4 and McKenna. And then the policy witnesses would be
5 Messrs. Allred, Reed, Higgins, and Ball.

6 We intend to put the prefilled written
7 testimony on at the beginning of the hearing. So to
8 the extent you have corrections, if you would bring
9 that to my attention. And if we need to lay more
10 foundation or whatever through the witnesses we can
11 swear them and get that done. We can get all that
12 evidence into the record.

13 We anticipate that all parties will be able
14 to participate in the cross examination process. I
15 guess in addition I should say that not only have we
16 read the written prefilled testimony but we heard a lot
17 about the same subjects: CAPM, discounted cash flow
18 modeling, risk premiums, Value Line, and on, and on,
19 and on yesterday. Much of it from the same witnesses
20 as today, so -- not exclusively.

21 So we have some familiarity and some
22 foundation in these matters. We're asking for short
23 summaries, inasmuch as we have read the testimony.
24 And I'm thinking five minute -- a five minute summary
25 at the beginning of each witness. And then we'll put

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1 them on and let the witnesses be cross examination --
2 cross examined, rather.

3 As I've said in past hearings, we strongly
4 discourage you from trying to prove your case with
5 cross examination, because it, it rarely works and it
6 is fairly time consuming. We don't intend to issue a
7 separate Rate of Return order after this hearing and
8 after we've deliberated on the evidence we receive.
9 But rather we'll include that in our final order in
10 the case in chief.

11 Are there any questions about that? Oh,
12 Mr. Ball asked about the schedule. To give our
13 reporter a break, we plan to break about 10:30. That
14 is, we'll go about an hour and-a-half, take a ten
15 minute break. We'll break at noon. We'll come back
16 at 1:30.

17 I mean, if you'll forgive me, I'll take a
18 little poetic license with that. It might be, you
19 know, 12:02, or 12:13, or something like that. But
20 around noon, an hour and-a-half break. And then
21 mid-afternoon we'll take another break.

22 And we fully believe that we can, if
23 everybody is parsimonious, we can get through this
24 today and close up shop at about the normal time;
25 about 5:00, if possible. So that's how we envision

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1 the schedule going forward.

2 With that, let's take appearances. And let's
3 start with Ms. Bell.

4 MS. LARKIN BELL: Yes. Good morning Chairman
5 Boyer. Colleen Larkin Bell and Gregory B. Monson on
6 behalf of Questar Gas Company.

7 COMMISSIONER BOYER: Thank you.

8 Ms. Schmid?

9 MS. SCHMID: Patricia E. Schmid from the
10 Attorney General's Office on behalf of the Division of
11 Public Utilities.

12 COMMISSIONER BOYER: Mr. Proctor?

13 MR. PROCTOR: Paul Proctor representing the
14 Utah Committee of Consumer Services.

15 COMMISSIONER BOYER: Thank you.

16 Mr. Dodge?

17 MR. DODGE: Gary Dodge on behalf of the UAE
18 Intervention Group.

19 MR. BALL: Roger Ball on my own behalf.

20 MR. EVANS: William Evans of Parsons, Behle &
21 Latimer for the Industrial Gas Users Intervention
22 Group. And Mr. Chairman, if I might. We don't have a
23 witness in this phase of the case, nor do we intend to
24 cross, so if I might be excused from the hearing
25 today?

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1 COMMISSIONER BOYER: You may. You're welcome
2 to stay as well, Mr. Evans, but we understand you may
3 have other scheduling requirements.

4 Okay. With that, let's proceed to get the
5 written prefiled testimony into the record. And we'll
6 begin with Ms. Bell. Then we'll go to the Division,
7 the Committee, Mr. Dodge, and Mr. Ball.

8 MS. LARKIN BELL: And Chairman Boyer, are you
9 intending that we put on all of our prefiled testimony
10 at this time, or just for each witness one at a time?

11 COMMISSIONER BOYER: My -- yes, my intention
12 would be that we would do it for all of the witnesses.

13 MS. LARKIN BELL: Okay.

14 COMMISSIONER BOYER: But we have to do that
15 individually, I guess, to the extent there may be
16 corrections or objections. So first witness, second
17 witness, third witness, fourth witness, and so on.

18 MS. LARKIN BELL: The Company's first witness
19 will be David M. Curtis. We don't have any
20 corrections to his testimony. He was already admitted
21 and sworn. He was already sworn in this proceeding
22 and had some testimony admitted for the test period.

23 The testimony today that needs to be admitted
24 is his updated direct testimony that he filed on
25 February 28, 2008. And we premarked this as QGC

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1 Exhibit 5.0U, with attached Exhibits 5.1U through
2 5.23U.

3 He also filed Rate of Return rebuttal
4 testimony on April 28, 2008. And we pre-marked this
5 testimony as QGC Exhibit 5.0R. With one attached
6 exhibit, 5.21U-2.

7 COMMISSIONER BOYER: Very well. Do you wish
8 to move its admission?

9 MS. LARKIN BELL: Yes, I would move for its
10 admission.

11 COMMISSIONER BOYER: Are there any objections
12 to the admission of Mr. Curtis' direct -- or updated
13 direct testimony and Rate of Return rebuttal testimony
14 together with exhibits?

15 MR. PROCTOR: No.

16 MS. SCHMID: No.

17 COMMISSIONER BOYER: Seeing none, they are
18 admitted into evidence.

19 I guess you've given me a list of testimony.

20 MS. LARKIN BELL: We tried to provide a list.

21 COMMISSIONER BOYER: Yes, thank you. I see
22 it now.

23 MS. LARKIN BELL: All right.

24 COMMISSIONER BOYER: Okay.

25 MS. LARKIN BELL: And our second witness is

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1 Mr. Robert B. Hevert. Mr. Hevert filed direct
2 testimony on Rate of Return in this proceeding on
3 December 19, 2007. We pre-marked this testimony as
4 QGC Exhibit 3.0, with attached Exhibits 3.1 through
5 3.15.

6 And he also filed Rate of Return rebuttal
7 testimony on April 28, 2008. We pre-marked this
8 testimony as QGC Exhibit 3.0R, with attached Exhibits
9 3.1R through 3.16R.

10 COMMISSIONER BOYER: Very well. And were
11 there any corrections to either of those?

12 MS. LARKIN BELL: No.

13 COMMISSIONER BOYER: Okay.

14 MS. LARKIN BELL: So I would move for its
15 admission.

16 COMMISSIONER BOYER: Are there any objections
17 to the admission of Mr. Hevert's direct testimony and
18 Rate of Return rebuttal testimony? Seeing none, they
19 are admit into evidence together with their exhibits.

20 MS. LARKIN BELL: Our third witness is
21 Mr. Alan K. Allred. He also has filed some testimony
22 in this proceeding which has been admitted. It was
23 part of the test year testimony. But I'm going to go
24 ahead and offer all of it today, to the extent that
25 some of that was only offered for the purpose of test

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1 period.

2 He filed direct testimony on December 19,
3 2007. We premarked this as QGC Exhibit 2.0, with
4 attached Exhibits 2.1 through 2.9. Mr. Allred also
5 filed Rate of Return rebuttal testimony on April 28,
6 2008. And we premarked this as QGC Exhibit 2.0R, and
7 it did not have any attached exhibits.

8 COMMISSIONER BOYER: Very well. Any
9 corrections to either of those?

10 MS. LARKIN BELL: No, not at this time. And
11 I would move for its admission.

12 COMMISSIONER BOYER: Any objections to the
13 admissions of Mr. Allred's direct testimony and Rate
14 of Return rebuttal testimony? Seeing none, they are
15 admitted into evidence as well. Thank you.

16 MS. LARKIN BELL: Our fourth witness in this
17 proceeding is Mr. John J. Reed. He filed direct
18 testimony on December 19, 2007. And we've premarked
19 this as QGC Exhibit 4.0, with attached Exhibits 4.1
20 through 4.6.

21 He also filed Rate of Return rebuttal
22 testimony on April 28, 2008. And we premarked this as
23 QGC Exhibit 4.0R. And there are no corrections that
24 I'm aware of at this point. And I would move for its
25 admission.

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1 COMMISSIONER BOYER: Are there objections to
2 the admission of Mr. Reed's direct testimony and Rate
3 of Return rebuttal testimony together with exhibits?
4 Seeing none, they are admitted into evidence. Thank
5 you Ms. Bell.

6 Let's turn now to Ms. Schmid.

7 MS. SCHMID: Thank you. The Division has two
8 witnesses for this phase of this docket. The first
9 exhibit -- or first witness is DPU witness Charles E.
10 Peterson. He has prefiled DPU Exhibit No. 2.0, with
11 attachments through 2.18, as his prefiled direct.
12 Which was filed on March 31, 2008.

13 We do have replacement sheets for Exhibit 2.5
14 and the first page of Exhibit 2.13. There were rogue
15 numbers that showed up, unfortunately. And so we will
16 distribute those now. Mr. Peterson also filed his
17 prefiled direct erratum testimony, marked DPU Exhibit
18 No. 2.0ED, with Exhibit No. 2.15ED on May 1st of 2008.

19 Mr. Peterson also filed DPU Exhibit
20 No. 2.0SR, is the prefiled surrebuttal testimony of
21 Charles E. Peterson on May 12, 2008, with accompanying
22 Exhibits 2.1SR and 2.2SR.

23 The Division would like to move these
24 exhibits, as corrected by the replacement sheets being
25 handed out as we speak, to be admitted.

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1 COMMISSIONER BOYER: Thank you. Have the
2 parties had an opportunity to look at the two
3 replacement sheets?

4 MR. PROCTOR: Mr. Chairman, could the
5 Division point out what was changed?

6 COMMISSIONER BOYER: Yes, maybe that would be
7 helpful to us all. In the errata -- or the correction
8 sheets, the replacement sheets.

9 MS. SCHMID: I believe that there were some
10 numbers on -- I don't have one. Could Mr. Peterson
11 speak to that, as he's the witness?

12 COMMISSIONER BOYER: Yes.

13 Is Mr. Peterson sworn in this case already?

14 MS. SCHMID: He is not. Would it be
15 appropriate to swear him right now?

16 COMMISSIONER BOYER: Why don't we swear you
17 right now, Mr. Peterson, because you'll need it later
18 anyway.

19 (Mr. Peterson was sworn.)

20 COMMISSIONER BOYER: Thank you. Would you
21 mind, take the witness stand, please, and explain to
22 the parties the changes in the two replacement sheets?

23 THE WITNESS: Unfortunately it was last night
24 I noticed that under --

25 COMMISSIONER BOYER: I don't think your mic

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1 is on, Mr. Peterson.

2 THE WITNESS: Is it on now?

3 COMMISSIONER BOYER: Here we go.

4 THE WITNESS: Okay. Under my risk premium
5 model I noticed that there were numbers that were in
6 the 25 percent range.

7 MS. SCHMID: And Mr. Peterson, is this on DPU
8 Exhibit 2.5?

9 THE WITNESS: Right. DPU Exhibit 2.5 is
10 showing up as like 25 percent. And I got checking and
11 it appeared that those had been distributed to the
12 Commission. And --

13 COMMISSIONER BOYER: I assume the Company had
14 no objection to the, those numbers?

15 THE WITNESS: I never heard from the Company
16 about that, so.

17 COMMISSIONER BOYER: Twenty-five percent.

18 THE WITNESS: Anyway, they -- there had been
19 a missed linkage that had caused the error. On
20 Exhibit 2.13 that I also handed out two lines were,
21 were miscalculated.

22 The first line in the lower -- about
23 two-thirds of the way down that says guideline
24 companies? Those numbers have been corrected. And
25 then also the numbers related to the RP model

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1 regression have been corrected. And those were the
2 numbers that flow through to DPU Exhibit 2.15.

3 MS. SCHMID: And Mr. Peterson, your
4 corrections were only applicable to page 1 of 1.2 of
5 Exhibit -- sorry page 1 of 2 of Exhibit 2.13; is that
6 correct?

7 THE WITNESS: Yes. And that completes my
8 explanation of what changed.

9 COMMISSIONER BOYER: Very well. With that
10 explanation, are there any objections to the admission
11 of Mr. Peterson's prefiled direct testimony together
12 with exhibits, the erratum sheets, and the surrebuttal
13 testimony with exhibits? Seeing none, they are
14 admitted into evidence.

15 MS. SCHMID: And just one point of
16 clarification. When you were talking about erratum
17 sheets were you talking about the sheets that we just
18 passed out, or were you also -- did you also include
19 the prefiled direct erratum testimony?

20 COMMISSIONER BOYER: That's what I was
21 referring to. I did not include specifically the
22 replacement pages, so let's amend that. Are there any
23 objections to the inclusion of the two replacement
24 pages together with the remaining testimony? Very
25 well, they also are admitted into evidence. Thanks

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1 for that clarification.

2 MS. SCHMID: Thank you. The Division's next
3 witness in this matter is Dr. William Powell. He
4 filed his prefiled direct testimony on March 31, 2008,
5 as DPU Exhibit No. 3.0. With exhibits through DPU
6 No. 3.3.

7 On April 28, 2008, Dr. Powell prefiled his
8 rebuttal testimony, which is marked as Exhibit -- DPU
9 Exhibit No. 3.0R. The DPU respectfully requests
10 admission of these exhibits.

11 COMMISSIONER BOYER: Thank you. Are there
12 objections to Dr. Powell's prefiled direct testimony
13 together with exhibits and his prefiled rebuttal
14 testimony? Seeing none, they are admitted into
15 evidence as well.

16 Let's turn now to Mr. Proctor.

17 MR. PROCTOR: Mr. Chairman, Dr. Woolridge
18 will need to be sworn, please.

19 COMMISSIONER BOYER: Okay. Dr. Woolridge,
20 would you please --

21 MR. PROCTOR: No, you can --

22 COMMISSIONER BOYER: Does he need to make
23 corrections or anything like that?

24 MR. PROCTOR: Not at all. We can ask him
25 questions from here.

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1 (Dr. Woolridge was sworn.)

2 COMMISSIONER BOYER: Thank you. You may be
3 seated.

4 J. RANDALL WOOLRIDGE,
5 called as a witness, having been duly sworn,
6 was examined and testified as follows:

7 DIRECT EXAMINATION

8 BY MR. PROCTOR:

9 Q. Dr. Woolridge, would you state your name and
10 your business address, please?

11 A. My name is the initial J. Randall Woolridge,
12 W-o-o-l-r-i-d-g-e.

13 Q. And your business address?

14 A. My business address is 120 Haymaker Circle,
15 State College, Pennsylvania.

16 Q. And you are appearing here today on behalf of
17 the Utah Committee of Consumer Services?

18 A. Yes.

19 Q. And on behalf of the Committee you filed two
20 sets of testimony. The first marked as CCS 1D-JRW,
21 consisting of 86 pages, together with an appendix and
22 Exhibits 1 through 8. In addition you filed
23 surrebuttal testimony, marked CCS 1SR-JRW, consisting
24 of 18 pages with one exhibit.

25 If I were to ask you the questions that you

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1 answered in those two sets of testimony would your
2 answers remain the same?

3 A. Yes.

4 Q. Do you have any corrections or amendments
5 that you wish to make to either the exhibits, the
6 appendix, or the testimony itself?

7 A. No.

8 MR. PROCTOR: The Committee would move for
9 the admission of both sets of Dr. Woolridge's
10 testimony, please.

11 COMMISSIONER BOYER: Are there any objections
12 to the admission of Dr. Woolridge's prefiled written
13 testimony? Seeing none, they are admitted into
14 evidence together with their exhibits. Thank you,
15 Mr. Proctor.

16 Mr. Dodge?

17 MR. DODGE: Thank you, Mr. Chairman. UAE has
18 submitted what we labelled as UAE Exhibit ROE 1, the
19 direct testimony of Kevin Higgins, and UAE Exhibit
20 ROE 1S, the surrebuttal testimony of Mr. Higgins. We
21 have no corrections to that, and would move the
22 admission.

23 COMMISSIONER BOYER: Are there objections to
24 the admission of Mr. Higgins' testimony? Seeing none,
25 they are admitted into evidence as well. Thank you.

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1 MR. DODGE: We have also prefiled UAE Exhibit
2 ROE 2, the direct testimony of Robert H. McKenna,
3 which contains Exhibits UAE ROE 2.1 through 2.10. And
4 we do have some corrections to that. Would you like
5 Mr. McKenna to make those now?

6 COMMISSIONER BOYER: Yes, let's do that. And
7 I don't think -- he has not been sworn in, has he?

8 MR. DODGE: No, he hasn't.

9 Mr. McKenna, why don't you walk up here
10 somewhere, if you don't -- mind maybe in the witness
11 seat will be easiest -- so you can be sworn.

12 COMMISSIONER BOYER: Welcome, Mr. McKenna.
13 Please sit.

14 (Mr. McKenna was sworn.)

15 COMMISSIONER BOYER: Thank you. You may be
16 seated.

17 THE WITNESS: Yes, one, one minor
18 correction -- is this on? On -- in my prefiled
19 testimony. The final exhibit, Exhibit UAE ROE 2.10,
20 in the definition section it states that for risk free
21 Rate of Return the analysis assumes 5 percent.

22 Maybe I should speak up.

23 COMMISSIONER BOYER: Appears to be on,
24 Mr. McKenna. Go ahead.

25 THE WITNESS: It states that the -- for my

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1 analysis the risk free Rate of Return assumed was
2 5 percent. There was a mis-link in the spreadsheet
3 formula that linked it to a different cell that had a
4 .2 percent instead of 5 percent.

5 So with that correction made, the variance
6 from allowed ROE would be 35 basis points instead of
7 the original 37 basis points which was in the original
8 testimony.

9 ROBERT H. MCKENNA,
10 called as a witness, having been duly sworn,
11 was examined and testified as follows:

12 DIRECT EXAMINATION
13 BY MR. DODGE:

14 Q. Mr. McKenna, can we go to that exhibit and
15 make the specific corrections on it?

16 A. Sure.

17 MR. DODGE: Again, your Honor, this is UAE
18 ROE 2.10, the last exhibit to Mr. McKenna's direct
19 testimony.

20 Q. (By Mr. Dodge) And Mr. McKenna, down in
21 the -- the corrections are down in the box at the
22 bottom right hand of this exhibit; is that correct?

23 A. Correct. On the bottom right-hand corner
24 there is a row labelled "Variance From Allowed ROE."
25 Currently it reads minus 0.37 percent. With the

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1 corrected calculation it should be minus 0.35 percent.

2 Q. And then the first line in that box, did that
3 not also change the 1.451162 number?

4 A. Yes.

5 Q. Would you also give the corrected number
6 there?

7 A. Actually it's back at my --

8 Q. Subject to check?

9 A. Yeah.

10 Q. Would you accept that that number is
11 \$1,384,872?

12 A. Yes.

13 Q. And then also should corrections be made on
14 pages 9 and 10 of your exhibit to reflect those same
15 things?

16 A. Correct.

17 Q. Starting on line 14, the number 1,451,162 --
18 excuse me this is page 9, line 14 -- should be changed
19 to 1,384,872, correct?

20 A. Correct.

21 Q. And the same correction on page 10, line 5?

22 A. Correct.

23 Q. And then on line 10, page 6, the 37 base
24 point reference should be changed to 35; is that
25 correct?

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1 A. Correct. As well as line 8.

2 Q. Oh, excuse me, and on line 8. That should be
3 35. With those corrections, does the prefiled
4 testimony reflect your testimony here in this
5 proceeding today?

6 A. Yes, it does.

7 MR. DODGE: I would move -- well, excuse me.
8 In addition, Mr. McKenna filed UAE Exhibit ROE 2S,
9 surrebuttal testimony of Robert H. McKenna. With an
10 attached Exhibit UAE ROE 2.12S.

11 Q. (By Mr. Dodge) Does that also represent your
12 testimony here today?

13 A. Yes.

14 MR. DODGE: With that, your Honor, I'd move
15 the admission of both exhibits.

16 COMMISSIONER BOYER: Are there objections to
17 the admission of Mr. McKenna's direct and surrebuttal
18 testimony, together with exhibits as corrected today?
19 Seeing none, they are admitted into evidence.

20 Thank you, Mr. McKenna. You may take a seat.

21 And I believe you just had the two witnesses
22 did you not, Mr. Dodge?

23 MR. DODGE: Yes, I'm sorry, that's all.

24 COMMISSIONER BOYER: Okay.

25 Mr. Ball?

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1 MR. BALL: Thank you, Chairman. On the 31st
2 of March, 2008, I filed Rate of Return direct
3 testimony marked as RJB Exhibit 3.0, consisting of 13
4 pages including a service certificate. On the 28th of
5 April I filed Rate of Return rebuttal testimony marked
6 as RJB Exhibit 5.0, consisting of 7 pages including a
7 service certificate.

8 And I have -- I'm aware of one amendment that
9 needs to be made to that, Chairman. In the center of
10 the cover sheet the date is given as the 31st of
11 March, contradicting the 28th of April date in the
12 footers and the service certificate. That date should
13 be changed to the 28th of April, please.

14 On the 20 -- on the 12th of May I filed Rate
15 of Return surrebuttal testimony marked as RJB
16 Exhibit 6.0, consisting of four pages including
17 service certificate. And I ask that these be admitted
18 into evidence, please.

19 COMMISSIONER BOYER: Very well. We've
20 previously ruled on a motion to strike. Having noted
21 that, are there objections to the admission of
22 Mr. Ball's testimony as corrected today? Very well,
23 the Rate of Return direct testimony, rebuttal, and
24 surrebuttal testimony of Mr. Ball are admitted into
25 evidence.

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1 Thank you, Mr. Ball.

2 MR. BALL: Thank you.

3 COMMISSIONER BOYER: And I think with the
4 housekeeping completed we can commence with the case
5 in chief. And we'll turn the time over to Ms. Bell,
6 who's going to demonstrate how to proceed with
7 dispatch.

8 MS. LARKIN BELL: Thank you. And I will
9 proceed with some dispatch. The first witness I would
10 like to call is Mr. David M. Curtis. He has already
11 been sworn, as I mentioned earlier, in the test period
12 proceeding.

13 COMMISSIONER BOYER: Welcome Mr. Curtis.

14 THE WITNESS: Thank you.

15 DAVID M. CURTIS,
16 called as a witness, having been duly sworn,
17 was examined and testified as follows:

18 DIRECT EXAMINATION

19 BY MS. LARKIN BELL:

20 Q. Good morning Mr. Curtis.

21 A. Hi.

22 Q. Would you please state your name and business
23 address for the record?

24 A. My name is David M. Curtis. I work for
25 Questar Gas at 180 East First South, Salt Lake City,

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1 Utah.

2 Q. And what is your position at Questar Gas?

3 A. I am vice president and controller of Questar
4 Gas.

5 Q. And did you file 15 pages of updated direct
6 testimony with 23 exhibits on February 28, 2008, and
7 two pages of Rate of Return rebuttal testimony with
8 one exhibit in this case on April 20, 2008?

9 A. Yes, that's correct.

10 Q. And if I were to ask you the same questions
11 today that were asked in each of your filed testimony
12 would your answers be the same?

13 A. Yes.

14 Q. And Mr. Curtis, have you prepared a short,
15 concise summary for today?

16 A. Yes, yes.

17 Q. Would you please proceed with that?

18 A. Yes, thank you. I originally filed testimony
19 in this case primarily on the capital structure and
20 the cost of capital. And I filed some original
21 testimony with a forecast of what we would be able to
22 get some long-term debt financing at.

23 And then once we completed that financing I
24 filed rebuttal testimony that updated those numbers.
25 On page 1 of my rebuttal testimony is a chart that

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1 shows the cap co -- cost of capital and capital
2 structure that we're using in this case as of
3 December 31, 2008.

4 The relevant amounts our long-term debt is
5 48.62 percent of capital at a cost of 6.72 percent.
6 And common equity, 51.38 percent of capital at a cost
7 of 11.25 percent. For a weighted overall cost of
8 capital of 9.05.

9 I had originally assumed that Questar Gas
10 would issue 135 million of 30-year notes with a coupon
11 rate of 6.5 percent. However, the credit markets
12 changed significantly between the time I originally
13 filed my testimony and when we were able to actually
14 achieve that.

15 We were able to issue a hundred million of
16 30-year notes at a cost of 7.20 percent, and
17 50 million of 10-year notes with a coupon of
18 6.30 percent. Questar Corporation contributed an
19 additional 30 million of equity into Questar Gas in
20 the first quarter, consistent with my previous
21 assumption.

22 However, because we issued an additional
23 \$15 million of notes, the common equity percentage of
24 capital decreased from 52.29 percent to 51.38 percent.
25 None of the other parties in this case have raised

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1 concerns about the common equity percentage of
2 capital.

3 The Company's experience with the recent debt
4 issuance show that this is a very difficult credit
5 market. Investors were concerned about credit quality
6 and liquidity. We had very -- we had difficulty
7 finding enough investors willing to purchase our notes
8 at the indicating pricing.

9 In the end we had to modify our maturities,
10 splitting between a 10-year maturity and a 30-year
11 maturity, just to fill the order book. The spreads we
12 paid for the correspon -- over the corresponding
13 treasury notes at 275 basis points for the 10 year and
14 285 basis points for the 30 year were the highest that
15 I can remember in my 25 years with Questar.

16 Mr. Peterson indicated in his testimony that
17 if a possible rating downgrade is a serious concern to
18 the Commission, then the Commission should award a
19 slightly higher authorized Rate of Return in the upper
20 half of its range.

21 In light of today's difficult credit market,
22 that should be a serious concern. Questar Gas
23 customers have the benefit among the lowest rates in
24 the nation, in part because of Questar Gas's strong
25 investment grade credit rating.

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1 Maintaining these strong ratings should be a
2 serious concern to the Commission, because a
3 significant downgrade would have a significant and
4 immediate impact on Questar Gas's cost of business and
5 therefore customer rates.

6 This is not merely a hypothetical discussion.
7 Mr. Peterson notes a recent Public Service of New
8 Mexico case, in which the Commission ordered a
9 9.53 percent authorized Rate of Return.

10 As a direct result of that decision, a
11 subsequent electric rate decision, and several other
12 factors, the credit rating for Public Service of New
13 Mexico has been downgraded to the lowest level of
14 investment grade by Moody's, and below investment
15 grade by Standard & Poor's. The parent Company has
16 been rated below investment grade.

17 Let me outline some of the potential cost
18 increases to Questar Gas if we were to experience a
19 significant downgrade. The obvious change in costs
20 would be for long-term debt. Mr. Peterson assumes
21 that since we just completed a long-term debt
22 financing we will not need to raise debt for some
23 time.

24 This is not the case. Questar Gas has a
25 significant multi-year program of feeder line

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1 replacements. This will require additional debt and
2 equity capital. We project that over the next four
3 years Questar Gas will need to raise approximately
4 200 million of additional debt capital and equity
5 capital to keep the capitalization in balance. Of
6 this amount, a hundred million is needed just to repay
7 maturing debt.

8 The credit spreads in the current debt market
9 are large. And a downgrade below investment grade
10 credit could result in increased debt costs in excess
11 of the proposed reduced equity terms recommended by
12 the Division and the Committee.

13 For example PNM Resources, the parent Company
14 of Public Service of New Mexico, just last month
15 issued 7-year notes carrying an interest rate of
16 9.25 percent. This cost of debt is 295 basis points
17 above the rate of Questar Gas's recent 10-year notes.

18 This cost of debt is the same Rate of Return
19 as proposed by -- for Questar Gas by Mr. Peterson, and
20 25 basis points higher than ROE proposed by
21 Dr. Woolridge. If debt cost is at 9.25, this implies
22 that cost of equity should be significantly higher.

23 Without an investment grade credit rating
24 Questar Gas would be unable to access commercial paper
25 markets to fund short-term debt needs such as

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1 construction projects. We would be forced to borrow
2 from banks at rates significantly higher than
3 commercial paper markets.

4 The banks would likely only offer such
5 funding with security in the form of pledged
6 receivables, inventory, or plants. In difficult
7 credit markets like today, debt capital for
8 below-investment-grade borrowers may be non-existent
9 or exorbitantly priced.

10 Every other party that Questar Gas does
11 business with would be taking on an additional credit
12 risk. This would quickly be reflected in Questar Gas
13 costs. For example, our current gas suppliers are
14 willing to offer over a hundred million dollars of
15 credit during the winter months to, to provide gas
16 supply.

17 They would be unwilling to offer this credit,
18 and Questar Gas would be forced to make deposits or
19 prepay. The working capital portion of a rate base in
20 a future general rate case could be significantly
21 larger.

22 Gas pipelines under FERC-approved tariffs
23 could be required to obtain credit support from
24 Questar Gas in the form of letters of credit or
25 deposits. Vendors could require prepayment before

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1 delivery of goods and services. The rates and charges
2 for goods and services may be increased to reflect the
3 higher credit risk.

4 Communities in which Questar Gas does
5 business would be unwilling to accept Questar Gas's
6 self-insurance, and would require additional bonding.
7 The State of Utah would be unwilling to accept
8 self-insurance for workman's compensation.

9 Questar Gas's cost of business could increase
10 significantly if it were to lose its investment grade
11 credit. The State of Utah works hard to maintain its
12 credit rating, because it lowers overall the cost of
13 providing infrastructure. A downgrade of Questar
14 Gas's credit rating should be of serious concern to
15 the Commission, for the same reason.

16 Mr. Peterson has done a pro forma analysis of
17 some bond rating metrics if Questar Gas were be to
18 allowed a 9 1/4 or 9.75 percent Rate of Return. I've
19 also compared Questar Gas's current financial metrics
20 used by Moody's and Standard and Poor's with pro forma
21 results if we were to be allowed a significantly lower
22 Rate of Return.

23 Both my pro forma results and Mr. Peterson's
24 results show that Questar Gas would experience a
25 significant deterioration in financial position that

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1 could lead to a reduction in bond ratings. In
2 addition the significance of this, not only could
3 we -- our financial metrics deteriorate but the
4 business position of Questar Gas could deteriorate,
5 which requires even stronger financial metrics.

6 The -- over time, this deterioration could
7 get worse. Coupled with the need to raise significant
8 capital over time puts additional pressure on these
9 bond ratings. The Utah Code defines --

10 COMMISSIONER BOYER: Mr. Curtis, do you have
11 a big finish?

12 THE WITNESS: Yes. This is my last
13 paragraph, sorry.

14 COMMISSIONER BOYER: Thank you.

15 THE WITNESS: Thank you. The Utah Code
16 defines just and reasonable rates both to maintain the
17 financial integrity of the public utilities by
18 assuring a sufficient and fair return, protect the
19 long-range interest of customers in obtaining
20 continued quality and adequate levels of service at
21 the lowest cost.

22 The, the DPU and CCS recommended allowed
23 returns may appear to be the lowest cost today, but
24 they will not result in the lowest long-range cost.
25 Returns at this level will damage the bond ratings for

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1 Questar Gas, and could make it more costly to attract
2 the capital necessary to meet the growth in customers,
3 growth in peak day capacity, and aging feeder line
4 replacement.

5 Mr. Peterson cautions the Commission that
6 your recommendation may be too low, and we strongly
7 agree. Thank you.

8 COMMISSIONER BOYER: Thank you, Mr. Curtis.

9 Ms. Bell?

10 MS. LARKIN BELL: Mr. Curtis is now available
11 for questioning.

12 COMMISSIONER BOYER: Very well. Let's begin
13 with the Committee -- or rather let's begin with the
14 Division, go to the Committee next, Mr. Dodge, and
15 then Mr. Ball. In that order.

16 MS. SCHMID: Good morning -- sorry.

17 COMMISSIONER BOYER: Ms. Schmid, please.

18 CROSS EXAMINATION

19 BY MS. SCHMID:

20 Q. Good morning, Mr. Curtis. I have just a few
21 questions. Was the size of the offering a factor in
22 the ability of Questar Gas to market its debt in
23 March?

24 A. Yes, it was.

25 Q. Could you explain, please?

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1 A. Sure. Investors are looking for bond
2 issuances that are what they call "index eligible."
3 In other words, the various investors have certain
4 requirements on, on them that they have to -- for
5 liquidity purposes.

6 That typically today means an amount over 250
7 million. That's a size that, you know, we -- our
8 current capital needs can't accumulate enough to get
9 to that size. So there was some penalty paid because
10 of our small size.

11 Q. Thank you. Were you with Questar Gas in and
12 around 2001 and 2002?

13 A. Yes.

14 Q. Do you remember that that was a very
15 turbulent time in the gas and the electric industries?

16 A. Yes.

17 Q. Do you recall that many LGCs and marketers --
18 or do you have knowledge that many LGCs and marketers
19 were required to prepay or provide letters of credit
20 to pipelines?

21 A. Yes.

22 Q. Did Questar Gas have to do that? If you
23 are -- feel comfortable in sharing that?

24 A. No, we did not.

25 Q. Okay. Was that crisis in 2001/2002 caused by

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1 low return on equities in the industry?

2 A. No. That was caused by a, you know,
3 significant run up in prices.

4 Q. Thank you. Isn't it true that around the
5 last time of the rate case, 7 -- October 17, 2002,
6 when testimony was being heard, that Questar Gas
7 however was put on credit watch?

8 A. That sounds familiar, yes.

9 Q. Is Ques -- is Questar Gas still on credit
10 watch?

11 A. No.

12 Q. Okay. Turning now to the New Mexico cases
13 that you referenced regarding the Public Service
14 Company of New Mexico. Were there other factors in
15 the New Mexico situation that led to the ratings
16 downgrade, or is it your testimony that only the
17 return on equity decisions drove that downgrade?

18 A. No. As I stated, there was return on equity
19 decisions and other things -- other factors. The on
20 return equity was certainly excited by Moody's as one
21 of the factors.

22 Q. Was one of the other factors a significant
23 loss from a power plant that PNM, Public Service
24 Company of New Mexico, suffered?

25 A. Yes.

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1 MS. LARKIN BELL: Thank you. That's all my
2 questions.

3 COMMISSIONER BOYER: Thank you, Ms. Schmid.
4 Mr. Proctor?

5 MR. PROCTOR: Thank you, Mr. Chairman.

6 CROSS EXAMINATION

7 BY MR. PROCTOR:

8 Q. Mr. Curtis, what is the current corporate
9 credit rating for Questar Gas?

10 A. Questar Gas is rated A3 by Moody's and A
11 minus by Standard & Poor's.

12 Q. Is there also an stable rating, or is that
13 the "3" number that you referred to?

14 A. No, that is a stable rating. The 3 is the
15 position in the, in the A rating.

16 Q. Okay. What would be considered a rating that
17 is below investment grade?

18 A. It would be below -- something below -- on
19 Moody's it would be double A3, or below triple B minus
20 on Standard & Poor's.

21 Q. In February 2007 there was an, a rating sheet
22 provided. In fact, this was provided by the Company
23 in connection with discovery in this matter. And --
24 it's Standard & Poor's major rating that's dated
25 February 22, 2007. Are you familiar with that

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1 particular document?

2 A. The Standard -- I, I believe I -- Standard &
3 Poor's, I believe so.

4 Q. In fact, you were the one who provided it to
5 the Committee, were you not?

6 A. Yes. Yeah. I'm just trying to remember
7 dates.

8 Q. And one of the things that that points out is
9 that the --

10 COMMISSIONER BOYER: Mr. Proctor, would you
11 pull your mike a little closer?

12 MR. PROCTOR: I apologize.

13 Q. (By Mr. Proctor) One of the things that
14 that -- the rationale for that A minus rating included
15 this statement that:

16 "Questar Gas's business profile
17 score is strong at 3. Which is
18 indicative of supportive regulatory
19 environment, low gas supply risk, and
20 minimal competitive pressures."

21 Do you recall reading that yourself?

22 A. Yes. Yes, right.

23 Q. And that would continue to characterize the
24 status of Questar Gas today, would it not?

25 A. At today's allowed Rate of Return, yes.

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1 Q. In addition, the Company's regulatory
2 environment is characterized by access to weather
3 normalization, periodic gas cost recovery, and the
4 ability to reflect in rates specified costs associated
5 with the Company's hedging contracts, correct?

6 A. Yes.

7 Q. And in addition, now there is the CET pilot
8 project that is applicable to Questar Gas, correct?

9 A. Yes.

10 Q. And that CET pilot project is applicable to
11 your GS1 class?

12 A. Yes.

13 Q. What percentage of the Company's revenues
14 come from the GS1 class?

15 A. I don't have that exact percentage, but it's
16 the vast majority.

17 Q. Well, what's the vast majority? Ninety-five
18 percent?

19 A. It's 90-plus percent.

20 Q. Okay. And with respect to competitive
21 pressures faced or not faced by Questar Gas, is there
22 any other natural gas supplier in the state of Utah?

23 A. Not publicly. There are municipal suppliers.
24 But for the vast majority of the population, no.

25 Q. Well, the vast majority again, what

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1 percentage of the Utah population resi -- does --
2 residential customers does Questar Gas supply service
3 to?

4 A. I would think it would have to be in the high
5 90's.

6 Q. Would -- okay. Now, in your summary you
7 stated that in the event that the credit rating would
8 be downgraded to below investment grade, one of the
9 impacts that you foresaw -- or foresee, pardon me, was
10 that the State Workers Compensation Division would
11 refuse Questar's self-insured status. Do you remember
12 saying that?

13 A. Yes.

14 Q. What are the State of Utah's criteria for
15 when a business may self-insure for Worker's
16 Compensation liability?

17 A. You know, I don't know the exact criteria for
18 that. But certainly the investment-grade rating would
19 be one of those criteria.

20 Q. Do you know that for certain, sir?

21 A. No.

22 Q. Are you guessing, at this point, what those
23 criteria are?

24 A. I don't know that they're published. I don't
25 know that they're available. But as, you know, we, we

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1 get feedback, you know, at investment rate credit
2 rating. And, you know, we feel privileged that we're
3 able to use self-insurance.

4 Q. But you don't know the criteria for when a
5 State may allow you to self-insure?

6 A. No.

7 Q. And accordingly you would also note when the
8 State Labor Commission may pull your certificate for
9 self-insurance? Or the criteria they would use?

10 A. I didn't understand the question.

11 Q. It's a bad question. You don't know why you
12 get self-insurance, and you don't know why it would be
13 revoked?

14 A. We, we know our financial profile is a
15 critical part of that.

16 Q. But it also may include other things, such as
17 your safety program, training, apprenticeships, things
18 like that as well?

19 A. Certainly, yeah. Certainly yeah.

20 Q. And, and also your history and record of
21 payment of claims, your claims administration status,
22 all of those things?

23 A. Yes.

24 Q. And would any of those things, such as claims
25 administration, be affected by a reduction in your

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1 Rate of Return?

2 A. You would hope not, no.

3 Q. Well, you would hope not. Would -- does the
4 Company intend to reduce, for example, or eliminate
5 its claims administration for Worker's Comp if you get
6 a reduced Rate of Return?

7 A. No, certainly not.

8 Q. In other words, Questar Gas is going to
9 continue to operate its business in the same
10 supportive regulatory environment, with low gas supply
11 risk and minimal competitive pressures, even if the
12 Rate of Return is lowered in this particular
13 proceeding?

14 A. We, we will do our best to operate the best
15 we can, yes.

16 MR. PROCTOR: Thank you Mr. Curtis.

17 COMMISSIONER BOYER: Thank you Mr. Proctor.

18 Mr. Dodge, questions for Mr. Curtis?

19 MR. DODGE: I have no questions.

20 COMMISSIONER BOYER: Mr. Ball, questions for
21 Mr. Curtis?

22 MR. BALL: I have nothing, thank you.

23 COMMISSIONER BOYER: Okay. Commissioner
24 Allen.

25 COMMISSIONER ALLEN: Thank you Mr. Chair. It

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1 looks like we're off to an efficient start. Two of my
2 questions were answered during cross, but I do have
3 one quick one.

4 When we look at the financial comparatives to
5 other companies in other states, such as when we look
6 at what happened in New Mexico, are there any
7 particular or specific risks at Questar that would
8 differentiate you from other companies that would
9 require or argue against the lowering of a rate or
10 require a higher rate? Do you have anything that
11 stands out as a specific exception to your Company.

12 THE WITNESS: I think the fact that we -- one
13 of the things that probably protects us is with
14 Questar Gas we obtain our own financing. So things
15 that would happen in the other parts of Questar I
16 think would have minimal impact on, on the Questar Gas
17 bond ratings. I think it's, you know, pretty much a
18 pure look at our operations.

19 COMMISSIONER ALLEN: So you think that you --
20 your LGC is operated differently in that respect as
21 far as those risks are concerned? Is that what --

22 THE WITNESS: I think there's some
23 difference, yes.

24 COMMISSIONER ALLEN: All right, thanks.

25 COMMISSIONER BOYER: Mr. Campbell has no

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1 questions. I have a question I guess I'll --
2 statement first and then a question after. I've had a
3 couple of occasions to meet with the rating agencies
4 in New York, once before we approved the CET and once
5 after.

6 And they continually stressed the importance
7 of a regulatory environment that encourages business
8 and so on and so forth. And they cite many of the
9 programs that were referenced by Mr. Proctor.

10 And in my meeting with -- and I met with all
11 three agencies, by the way, subsequent to our approval
12 of the CET. And they gave their usual spiel. And so
13 I asked them point blank why hadn't we seen any, any
14 modification in Questar's credit rating. And the
15 answer was a big shrug from all three rating agencies.

16 Do things like that affect -- I mean, do they
17 even have any impact whatsoever on, on Questar's
18 rating?

19 THE WITNESS: Yes, I think they do. But to
20 my -- I think we testify later on, this is becoming a
21 norm. This is not the exception. Because of the
22 drive, for example, for demand side management revenue
23 stabilizations methodologies becoming the norm.

24 COMMISSIONER BOYER: Yes, I've read your
25 testimony. But these are now required to maintain

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1 ratings and to avoid being downgraded is what your
2 position is.

3 THE WITNESS: Yeah.

4 COMMISSIONER BOYER: And that is your
5 position?

6 THE WITNESS: Yeah.

7 COMMISSIONER BOYER: That's your opinion?
8 Okay, very well.

9 Ms. Bell, anything further? Any redirect?

10 MS. LARKIN BELL: Yes, just a little bit.

11 REDIRECT EXAMINATION

12 BY MS. LARKIN BELL:

13 Q. Mr. Curtis, you were asked on cross with
14 regard to your statement in your summary that the
15 State of Utah could be unwilling to accept
16 self-insurance for Worker's Compensation insurance.
17 And I believe that you made the statement as an
18 example to show the struggle or difficulties of
19 obtaining credit were we downgraded; is that true?

20 A. That's true. And I would emphasize the word
21 could, you know. It's not a would.

22 Q. And can you explain for us the relationship
23 between the credit rating we have now, which I believe
24 you said was A minus, and a triple B for example?
25 What are the steps between going from that level to a

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1 downgrade?

2 A. Basically we're at the bottom of the A range
3 for both Moody's and Standard & Poor's.

4 The next step is the B double A for Moody's,
5 or the triple B for Standard & Poor's. And then that,
6 you know, that is -- essentially each, each of them
7 have three steps inside each of their ranges. And so
8 we were -- we're at the bottom of the A. And, you
9 know, basically the investment grade runs through the
10 triple B or B double A.

11 Q. And it's your testimony today that if that is
12 downgraded, our costs will go up. And it will be an
13 impact on all of the different things that you listed
14 in your summary?

15 A. Yes. Specifics are a little unknown because
16 we're -- we'd be in a little bit of an unknown world
17 with all the impacts. I've just given those as
18 examples of potential impacts.

19 MS. LARKIN BELL: Thank you.

20 COMMISSIONER BOYER: Thank you Ms. Bell.

21 Thank you Mr. Curtis. You may step down.

22 Let's hear from your next witness.

23 MS. LARKIN BELL: Chairman Boyer, I would
24 like to call our next witness, Robert Hevert. And in
25 keeping with your guidelines to try to be concise we

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1 have suggested to Mr. Hevert that he limit his
2 summary. However, it is longer than five minutes.

3 We did attend briefly yesterday's hearing,
4 and we believe that our case is significantly
5 different than Rocky Mountain Power's. And we would
6 like an opportunity to put forward that summary.
7 Having said that, we will try to be as concise as can
8 be.

9 COMMISSIONER BOYER: Okay, make it good.
10 Make it good.

11 Have you been sworn, Mr. Hevert?

12 THE WITNESS: No, I have not.

13 (Mr. Hevert was sworn.)

14 COMMISSIONER BOYER: Thank you. You may be
15 seated.

16 THE WITNESS: Thank you.

17 ROBERT HEVERT,
18 called as a witness, having been duly sworn,
19 was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MS. LARKIN BELL:

22 Q. Mr. Hevert, will you please state your name
23 and business address for the record?

24 A. My name is Robert Hevert. H-e-v -- "v" as in
25 "Victor" -- e-r-t. My business address is 293 Boston

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1 Post Road, Marlboro, Massachusetts.

2 Q. And by whom are you employed and what is your
3 position there?

4 A. I am president of Concentric Energy Advisors.

5 Q. And what are your duties generally in that
6 position?

7 A. My duties are the day-to-day management of
8 the firm, as well as providing consulting services to
9 our various clients. The services involve regulatory,
10 strategic, and financial advisory services.

11 Q. Could you briefly provide a little
12 description of your professional background and
13 experience as an expert testifying in these
14 proceedings?

15 A. Yes. I have been working in the utility
16 business, excuse me, since about 1983. Largely in the
17 areas of revenue, revenue requirements. I joined Reed
18 Consulting Group in 1997, after having worked for
19 about ten years at Bay State Gas Company, which at the
20 time was a publicly-traded natural gas utility.

21 I was vice -- excuse me, assistant vice
22 president and assistant treasurer at that time. Since
23 joining Reed Consulting Group I became a vice
24 president, the managing director, and then now am
25 president of Concentric.

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1 I have submitted testimony on a variety of
2 issues, including the cost of capital, in I would
3 guess approximately 30 proceedings.

4 Q. And today for whom are you testifying?

5 A. Questar Gas Company.

6 Q. Are you the same person who filed 56 pages of
7 direct testimony with 15 exhibits on December 19,
8 2007, and 103 pages of rebuttal testimony with 16
9 exhibits dated April 28, 2008, in this case?

10 A. I confess that I am.

11 Q. And would you please proceed with your
12 brilliant yet somewhat concise summary?

13 A. This is a lot of pressure because I have
14 rarely been accused of being both. Good morning, and
15 I appreciate the opportunity to be here. And I will
16 be, I will be as brief as possible. Have the -- we
17 have some exhibits that we've prepared to really
18 expedite this process. My summary, actually.

19 MS. LARKIN BELL: Please proceed. Mr. Monson
20 will be handing out the summary exhibits. And what
21 I'd like to do is after Mr. Hevert has had an
22 opportunity to present his summary, then I'll move for
23 their admission.

24 THE WITNESS: This is one of those
25 circumstances where my upbringing in Northern New

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1 Jersey is helpful; I can actually speak quickly when I
2 have to. At issue here really is the fact that we
3 have recommendations that are approximately 200 basis
4 points apart with respect to return on equity. And 50
5 basis points apart with the expect -- with respect to
6 the ends of the ranges of our returns.

7 In my view, it's very important to look at
8 the recommendations and the methodologies with respect
9 to both the reasonableness of the inputs as well as
10 the reasonableness of the recommendations, vis-à-vis
11 observable market benchmarks.

12 Whereas in other proceedings that I've been
13 involved in there have been a whole host of issues
14 that are at issue, a lot of them are not at issue
15 here. You are familiar with the DCF methodology and
16 the CAPM and I will not bore you with how those work.

17 We do not argue about proxy group here. We
18 do not argue about dividend yield. But for small
19 issues we do not argue about how we estimate beta in
20 this case. We even don't really argue too much about
21 the risk free rate using the CAPM.

22 We argue a little bit about the growth rates
23 to be used in the DCF model. We disagree as to the
24 market risk premium in the CAPM. We disagree as to
25 the effect of the CET on the Company's cost of

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1 capital. And to some extent we disagree as to
2 benchmarks that ought to be taken into consideration
3 in reviewing and arriving at our recommendation.

4 My direct testimony set out the range of
5 returns of about 10.25 percent to 11.5 percent using
6 three methodologies: The DCF, the CAPM, and the risk
7 premium. It was based on a group of eight proxy
8 companies, all of which had some form of revenue
9 stabilization mechanism.

10 While my screening criteria did not
11 necessarily require those companies to have such
12 mechanisms, they all did at the end of the day. I
13 looked at the -- several risks once I developed my
14 range of results, including the Company's capital
15 expenditure program, it's relatively small size, and
16 some of the observations made by Mr. Reed in his
17 testimony.

18 And while I did not make any explicit
19 adjustments to my recommendation -- or to my range,
20 rather, as a result of those analyses, I did take them
21 into consideration with figuring out where I -- my
22 recommendation would come in vis-à-vis the range.

23 In looking at the CET I looked at qualitative
24 information, again such as mechanisms in place of the
25 proxy companies, and performed two empirical analyses.

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1 Both of those types of approaches, qualitative as well
2 as the empirical, convinced me that there is no market
3 reaction to, to the implementation of decoupling
4 mechanisms generally defined. And as a result I did
5 not recommend an adjustment to the cost of equity in
6 this case.

7 I think when you look at my, my
8 recommendation, I've looked at it relative to the
9 macro economic conditions that were in place at the
10 time of the Company's last rate case. And that is in
11 fact the subject of QGC Exhibit -- Summary
12 Exhibit 3.1.

13 You'll see that the interest rates in the
14 short term are generally consistent. The ten-year
15 treasury rate admittedly is down now since 2002,
16 although inflation is up considerably. In my view,
17 the fact that the ten-year treasury rate is lower is
18 not indicative of more benign macro economic
19 environment.

20 In my view it is, in fact, indicative of the
21 fact that investors have been putting their money in
22 the comparatively safer treasury market, as opposed to
23 the more risky corporate.

24 And, in fact, my view is that whereas several
25 years ago perhaps utilities may have been considered

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1 defensive investments, they're no longer considered as
2 defensive as they once were. As a result, investors
3 are moving their money -- or had been moving their
4 money at least recently into treasury securities.

5 My rebuttal testimony addressed a lot of the
6 approaches and criticisms and conclusions contained in
7 Mr. Peterson's testimony, Dr. Woolridge's testimony,
8 and Mr. McKenna's testimony. In my view, Mr. Peterson
9 and Dr. Woolridge's recommendations are extremely low.

10 And again, I come to this conclusion not only
11 based on the results of my analysis but also looking
12 at other jurisdictions in terms of realized returns as
13 well as market indications of investor risk
14 perceptions such as credit spreads.

15 We talked a little bit this morning,
16 Mr. Curtis did, about the market reaction to PNM
17 decisions. Part of what we do at Concentric is a
18 financial advisory practice, and as part of that work
19 we tend to review analyst reports.

20 One of the things that has struck me is that
21 Lehman brothers actually noted the difference between
22 the authorized returns and authorized returns that
23 were -- excuse me, authorized returns in New Mexico
24 and those that were prevailing across the rest of the
25 country.

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1 And what struck me was that Lehman actually
2 came to the conclusion that because of the vast
3 difference between what was recommended in New Mexico
4 and the rest of the country, that the recommendations
5 actually increased the Company's cost of capital. And
6 to me that was very telling, and I think indicative of
7 where the market is right now.

8 Mr. McKenna established a methodology to, to
9 quantify or to attempt to quantify the effect of the
10 CET. I appreciate that he brought a new approach to
11 this. You've probably read that we have some
12 disagreements as to the premise of his approach, which
13 we can talk about if you would like later on.

14 The disagreements among Mr. Peterson,
15 Dr. Woolridge, and me, as I said earlier, fall into
16 three areas: The growth rates for the DCF, the
17 application of the CAPM, and market conditions.
18 Mr. Peterson and Dr. Woolridge believe that it's
19 appropriate to look at historical measures of growth,
20 whereas I don't.

21 For example, if you looked at Mr. Peterson's
22 exhibits and used historical dividend growth you would
23 get a DCF estimate of about 6.56 percent. Which is
24 certainly well below anything that might reasonably be
25 expected, given the Company's embedded debt of --

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1 embedded cost of debt of 6.72 percent, for example.

2 We also know that historical growth rates
3 that deviate significantly between earnings and
4 dividends indicate that some of the, the core
5 assumptions inherent in the constant growth DCF model
6 do not hold. And therefore I find it difficult to use
7 historical growth rates for either dividends or
8 earnings for that matter.

9 Projected dividend growth rates I think also
10 produce unreasonably low results. I think
11 Mr. Peterson arrives at an estimate of about
12 7.9 percent, which is below the 8 percent threshold
13 that he established for reasonableness.

14 As it relates to growth, Mr. Peterson and I
15 had a disagreement with respect to whether or not or
16 how measures of forward-looking GDP growth should be
17 used. Mr. Peterson suggested that GDP growth in a
18 nominal sense should be used as a ceiling.

19 In my view, given the Company's growth and
20 especially its capital expenditures going forward, and
21 knowing that earnings are based on growth and rate
22 base, it's important to consider the effect of
23 increases in the cost used to develop that rate base.
24 Therefore, I developed a separate growth rate estimate
25 looking forward that was in the 7 percent range.

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1 Dr. Woolridge objects to the use of earnings
2 growth on three grounds: That analysts bias their
3 estimates. That investor services report historical
4 earnings. And that under the assumptions of the
5 constant growth DCF, dividends, earnings, growth rate
6 all grow at the same rate.

7 Dr. Woolridge did an analysis, using Value
8 Line estimates, looking at the number of times
9 negative growth rates were projected versus the number
10 of times negative growth rates occurred. And he
11 pointed out -- and correctly pointed out -- that I
12 misinterpreted his analysis at the time.

13 In order to put a finer point on it I looked
14 at it again. And this time looked at the forecast
15 accuracy of the ten companies in the -- being used in
16 this proceeding. Ten proxy companies. And that is
17 the subject of Exhibit 3.2.

18 Here we looked at what the forecast earnings
19 growth were about five years ago relative to what
20 earnings growth actually occurred for these companies.
21 And you can see that on average the, the earnings
22 growth rate projection was about 5.7 percent, versus
23 the observed growth of about 6.75 percent.

24 So the Value Line actually somewhat
25 underestimated the growth rate. In terms of the

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1 number observations, they were equally likely to
2 underestimate than overestimate. But in terms of the
3 extent of under versus overestimation, the
4 underestimation was far greater than the extent of the
5 overestimation.

6 If you'll excuse me for a second I'll try and
7 figure out how I can speed this up. Dr. Woolridge
8 also, Dr. Woolridge also believes that since
9 historical earnings are reported, investors take them
10 into consideration. And that is a reason for looking
11 at historical growth rates.

12 My view, of course -- and I believe
13 Dr. Woolridge agreed -- that analysts already take
14 historical growth into consideration. And so my
15 analyses actually do have a sense of historical
16 earnings growth.

17 But if, in fact, analysts -- or I'm sorry,
18 investors do look at reported information, there's
19 lots of information included in SEC disclosure
20 documents. Among them are currently-authorized rates
21 of return. That is the subject of Exhibit 3.3.

22 In 3.3 what we have is the
23 currently-authorized ROE among the various
24 jurisdictions for the proxy group companies included
25 for those that did report. And you'll see that the

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1 average here was about 10.47 percent.

2 My view is that, to the extent analysts are
3 going to go ahead and look at historical growth rate
4 and they're going to focus on information included in
5 some disclosure documents, it seems to me to make
6 sense that this type of information also would help
7 them frame their expectations.

8 In terms of the CAPM, there are a couple of
9 areas in which we disagreed. Mr. Peterson and I had a
10 slight disagreement as to whether adjusted versus
11 unadjusted data should be used. At the end of the day
12 it's a minor issue relative to the issue of the market
13 risk premium.

14 As you know, the market risk premium is the
15 difference between the market return and the return on
16 long-term treasury bonds. I have used the full
17 82-year history of market risk premium reported by
18 Morningstar.

19 As does Dr. Woolridge, although Dr. Woolridge
20 relies more heavily on ex ante approaches.
21 Mr. Peterson did look at the 82-year average, although
22 he also included shorter time periods, 30 and 50
23 years.

24 My view is premised on the notion that we
25 really cannot predict -- or at least I have no

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1 confidence in predicting -- that the future is going
2 to be significantly different than the past with
3 respect to the market risk premium. And it's
4 important to take all the data into consideration.

5 I have no confidence, quite frankly, in my
6 ability to say that the most recent 30 or 50 years is
7 more representative of what's going to happen than the
8 most recent 82 years. That requires a degree of
9 confidence in saying that the events that occurred
10 prior to those times will not occur again. But more
11 to the point, that conditions that occurred prior to
12 that time will not happen again.

13 I think all you have to do is look at what
14 happened this past August when the market -- when the
15 Stock Market started going, as some people referred to
16 it as sideways. Volatility increased. Prices went
17 different ways.

18 And some of the folks that have quantitative
19 models that were trading described this as a
20 1-in-10,000-year event that happened on three
21 consecutive days. To me that's indicative of the fact
22 that we can't predict that extreme conditions are not
23 going to happen in the future. And as a result I tend
24 to rely and I do rely on the full 82-year history.

25 Dr. Woolridge, again, focusses on ex ante

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1 approaches. Which includes a calculation of the
2 expected returns based on DCF models, supply side
3 models such as his buildup approach, and surveys.

4 As to using DCF models I think the practical
5 matter, at least from the my perspective, is you look
6 at the trouble we're having here today coming up with
7 a DCF estimate for one Company. But multiply that by
8 500 to come up with an estimate for the S&P 500, and
9 that gives you a sense of the type of estimation error
10 that's inherent in that type of process.

11 With respect to supply side or buildup
12 approach, as in my rebuttal testimony, I went through
13 an analysis showing how sensitive those results can be
14 to changes in some assumptions. I understand that
15 Dr. Woolridge has a point of view with respect to what
16 the dividend yield may or may not be going forward.
17 My point simply is that the analysis is very sensitive
18 to assumptions.

19 As to the use of surveys, which is the
20 subject of Exhibit 3.4, surveys as well I think are
21 difficult to rely on. This is the, CFO Global
22 Business Survey referred to, I believe, by
23 Dr. Woolridge.

24 And if you look under the column that says
25 "Total" and you go about a little bit more than

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1 halfway down the page, you'll see over the next ten
2 years I expect the average annual S&P 500 return,
3 that's about 8.1 percent. Which I think is consistent
4 with what Dr. Woolridge reported. But you'll also see
5 below that the standard deviation of 4.4 percent.

6 That just strikes me as it's very volatile.
7 And that's part of the issues with relying on surveys.
8 They give you very volatile results. And so the risk
9 premium derived from that can range from less than 0
10 to over 8. So I think surveys are difficult.

11 And I think even professor Ivo Welch, who
12 conducts another survey, takes that into
13 consideration. In his 2008 survey he made the
14 following observation. He said:

15 "I do not advocate that the academic
16 professorial consensus equity risk
17 premium should be seen as the best
18 available estimate. Instead this
19 consensus estimate should be seen as the
20 best common practices estimate for use
21 in an academic setting."

22 And so, again, I am a little bit nervous and
23 leery about using, about using survey results.

24 Regarding the use of observable data, in fact
25 Mr. Peterson suggests that observed returns are not

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1 market returns and that they are a poor guide. I
2 disagree. Regulation is meant to be a surrogate for
3 competition. As we all know, being here today, ROE
4 awards are based on market data. And so I don't
5 believe that they're disassociated from each other.

6 More importantly as a practical matter, in
7 Concentric's work on buy side advisory we do a lot of
8 valuation, a lot of buy side due diligence work for
9 our investors. Including looking at acquiring
10 utilities.

11 Always their return expectations are framed
12 by reference to what is authorized in other
13 jurisdictions. And that just makes sense. Why would
14 they invest in a utility getting a 9.1 or a
15 9.25 percent ROE, when they can get 10 1/2, or 10.75,
16 or 11 for a utility of comparable risk somewhere else?

17 So to suggest that authorized returns have no
18 relevance in framing investor expectations at least is
19 not consistent with my practical application in
20 advising investors.

21 The -- again I'm gonna skip a few items here.
22 But in terms of market conditions, Dr. Woolridge also
23 noted that while the average return over the past
24 couple years had been about 10.25 percent, interest
25 rates have fallen since 2008. And he would expect

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1 therefore that the authorized return to decrease.

2 That is what we have in Exhibit 3.5.

3 The point there is actually relatively
4 simple. On average since the beginning of 2008 the
5 ROE has actually slightly increased from 10.25 percent
6 to 10.38 percent.

7 And then -- since I find myself in the
8 uncomfortable position of again admitting
9 Dr. Woolridge had a good point -- we were looking at
10 the credit spreads over time. And in my rebuttal
11 testimony I noted that credit spreads had increased.
12 Because I looked at ten year treasury vis-à-vis the
13 Moody's long-term bond index.

14 Dr. Woolridge suggested that that index is
15 actually a longer term than ten years. I checked that
16 out. He's right. It's actually 30 years. So when
17 recalculating the credit spreads based on 30 years, my
18 point is still the same.

19 And you'll see in Exhibit 3.6 that -- the
20 change through April in credit spreads. Again, the
21 A-rated utility index, vis-à-vis the 30-year treasury,
22 has increased about 94 basis points from the absolute
23 low, and about 75 basis points from the July 2007
24 average.

25 So you'll see that much of the increase in

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1 credit spreads has occurred since July 2007. The --
2 you'll see I disagree, again Dr. Woolridge -- I'll
3 make this very quick. Dr. Woolridge suggests that
4 the, the fact that authorized returns are high
5 suggests -- and that market to growth ratios are
6 greater than one suggests that authorized returns are
7 higher than investors require.

8 Here again I disagree. This notion I think
9 has been constantly and consistently rejected by
10 commissions. And in my view again, as a very
11 practical matter, no one is gonna buy a stock at
12 1.8 times book if they have a sense that the
13 Commission is gonna bring it down to 1 times book.

14 But more importantly, or almost equally
15 important, if you look at the chart that Dr. Woolridge
16 has in his testimony -- which is a regression of
17 market-to-book ratios and ROEs -- and you actually run
18 that regression and get the coefficients, according to
19 that data that suggests that investors only require a
20 4.0 percent ROE at a market-to-book ratio of 1. And
21 that, that just doesn't seem to make a lot of sense to
22 me either.

23 Finally with respect to Mr. McKenna. Again,
24 I think his -- it was an interesting approach that he
25 took. And I appreciate that he tried to take a new

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1 approach here. I don't disagree with his math. I, I
2 agree that when you construct a portfolio, as he did
3 in his hypothetical portfolio, that the cost would be
4 about 35 basis points closer to what I came up with.
5 I think the difference is a little bit rounding.

6 It's the premise that I disagree with. The
7 premise is that in order for there to be a reduction
8 in the ROE, two things have to happen: There has to
9 be a demonstrable change in the risk. And you have to
10 be able to quantify that risk difference directly as a
11 result of the CET.

12 Neither Dr. Powell nor I were able to find
13 empirically any evidence that investors see a
14 difference in risk profile for those companies after
15 they've implemented a decoupling type of mechanism.

16 And in my view the relevant standard here is
17 not whether or not the Company's authorize -- or our
18 Company's earned return is greater or lesser than it
19 otherwise would have been with the CET. The relevant
20 issue is, is the Company less risky, vis-à-vis the
21 proxy group, with the CET in place.

22 And what Dr. Powell and I have found is that
23 no, that is not the case. Consequently I don't
24 believe that there should be any change or any
25 adjustment to the Company's ROE as a result of the

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1 CET. And I appreciate your putting up with me. And
2 that, that's my summary.

3 MS. LARKIN BELL: Thank you Mr. Hevert.

4 Mr. Hevert is now available for questions.

5 COMMISSIONER BOYER: Thank you Ms. Bell.

6 Let's begin with Ms. Schmid.

7 MS. SCHMID: Thank you.

8 CROSS EXAMINATION

9 BY MS. SCHMID:

10 Q. Good morning.

11 A. Good morning.

12 Q. Up until a few weeks ago when I thought of
13 the word "beta" I thought of a colored fish, so here
14 we go. Isn't an 82-year period -- a period that you
15 said that you used -- sort of an arbitrary starting
16 period for data?

17 A. No. I don't think so. You -- it's -- the
18 82-year period is the period that consistently has --
19 well, let me back up. The 82-year period begins in
20 1926, which is the beginning of the period during
21 which Morningstar -- formerly Ibbotson & Associates --
22 began acquiring that data.

23 There have been studies of whether or not the
24 risk premium changes, if you look to data longer than
25 that, there are some disagreements as to the efficacy

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1 of that data in earlier periods. But from my point of
2 view, putting aside the theoretical arguments and the
3 academic arguments as to whether or not longer periods
4 have valid data, the question is what does the market
5 do ? You know, what do investors actually do?

6 And in my experience, investors rely on the
7 full 82 years. And I will tell you that, from our
8 perspective as a firm, again when we work for
9 investors and in fact when we write fairness opinions,
10 you know, our firm's credibility and in fact our
11 firm's capital is at risk.

12 And when we're on the buy side it would be
13 very easy for us to use a shorter period and a lower
14 market risk premium to justify higher price, but we
15 don't do it. We believe that the 82-year period is
16 appropriate.

17 Q. Didn't data collection or data retention
18 change during that period? Wasn't there a point in
19 time where there was a perceived survivor bias, but
20 then Ibbotson changed?

21 A. Yeah. There are -- I think Dr. Woolridge
22 does a nice job of pointing out the various issues
23 here: The survivor bias, the peso problem. Some of
24 the other concerns that people have raised with
25 respect to using the full 82-year period.

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1 The relevant issue to me is this, you know,
2 is -- are you better off using the full 82-year
3 period, knowing that perhaps there are those biases.
4 And my understanding is it's even difficult to
5 quantify the effect of some of those biases.

6 But again, putting that issue aside, are you
7 better off using that observable data or are you
8 better off using an ex ante approach? Which, again,
9 in my view is inherently volatile. It's inherently
10 sensitive to assumptions.

11 Q. If 82 years is good, isn't there data
12 available going back to the 1800s though?

13 A. Again, I think there is. I've heard that.
14 And part of the, the issue there, at least from what
15 I've read, is there's some question as to the efficacy
16 of the results. The validity of the data itself. But
17 I think here's one difference in some respects between
18 Dr. Woolridge and me.

19 I mean, I tend to take, just by virtue of the
20 type of work we do, a far more practical view here.
21 And as a practical matter, as we work with investors,
22 you know, they use the, the full 82-year history from
23 Ibbotson.

24 And knowing that those concerns are
25 interesting, I am at least in my experience not, not

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1 convinced that that's the way investors actually look
2 at it.

3 Q. Thank you. I have a few more questions.
4 Maybe more than a few, but I'll try and be
5 expeditious. If an investor wanted to buy stock in
6 Questar Gas Company how would an investor do that?

7 A. Well, they would obviously have to buy stock
8 in Questar Corporation.

9 Q. So Questar Corporation has many family
10 members. And Questar Gas Company is, is one amongst
11 many?

12 A. Yes.

13 Q. The others include Questar Pipeline and
14 Questar Market Resources that does gathering,
15 production, and transmission?

16 A. Yes.

17 Q. No, sorry. Exploration, production, and
18 gathering, and processing?

19 A. Yes.

20 Q. So if we look at Questar Corp. And I realize
21 that we only -- the Public Service Commission only
22 regulates Questar Gas. But if we look at how Questar
23 Corp. has done over the last five years, do you know
24 what its total return has been over the last five
25 years?

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1 A. No, I don't.

2 Q. Would you accept, subject to -- just a sec.
3 Would you accept, subject to check, that Questar
4 Corp's annual -- or total return over five years has
5 been 31.6 percent, as stated in Questar Corporation's
6 Annual Report?

7 A. I would accept that.

8 MS. SCHMID: Can we have just one moment?

9 (Pause.)

10 MS. SCHMID: Can we have just one moment?

11 COMMISSIONER BOYER: Yes.

12 (Pause.)

13 MS. SCHMID: Unfortunately I am short on
14 exhibits, so I will apologize and I will make sure
15 that everyone receives them.

16 Q. (By Ms. Schmid) Would you accept that
17 Questar Corp has done very well compared to the
18 Standard & Poor's 500 Index?

19 A. I, I have no reason to doubt you.

20 Q. Okay. Would you accept that the Questar
21 Corp. Annual Report showed a 33.4 percent return for
22 the last five years, compared to a 12.8 return for the
23 Standard & Poor's 500 Index?

24 A. I would accept that.

25 Q. Okay. Would you accept that Questar

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1 Gas -- skip that -- contributed 9 percent to Questar
2 Corp.'s operating income in 2007?

3 A. Yes.

4 Q. Do you know if Questar Gas increased the
5 number of it's customers over the last year?

6 A. I believe it has.

7 Q. Would you accept, subject to check, a
8 2.4 percent increase in customers from a year ago?
9 That was stated in a news release from Questar, which
10 I can provide.

11 A. I would accept that, yes.

12 Q. You've talked about how Questar Gas faces
13 risks, including the costs of borrowing. But Questar
14 Gas also faces more risks through its affiliation with
15 Questar Corp., particularly Questar Market Resources;
16 isn't that correct?

17 A. Questar Gas faces more risks as a result; is
18 that your question?

19 Q. Yes.

20 A. I'm sorry, I don't follow your question. Is
21 your point that, in your view, investors in Questar
22 Gas Company face risks as a result of the affiliates?

23 Q. Sorry, I was inarticulate. With regard to
24 its rating -- I'm referencing the Standard & Poor's
25 report that Questar Gas provided in response to a data

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1 request dated February 22, 2002. In which it is
2 stated:

3 "While affiliation with Questar and
4 QMR," which stands for Questar Market
5 Resources, of course --

6 A. Uh-huh (affirmative.)

7 Q. -- "serves Questar Gas in the
8 current period of high oil and gas
9 prices, Standard & Poor's recognizes
10 that over the long-term Questar Market
11 Resources' non-regulated activities
12 expose Questar Gas to the long-term
13 cyclical pressure -- pressures of the
14 oil and gas sector."

15 A. Okay.

16 Q. There's also a Moody's report that talks
17 about other risks. And they include the properties
18 acquired by Questar Market Resources in Louisiana.
19 Are you familiar with that report?

20 A. No, I am not.

21 MS. SCHMID: May I approach the witness?

22 COMMISSIONER BOYER: You may.

23 Q. (By Ms. Schmid) Do you see that this, which
24 I'd like to mark for identification as DPU Cross
25 No. 2. And if I may, if I could go back and mark a

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1 Standard & Poor's report that we will also distribute
2 as DPU Exhibit -- Cross Exhibit 1.

3 So do you see that what's been marked as DPU
4 Exhibit 2 is a credit opinion on Questar Corporation
5 from Moody's Investors Service?

6 A. Yes, I see that.

7 Q. And do you see that at the, the last full
8 paragraph from the bottom they talk about the
9 Louisiana purchase?

10 A. Yes.

11 Q. Sorry.

12 A. I thought this was a recent report. These
13 guys are better than I thought.

14 Q. Yep. And do you also see that later on this
15 report notes that if Questar Market Resources' credit
16 profile were to weaken, that gases ratings could be
17 pressured?

18 A. I don't see that offhand, but I'm sure it's
19 in there.

20 Q. Okay. And let's see. Okay, we'll move on.
21 In your testimony today and in your written testimony
22 you talked about various rates of return from other
23 commissions. And in the items that you handed out
24 today -- I believe the last page from the back -- you
25 provided a sheet entitled: "Rate Case History Past

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1 Rate Cases"?

2 A. Yes.

3 Q. Do you see that?

4 A. Yes, yes.

5 Q. How many of those -- we have three cases from
6 Wisconsin and two from Illinois?

7 A. Correct.

8 Q. And so if we were to remove the three or give
9 each a weight, we might get a different number than
10 the 10.38 that you have if we did it as state
11 reconciliation?

12 A. I'm sorry, are you suggesting that the
13 Wisconsin numbers are not valid somehow?

14 Q. There just seems to be three of them, which
15 perhaps gives an undue weight to the Wisconsin
16 Commission.

17 A. Well the -- yeah, you're right. There are
18 three of them. These simply are the cases that have
19 been reported since 2008. I would note that there was
20 one at the rather ingenious authorized return of 9.99
21 as well.

22 Q. What we're passing out now is something that
23 I would like to mark as DPU Cross No. -- Exhibit
24 No. 3. And to identify this, this is a November 2007
25 article from Public Utilities Fortnightly.

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1 A. Okay.

2 Q. Are you familiar with that publication?

3 A. I am indeed.

4 Q. If we turn to the back, the last three pages
5 of this exhibit, and we scan down. We see in the last
6 column on the right the Newly Authorized Rate. Many
7 rate of returns in the 10's, an occasional one in the
8 11's, and some in the 9's; is that correct? And
9 here's one in the 12.

10 A. I think I'm the only person in the room
11 without a copy.

12 Q. Oh, dear.

13 A. I can make it up if you would like.

14 Q. That's my job. So.

15 A. I'm sorry. Where were we?

16 Q. So we're looking at the last column on the
17 right, the Newly Authorized Rate. We see quite a few
18 in the 9's, some in the 10's, one in the 11 -- at
19 least a couple in the 11's, and one out there in the
20 12's; is that correct?

21 A. Oh, I'm sorry. I was just looking at the
22 last page.

23 Q. Sorry, the last three pages.

24 A. Last three pages?

25 Q. Last column on the right.

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1 A. Yes.

2 Q. And would you accept, subject to check, that
3 if we did a very unsophisticated counting-noses sort
4 of study, realizing that every utility is different,
5 that there would be de -- more decreasing returns than
6 increasing returns presented on this table?

7 A. Let me just be sure I understand the table
8 and your question. The, the newly authorized returns
9 or reductions from what had been authorized, is that?

10 Q. Yes.

11 A. Yeah, I have no reason to disagree with that.

12 Q. Thank you. Just one moment.

13 MS. SCHMID: That's all I have, thank you.
14 Oh, could I please move for the admission of DPU Cross
15 Exhibits 1, 2, and 3, as previously identified?

16 COMMISSIONER BOYER: Are there objections to
17 the admission of the DPU Cross Exhibits 1, 2, and 3?
18 Seeing none, they're admitted into evidence.

19 Ms. Bell, what do you wish to do with your
20 hanging shads, the summary exhibits that Mr. Hevert --

21 MS. LARKIN BELL: I would like to offer those
22 hanging shads.

23 MR. PROCTOR: The summary exhibits, I thought
24 those were already there.

25 MS. LARKIN BELL: I have not yet offered them

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1 for admission into evidence.

2 COMMISSIONER BOYER: I believe these are new
3 documents, Mr. Proctor.

4 MS. LARKIN BELL: They are. We have
5 premarked them.

6 MR. PROCTOR: Summary, okay.

7 MS. LARKIN BELL: I re -- I --

8 MR. PROCTOR: I'm sorry, I'm --

9 COMMISSIONER BOYER: Let's mark them first
10 and then we'll hear the objections.

11 MS. LARKIN BELL: These were --

12 COMMISSIONER BOYER: You've already premarked
13 them?

14 MS. LARKIN BELL: These were exhibits that
15 were pre-marked and that Mr. Hevert referred to in his
16 summary of his testimony. They have been premarked
17 and handed out to all the parties. They are premarked
18 as QGC Summary Exhibit 3.1, 3.2, 3.3, 3.4, 3.5, and
19 3.6. And I would move for their admission.

20 COMMISSIONER BOYER: Okay. Objections to the
21 admission? Mr. Proctor has one, I think.

22 MR. PROCTOR: Yes. First of all, summaries
23 of exhibits are not substantive evidence, they're
24 demonstrative evidence -- they're demonstrative
25 exhibits. But unless the exhibit itself appeared

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1 within his direct testimony and his rebuttal testimony
2 you can't make up a new one and then provide it and
3 say, Oh, it's a summary.

4 So the exhibits either have to duplicate what
5 has already been admitted, therefore it would be
6 unreasonable. Or if he wants to use them for
7 demonstrative purposes, that's fine, but they are not
8 substantive evidence. So we would object to their
9 admission.

10 COMMISSIONER BOYER: Does anyone else wish to
11 speak to these exhibits? I know Ms. Bell wants to
12 respond. Mr. Dodge or?

13 MR. DODGE: As a matter of Rules of Evidence,
14 I agree with Mr. Proctor.

15 COMMISSIONER BOYER: Ms. Bell?

16 MS. LARKIN BELL: First I would like to
17 clarify, these are not summaries of exhibits. These
18 are exhibits that he's put in as demonstrative
19 evidence to support his summary of his testimony.

20 Further, I would suggest that the rules do
21 allow us to rebut, in the form of evidence, what is
22 already in the record. And I believe the Commission's
23 rules actually do allow that.

24 As the moving party, we have the burden of
25 proof and we have the last word. And I can point you

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1 to that rule. And that would be my response.

2 MR. PROCTOR: May I, Mr. Chairman?

3 COMMISSIONER BOYER: Please, Mr. Proctor.

4 MR. PROCTOR: That may be true, they may have
5 the last word. And their last word that they chose
6 was the rebuttal testimony. There was an opportunity
7 for surrebuttal. They never took it. And what
8 they're trying to do, I suppose, is to sneak these in
9 as sur-surrebuttal, or things that they forgot to
10 mention earlier.

11 It's just inappropriate. I have no problem
12 with if he wishes to utilize them and point to them
13 for the purpose of demonstrating what his testimony
14 is. But they are not substantive evidence.

15 COMMISSIONER BOYER: One moment.

16 MS. LARKIN BELL: Chairman Boyer, may I
17 respond to Mr. Proctor just briefly?

18 COMMISSIONER BOYER: Yes.

19 MS. LARKIN BELL: The Commission's schedule
20 in this case allowed the parties to prefile evidence.
21 We didn't have any discussion in that, that order
22 about the Company responding to surrebuttal. However,
23 the Commission's rules do contemplate that the moving
24 party can, in fact, respond.

25 And many of us -- or not many of us. Many of

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1 what I heard yesterday of the Company's witnesses in
2 that proceeding, they were, in fact, responding to
3 surrebuttal. I would like to point the parties to
4 Rule 746-100-11J, Order of Presentation of Evidence.

5 And yes, there's some discretion for the
6 Commission certainly. But unless the presiding
7 officer orders otherwise, petitioners, including -- I
8 don't need to read that part. Shall first present
9 their case in chief, followed by other parties in the
10 order designating by the presiding officer, followed
11 by the proposing party's rebuttal.

12 These are merely exhibits that our witness
13 has used as part of his summary to demonstrate and
14 rebut that which was placed in the record in the
15 prefiled testimony. I think, however, that
16 Mr. Hevert's summary stands just fine.

17 MR. PROCTOR: But by the time --
18 Mr. Chairman, if I may. By the time you get to
19 sur-surrebuttal you're not adding to your direct
20 testimony with new evidence. And that's what these
21 documents are.

22 The time for that is past. If anything, he
23 would be responding only to Dr. Woolridge's
24 surrebuttal and Mr. Peterson's surrebuttal. That's
25 it. And this goes well beyond this. And these

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1 document -- the Committee, none of the parties have
2 had an opportunity to examine through discovery the
3 accuracy or validity of these, or to question their
4 significance to this particular issue.

5 If that's, if that's how they're described
6 then they're inadmissible in their entirety and not
7 even for demonstrable purposes.

8 MS. LARKIN BELL: Chairman Boyer, if I may
9 respond very quickly. They --

10 COMMISSIONER BOYER: This would be
11 sur-sur-sur-sur-sur-argument. Go ahead.

12 MS. LARKIN BELL: This is merely our
13 opportunity to respond to Dr. Woolridge and
14 Dr. Peterson's evidence that was placed in
15 surrebuttal. And we are responding with live
16 surrebuttal.

17 These are our demonstrative exhibits to
18 respond to what has been placed in the record.

19 (Pause.)

20 COMMISSIONER BOYER: Okay, we've run it over
21 and we're gonna take a ten minute break. Our reporter
22 needs a rest. We'll come back and we'll rule on the
23 objection to the admissibility of this evidence when
24 we return.

25 But let me make this observation. As I was

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1 listening to Mr. Hevert -- and no way offense is
2 intended here, because he's very articulate and
3 admittedly he's responding -- or summarizing many,
4 many, many pages of testimony -- which I reread last
5 night. It struck me that his presentation was more in
6 the nature of a sur-surrebuttal. And what we had
7 asked was a summary of testimony.

8 We're hopeful that the cross examination
9 process will bring out and be able to flush out and
10 probe the areas of testimony that is in dispute. And
11 the areas of disagreement between Mr. Hevert and the
12 other witnesses.

13 So having said that, that's, that's my
14 impression at this moment. We'll come back and rule
15 on the objection to the admissibility when we return
16 in ten minutes. Thank you.

17 (A recess was taken from 10:42 to 10:54 a.m.)

18 COMMISSIONER BOYER: The rules do give us
19 some discretion in the way we conduct the proceedings
20 and in the way -- and in the order in which we admit
21 evidence. In some cases we include in the scheduling
22 order a provision for live surrebuttal or
23 sur-surrebuttal. In this case we asked for prefiled
24 written surrebuttal.

25 And for the reasons cited by Mr. Proctor and

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1 supported by Mr. Dodge, we're going deny admission of
2 Questar's Summary Exhibits 3.1 through 3.6.

3 Okay. Mr. Proctor, I think you are up for
4 cross examination.

5 MR. PROCTOR: One additional matter then,
6 Mr. Chairman. Would that -- it would also entail then
7 a striking of his testimony or the summary to the
8 extent it was not summarizing his earlier prefiled
9 testimony; is that correct?

10 COMMISSIONER BOYER: That was not before me.

11 MR. PROCTOR: I understand.

12 COMMISSIONER BOYER: Do you wish to make a
13 motion to strike?

14 MR. PROCTOR: I think I would. Or at least
15 that the Commission -- because it would be difficult,
16 I understand, to -- for the Commission and anybody to
17 segregate what was summary and what was not. Because
18 you'd have to basically have memorized his testimony,
19 which would be hard.

20 So, but I think that to the extent that there
21 was new evidence presented then in his -- in the
22 process -- or in the course of his summary that the
23 Commission should be cautious in relying upon it as
24 evidence. And I think that, too, would be within the
25 discretion of an administrative body.

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1 MS. SCHMID: And correspondingly then, if the
2 Commission deems it appropriate, perhaps the portion
3 of the DPU's cross examination related to the Illinois
4 and Wisconsin and other cases and their return on
5 equity, it might be proper for the Commission to
6 strike that. I do not know.

7 MR. PROCTOR: The other resolution, your
8 Honor, would -- or pardon me, Mr. Chairman. Would
9 be --

10 COMMISSIONER BOYER: Ted, whichever.

11 MR. PROCTOR: Your Most Worshipfulness.
12 Would be to give the Committee witness five minutes to
13 address the additional summary. Not the exhibits,
14 because those have not been admitted. But the
15 additional matters that were beyond the summary of
16 testimony.

17 COMMISSIONER BOYER: Well, you've actually
18 hit on the fundamental problem of letting new evidence
19 in at this point in time and offering it. The parties
20 have not had an opportunity to examine it, to test it,
21 respond to it, and so on and so forth.

22 So I think with respect to the oral testimony
23 we've received, we'll leave that in the record. We'll
24 give it appropriate weight. We'll try to be mindful
25 as to whether it's new testimony or a summary of

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1 existing testimony.

2 So I think we'll leave it at that. Thank
3 you, Mr. Proctor.

4 MR. PROCTOR: Thank you.

5 COMMISSIONER BOYER: Would you like to begin
6 your cross examination?

7 MR. PROCTOR: Mr. Chairman, the Committee has
8 no questions.

9 COMMISSIONER BOYER: Okay. Mr. Dodge, cross
10 examination?

11 MR. DODGE: I do. Thank you, Mr. Chairman.

12 CROSS EXAMINATION

13 BY MR. DODGE:

14 Q. Mr. Hevert, you indicated in your testimony
15 that you were able to discern no market reaction to,
16 to revenue stabilizing mechanisms like the CET,
17 correct?

18 A. For, sorry, for the proxy group companies.

19 Q. For the companies you looked at. Does that
20 mean the market or investors don't value rate revenue
21 stabilize -- stabilizing measures like the CET?

22 A. What it means is that upon the, upon the
23 implementation of the CET, the market does not
24 consider them -- the companies that implement them so
25 different than the other proxy group companies that

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1 there should be -- or that they recognize a difference
2 in the risk and therefore attribute a -- or ascribe a
3 difference in their return requirements.

4 Q. Now, you accept, Mr. Hevert, that the fact
5 that you can quantitatively identify something from a
6 small group of companies doesn't prove that it doesn't
7 exist, right? That's a tough admission for an
8 economist, I understand that. But you'll acknowledge
9 that?

10 A. My recollection -- let me back up and be sure
11 we're sort of clear on, on the analysis. Because I
12 think in large part the question goes to -- if I'm
13 interpreting it correctly -- the availability of the
14 data. And the amount of the data that's available.

15 Let's first recognize that the universe of
16 gas companies now consists of about 12. And among
17 those 12 there are 10, I think, that the witnesses in
18 this proceeding considered to be appropriate for
19 inclusion. So it's a relatively small group to begin
20 with.

21 Having said that, the, the analysis that I
22 did recognized in fact that there are only a handful
23 of companies. Ten at best. And among those ten, I
24 think I had eight in my proxy group. And in a way, I
25 developed my analysis to include as much data as

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1 possible, in the sense that we looked at a lot of
2 time.

3 So I, I agree that there is a handful of
4 companies there. I don't disagree with you on that.
5 But I specifically developed the analysis to be sure
6 that we had far more observations to, in a sense,
7 compensate for that.

8 Q. That was actually not the focus of my
9 question. It was more trying to make sure that you're
10 not substituting technique for thinking. In other
11 words, take a step back. If I'm an investor I place
12 some value, do I not, in the fact that the Company
13 I've invested in has just lost a significant risk?

14 A. If, if I am an investor what I do is I look
15 at that Company and the risks of that Company
16 vis-à-vis the other companies. It's not appropriate
17 to look at this Company in isolation.

18 Q. Well, let's just --

19 A. So I disagree with your premise.

20 Q. Let's talk about that. On what basis do you
21 make the statement that it's inappropriate to look at
22 the Company in isolation?

23 A. Because when investors, when investors look
24 at the return that they require from a Company, the
25 return is established by reference to their

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1 alternative investments. And in that sense --

2 And that's why all of the witnesses in this
3 proceeding developed screening criteria to develop a
4 proxy group. So that we can establish what we believe
5 to be a fundamentally comparable group of companies to
6 look at.

7 So return requirements really are established
8 by reference to returns available from other
9 investments of comparable risk.

10 Q. Now, you say that. And I accept that the
11 economists in the room -- none of whom, to my
12 knowledge, are lawyers -- have decided that's the way
13 they like to look at comparable groups of companies.
14 But on what basis do you suggest that that's the only
15 way that returns can be set by this Commission?

16 Or do you suggest that? Let me start with a
17 with a question to set the foundation. Is it your
18 view that this Commission cannot properly consider
19 Company-specific factors that won't be reflected
20 in -- that you can't identify a significant change
21 from your proxy group, in other words. Things that
22 are just specific to this Company.

23 Are you saying it's not appropriate somehow
24 for the Commission to consider Company-specific
25 factors?

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1 A. I think it's appropriate to consider
2 Company-specific factors relative to the other
3 companies in the proxy group.

4 Q. No, without the last, without the last
5 qualification. It's your view that that's not
6 appropriate?

7 A. Yes, that's right.

8 Q. And that's based on what?

9 A. That's based on the way I've conducted these
10 analyses for, for a long time. And that's based on my
11 experience in working with other investors.

12 Q. Well, that's your experience. On what basis
13 do you suggest the Commission can't appropriately
14 consider Company-specific factors?

15 A. Well, I think also I -- the way I have
16 structured my analyses -- and I believe the way
17 Dr. Woolridge and Mr. Peterson as well have structured
18 their analyses -- is by reference to the
19 well-established standards that speak to risk
20 comparability and the importance of having a
21 comparable group.

22 Q. And what standards are you referring to?
23 Economist standards? Legal standards? Are you
24 offering a legal opinion?

25 A. Oh no. I am not a lawyer of course. I am

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1 referring to what every witness in this area refers
2 to, of course --

3 Q. All of whom are economists. So I'm trying to
4 understand, what are you referring to?

5 A. I'm referring --

6 Q. Is it some kind of a legal basis? Is it --

7 A. Please let me finish. I'm referring to the
8 Hope and Bluefield standards, of course.

9 Q. And that is legal. Are you offering an
10 analysis of the Hope and Bluefield case? Those are,
11 those are Supreme Court cases.

12 A. I understand that. No, I am not rendering a
13 legal opinion, of course. I'm not a lawyer. I've
14 never suggested I was rendering a legal opinion in
15 that regard. I suspect that if I were coming close to
16 rendering a legal opinion the attorneys that reviewed
17 my testimony would have told me so.

18 In my view, the important issue is what Hope
19 and Bluefield mean for the standards by which the
20 analysis will be done.

21 Q. And I guess my -- this is my frustration.
22 You say the lawyers would have told you. They're not
23 on the stand and you are. And yet you are offering
24 your view that Hope and Bluefield somehow restrict the
25 ability of this Commission to consider

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1 Company-specific factors.

2 And I'd like to say, have you ever read the
3 entire Hope and Bluefield cases?

4 A. I actually have, but it's been quite a long
5 time ago.

6 Q. Well, you are under --

7 MR. DODGE: I tend to hesitate doing this,
8 but several witnesses in this case offer their belief
9 as to what Hope and Bluefield does in terms of
10 constraining this Commission to go and look at
11 Company-specific factors.

12 And without getting into a legal argument I'd
13 like to walk him through some language of these cases.
14 Unless you'd rather set it for an oral argument, which
15 I'd be happy to do as well.

16 COMMISSIONER BOYER: Let's see how quickly
17 you can do it here since we're all gathered together,
18 Mr. Dodge.

19 MR. DODGE: Thank you. I'll hand, if I may
20 approach, copies of excerpts. I'll represent these
21 are excerpts from five different cases. The Hope and
22 Bluefield Supreme Court cases, as well as three Utah
23 Supreme Court cases.

24 And again, I'm not gonna get into a legal
25 argument with him. Happy to do that with any legal

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1 person who wants do.

2 COMMISSIONER BOYER: Perhaps, Mr. Dodge, if
3 you could just point us to the relevant language in
4 the various cases.

5 MR. DODGE: Well, that's exactly what I've
6 done. And I'll represent these are just one or two
7 pages from each of five cases. And I've put little
8 marks by where I want to direct the witness's
9 attention. And I'd ask that this be marked as UAE
10 Cross X Exhibit No. 1(ROR.)

11 Q. (By Mr. Dodge) And Mr. Hevert, I'd represent
12 the first page on this is the cover page of the Hope
13 and Blue -- the Hope case. It was decided by the U.S.
14 Supreme Court in 1944. If you'll turn the page to
15 page 9.

16 The first -- if you'll notice the little
17 markings on the left is where I'm gonna direct your
18 attention. The first paragraph there says:

19 "We held, in Federal Power
20 Commission v. Natural Gas Pipeline Co.,
21 supra, that the Commission was not bound
22 to the use of any single formula or
23 combination of formulae in determining
24 rates."

25 Is that part of your understanding of the

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1 Hope standard that you've discussed?

2 A. Yes.

3 Q. And then further down, if you go down past
4 the next two quotes:

5 "Under the statutory standard of
6 'just and reasonable' it is the result
7 reached not the method employed which is
8 controlling."

9 And down after that next quote:

10 "It is not the theory but the impact
11 of the rate order which counts. If the
12 total effect of the rate order cannot be
13 said to be unjust and unreasonable,
14 judicial inquiry...is at an end."

15 Now, is that also part of your understanding
16 as to what the Supreme Court's role would play in
17 setting the standard for this Commission?

18 A. Yes, indeed, it is.

19 Q. Okay, thank you. Now, the next one is at the
20 bottom of that page. And I think this is a very
21 important one that I would urge you to consider when
22 you articulate your understanding of the Hope and
23 Bluefield case:

24 "The rate-making process under the
25 Act, i.e., the fixing of 'just and

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1 reasonable' rates, involves a balancing
2 of the investor and the consumer
3 interests."

4 Do you see that?

5 A. Yes, I do.

6 Q. And then if you go over into the next page it
7 says, starting in the first full sentence on page 10:

8 "But such considerations aside, the
9 investor interest has a legitimate
10 concern with the financial integrity of
11 the Company...."

12 And then going down:

13 "From the investor or Company point
14 of view it is important there be enough
15 revenue" to pay capital costs, et
16 cetera.

17 Now then, if you'll go down past the next
18 quote. By that standard, and I'll reference "by that
19 standard" we're now talking about the investor point
20 of view that we referenced immediately before that.

21 A. I'm sorry you -- can you point me
22 specifically to where we are right now?

23 Q. I wish these had lines, but on page 10 on the
24 left-hand side at the top?

25 A. Yes.

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1 Q. It starts by saying the, first full sentence:

2 "By such con -- but such
3 considerations aside, the investor
4 interest has a legitimate concern with
5 the financial integrity of the
6 Company...."

7 A. Yes, I have that.

8 Q. So that's the investor interest. And then it
9 goes on from the investor or Company point of view
10 it's important there be enough revenue for various
11 things. And then go down after the next quote:

12 "By that standard" --

13 MR. MONSON: The next side, Gary. That's why
14 he's getting lost.

15 Q. (By Mr. Dodge) I'm sorry, I said it wrong.
16 I apologize. The next side. After the Cf. Chicago,
17 etc.?

18 "By that standard" -- and I would
19 suggest by that standard they mean by
20 the investor or Company standard they've
21 just been referencing -- "the return to
22 the equity owner should be commensurate
23 with returns on investments in other
24 enterprises having corresponding risks."

25 A. Yes.

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1 Q. Now, I assume that that's primarily what you
2 focus on when you say that it look -- that the
3 Commission should look at comparable companies,
4 correct?

5 A. Yes, that's right.

6 Q. Now again, they said "By that standard,"
7 meaning the standard from the investor or Company
8 point of view. But earlier they said it's important
9 to balance those risks, right?

10 A. Correct.

11 Q. Now, if you go to the other side of the
12 page 10, the top full paragraph, they're now talking
13 about what the, what the Federal Power Commission did
14 in the case they're reviewing. Which they, I will
15 say, later said is good. It is okay. It didn't
16 violate any Constitutional prohibitions. It said, if
17 you go down, it's like the second -- I guess the third
18 sentence:

19 "It considered the financial history
20 of Hope and a vast array of data bearing
21 on the natural gas industry, related
22 businesses, and general economic
23 conditions." It noted yields on bonds,
24 et cetera, et cetera.

25 "It stated...the Company was a

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1 'seasoned enterprise whose risks have
2 been minimized' by adequate provisions
3 for depletion and depreciation (past and
4 present) with 'concurrent high profits,'
5 by 'protected established markets,
6 through affiliated distribution
7 companies, in populous and industrialized
8 areas,' and by a supply of gas locally
9 to meet all requirements," et cetera.

10 And then if you go down to the last sentence
11 in that paragraph:

12 "The Commission concluded, 'The
13 Company's efficient management,
14 established markets, financial record,
15 affiliations, and its prospective
16 business place it in a strong position
17 to attract capital upon favorable terms
18 when it is required."

19 Now, will you at least agree with me that in
20 that paragraph the U.S. Supreme Court in the Hope case
21 approved the fact that the Federal Power Commission
22 looked at a whole host of both Company specific and
23 general economic conditions in deciding that the Rate
24 of Return they set for Hope was appropriate?

25 A. Yes, I do.

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1 Q. And will you then agree that this Commission
2 can look at a whole bunch of factors, Company specific
3 and otherwise, in determining what is the reasonable
4 return?

5 A. Absolutely.

6 Q. Now, having said that, one of the factors
7 that Mr. McKenna addressed was the fact that their
8 risk -- that the utility's risk was reduced by the
9 CET. You take issue with the fact that he didn't
10 prove that number in different ways.

11 But will you not agree, given what we've just
12 been through with Hope and Bluefield -- with the Hope
13 case -- and there are other quotes from Bluefield and
14 three Utah Supreme Court court cases we can go through
15 if necessary.

16 But will you agree with me that it's a factor
17 that the Commission can properly consider in
18 determining the ROE of this Company?

19 A. I would agree with you that there are many
20 factors that the Commission should, should consider.
21 And in fact I believe in my testimony I pointed to
22 many of those that you mentioned. General macro
23 economic conditions, for example.

24 And yes, I, I agree that the Commission
25 should consider whether or not there's an effect on

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1 the cost of equity as a result of the CET.

2 Q. I'm trying to get you to acknowledge that a
3 Company-specific impact can be relevant to this
4 Commission's determination of an appropriate ROE.
5 Without reference to an -- to a group of comparable
6 companies. Not the only factor, but a factor.

7 A. The -- and I think here's where we,
8 unfortunately, are talking past each other a little
9 bit. And I apologize for that. But the issue at hand
10 is that the only way, the only way you can establish
11 the return on equity from a market-based perspective
12 for a company like Questar Gas is to look at
13 comparable companies.

14 And to the extent that the comparable
15 companies have such mechanisms in place, and to the
16 extent that the ROE estimated for this Company already
17 considers that, then that effect is already in there.
18 Now should, should the Commission consider whether
19 there is an incremental effect of the CET
20 notwithstanding that? Of course they should.

21 Q. Okay. That's the important point. You said
22 the only way that you can determine it from a
23 comparable Company perspective is the way you
24 described. But as we've just gone through in Hope,
25 there are factors that aren't looking at comparable

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1 companies that a Commission can properly consider,
2 correct?

3 A. I agree. But let's, let's put a finer point
4 on it if we can. The -- when, when estimating the
5 cost of equity -- and again, I don't want to sort of
6 go back and tediously describe the methodology in what
7 we did. But it's very important to recognize that we
8 looked at all of the comparable companies to determine
9 whether or not there are a whole host of revenue
10 stabilization mechanisms in place at the time.

11 And I agree -- and in fact I state quite
12 clearly in my direct testimony -- that any methodology
13 is necessarily going to give you a range of results.
14 And I further agree that it's important to look at
15 Company-specific issues to determine where the ROE
16 ought to be within that range of results.

17 But those Company-specific issues still have
18 to be considered relative to others. And I think
19 that's where our difference may lie.

20 Q. And that's your legal interpretation of Hope
21 and Bluefield, or your practical interpretation as an
22 economist trying to crunch models?

23 A. Well, as we've discussed, I'm not a lawyer.
24 And I'm not going to render a legal opinion.

25 Q. Thank you. If you'll turn to a few more

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1 pages in -- I won't go through all of these, in the
2 interest of time. But if you'll turn to, I think the
3 fourth case in. It says "page 1" in the right-hand
4 corner.

5 And it's Mountain Fuel supply Company versus
6 Public Service Commission of Utah. A 1993 Utah
7 Supreme Court decision. Do you see that?

8 A. I'm sorry, you say it's about four pages in?

9 Q. Four of the cases in. It's more -- it's
10 probably in the last five pages or six. In the upper
11 left-hand corner it says 861 P.2d 414.

12 A. Yes, yes, yes. I have it now, okay.

13 Q. You're there now?

14 A. Yes, I do.

15 Q. And again I'll represent, this is a cover
16 page and one other page from a Utah Supreme Court
17 decision in 1993. If you'll turn the page. On
18 page 14, and on the left-hand side. I would go to --
19 in that block -- that paragraph that I've blocked. If
20 you go down a little past halfway past all the
21 citations?

22 A. Yes.

23 Q. And I won't go into all the details of this
24 case, but it says:

25 "We think, however" -- there's a

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1 "however" there -- "that the Commission
2 may reduce the rate of return as a
3 method to prompt the utility to correct
4 mismanagement and efficiency without
5 running afoul of this rule" -- which is
6 the Hope and Bluefield rule -- "or any
7 other restrictions that have been
8 brought to our attention."

9 Based on that, would you agree that at least
10 the Utah Supreme Court seems to think they can
11 actually do a specific deduct for something that has
12 nothing to do with comparable companies but that is a
13 risk factor to ratepayers in this state?

14 A. Yes.

15 MR. DODGE: Thank you. No further questions.

16 COMMISSIONER BOYER: Thank you Mr. Dodge.

17 Mr. Ball, have you questions of Mr. Hevert?

18 MR. BALL: No thank you, Chairman.

19 COMMISSIONER BOYER: Commissioner Allen?

20 COMMISSIONER ALLEN: Thank you Mr. Chairman.

21 In looking at your extensive prefiled testimony and
22 your extensive financial analysis I want to come back
23 to the eight proxy group that you used. And just ask
24 questions -- or a question about inputs.

25 As we're looking at this extensive financial

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1 analysis of these comparables I'm curious, did you --
2 I realize the end samples are already small.

3 THE WITNESS: Yes, it is.

4 COMMISSIONER ALLEN: But did you have the
5 opportunity or take the opportunity to go back and
6 look at these individual companies and see if they
7 have other issues that could be relevant to the
8 analysis?

9 Or whether they should be outliers perhaps
10 based on corporate structure, lack of storage,
11 reliance on interruptible L&G supply. Anything that
12 might differentiate them quite substantially from our
13 Company here.

14 A. The, the criteria that we looked at -- quite
15 frankly, we're not, we're not really that granular in
16 nature. The criteria generally were, were at a bit
17 higher level in order.

18 And they really focused on larger issues
19 associated with the degree of regulated versus
20 unregulated operations. Credit rating. Whether or
21 not the Company is involved in a transaction. Things
22 that would, you know, otherwise change the price for
23 reasons other than fundamental financials.

24 So we did not take it down to that, to that
25 granular a level. In terms of, you know, whether or

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1 not their storage, or the nature supply contracts.

2 Q. Well then in that case, would it be -- how do
3 investors react to this? I know that there is
4 different levels of sophistication in investors. But
5 to a large degree are utility companies lumped
6 together in the investment world? In the world of
7 everything from mutual funds to the individual
8 investor. Or are there granular studies that are
9 available to us? What's your sense on that?

10 A. Well, I think the, I guess the first answer
11 is no. I think natural gas distribution companies are
12 looked at as a separate universe. And I think the,
13 the evidence of that would be the fact that investment
14 analysts, for example, cover -- as Value Line does --
15 cover natural gas distribution companies as a separate
16 group.

17 So I think that it is looked at separately
18 from, from other, other segments within the broader
19 market. I think one of the issues regarding -- one of
20 the con -- one of the considerations regarding issues
21 such as supply, from an investor's perspective, may be
22 taken up a level.

23 And it may not necessarily be the nature of
24 supply or storage, but it may be the ability of the
25 Company to recover such costs through a purchase gas

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1 adjustment clause, for example. I think from an
2 investor's point of view, that may be where the
3 concern would lie.

4 COMMISSIONER ALLEN: Okay, thank you.

5 COMMISSIONER BOYER: Okay. Commissioner
6 Campbell and Commissioner Boyer have no questions, so
7 you may sit down. Thank you so much, Mr. Hevert.

8 MS. LARKIN BELL: Chairman Boyer, do I have a
9 chance for --

10 COMMISSIONER BOYER: Oh, would you like to do
11 some redirect? Go ahead.

12 MS. LARKIN BELL: Redirect. Excuse me. In
13 light of the time, I will -- I just have a few
14 questions.

15 COMMISSIONER BOYER: Actually before you do
16 that. Mr. Dodge, did you want to offer into evidence
17 your case summaries?

18 MR. DODGE: I do. Thank you, Mr. Chairman.
19 I would offer it.

20 COMMISSIONER BOYER: Are there any objections
21 to the admission of the excerpts from various Supreme
22 Court and Utah cases? Very well, they are admitted
23 into evidence. And this is UAE Cross Exhibit -- or
24 Cross Exhibit 1(ROR.)

25 Apologize for interrupting you, Ms. Bell.

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1 REDIRECT EXAMINATION

2 BY MS. LARKIN BELL:

3 Q. Mr. Hevert, much has been made about the
4 summary exhibits that have now been stricken from your
5 summary testimony. Just briefly, isn't it true that
6 these were merely abstracts of evidence that was
7 already in the record or updates to existing evidence,
8 just for clarification?

9 MR. PROCTOR: Well, the Committee would
10 object. It's not redirect. And it addresses trying
11 to get the evidence, those same exhibits which you've
12 denied admission to, back into evidence the same way.
13 It's rearguing the same --

14 MS. LARKIN BELL: At this point, Mr. Proctor,
15 I will let it go. I was just trying to clarify the
16 source. And perhaps I should have done that
17 originally. I'll move on to my next question.

18 Q. (By Ms. Larkin Bell) Mr. Hevert, are you
19 familiar with the Division's Cross Exhibit 2? This
20 was the Moody's report. And I believe you were asked
21 some questions with regard to this report and what
22 investors with regard to Questar Corporation would do
23 with regard to the stock and investing in Questar
24 Corporation?

25 A. Yes.

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1 Q. Have you had a chance to familiarize yourself
2 with this report?

3 A. I've briefly looked at it, yes.

4 Q. And I believe you had some points you wanted
5 to make specific with regard to Questar Gas Company?

6 A. Yes. I think in the report there's, there
7 are a couple of points that should be pointed out.
8 For example, Moody's notes that, that per Moody's
9 North American regulated gas methodology the Company
10 amounts to an A3 rating, but that its financial
11 metrics fall into the A category.

12 The overall rating takes into account the
13 potential for free cash flow and debt metrics to
14 temporarily weaken in the near term as the Company
15 implements a multi-year fear program.

16 It also notes the regulatory risk associated
17 with a case that was filed in January 2008. And
18 interestingly it says that the rating is based on a
19 constructive outcome with allowed returns in the range
20 of industry means.

21 And then finally there's, there's a point
22 with respect to liquidity. That notes that Moody's
23 does not expect Questar's internally-generated cash
24 flow to cover its capital expenditures and dividends
25 over the next 12 months.

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1 This speaks to the issue brought up in my
2 direct testimony regarding investors' perceptions of
3 risk for companies with relatively high levels of
4 capital expenditures, vis-à-vis operating cash flows.

5 MS. LARKIN BELL: I think that's all I have
6 at this point.

7 COMMISSIONER BOYER: Thank you, Mr. Hevert.
8 You may step down.

9 THE WITNESS: Thank you.

10 COMMISSIONER BOYER: Thank you for your
11 attendance. Shall we proceed now with the Division's
12 technical witnesses?

13 And while you're getting ready there,
14 Ms. Schmid, as I try to guide this unguided missile
15 we're calling a hearing I'm working towards the end
16 game, which is to conclude towards the end of the
17 business day.

18 We would like to have an opportunity to hear
19 the policy witnesses as well. And I'm right now I'm
20 leaning towards completing the technical witness cross
21 examination -- summaries and cross examination by
22 4:00. And then shifting over to policy witnesses,
23 giving each of them 15 minutes.

24 We have read their testimony as well. I'm
25 reluctant to parse out the remaining minutes in the

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1 day. We have, as I calculated, something like three
2 hours, or three and-a-half hours left before 4:00. So
3 I'm not going to do that at this point.

4 But I think with the clarification I made on
5 what we envision summaries to include, we should be
6 able to make that goal. And with that aside,
7 Ms. Schmid, the time is yours.

8 MR. PROCTOR: Mr. Chairman, if I might. I
9 know that -- I would suspect Mr. Peterson gonna be
10 quite some time. And I'm wondering if the Questar
11 witness Reed, we could complete him in this half an
12 hour. And that would get that over with.

13 And I know he's from out of town. And
14 that -- and I understand and respect the decision that
15 was made last Friday. But that's just a suggestion.

16 MS. LARKIN BELL: Our preference would be to
17 follow the witness order that you have listed in your,
18 your letter.

19 COMMISSIONER BOYER: Let's do that. And
20 let's see how, see how far we go. Many of us have
21 heard Mr. Peterson speak just in recent days.

22 Ms. Schmid?

23 MS. SCHMID: With that, the Division would
24 like to call Mr. Charles E. Peterson as a witness.

25 COMMISSIONER BOYER: It's all a blur but are

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1 you sworn in this case, Mr. Peterson?

2 THE WITNESS: I was this morning.

3 COMMISSIONER BOYER: That's what I thought.

4 That I remember seeing you there with your hand up.

5 Thank you.

6 CHARLES E. PETERSON,

7 called as a witness, having been duly sworn,

8 was examined and testified as follows:

9 DIRECT EXAMINATION

10 BY MS. SCHMID:

11 Q. Good morning. Mr. Peterson, could you please
12 state your name, address, and by whom you are employed
13 for the record?

14 A. Charles E. Peterson. Is this on? Is it on
15 now?

16 Q. Yes.

17 A. Okay. Charles E. Peterson. I work at the
18 Heber Wells Building in Salt Lake City. And I'm
19 employed by the Division of Public Utilities as a
20 technical consultant.

21 Q. Are you the same Charles E. Peterson who
22 prepared Exhibits No. 2.0 through 2.18, DPU Exhibit
23 No. 2.0ED, 2.15ED, Exhibit No. 2.1SR through 2.2SR,
24 previously admitted today?

25 A. Yes.

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1 Q. And you are the same Charles E. Peterson that
2 provided two corrections -- corrective sheets to these
3 Exhibits 2.5 and I believe 2.13; is that correct?

4 A. Yes.

5 Q. If we were to ask you the same questions
6 today as were asked in your written testimony would
7 your answers, with the corrections you made today, be
8 the same as in your written testimony?

9 A. Yes.

10 Q. Do you have a briefest summary to give?

11 A. I do have a brief summary.

12 Q. Please proceed.

13 A. Thank you, Commissioners, for the opportunity
14 to briefly emphasize the points that I made in my
15 testimony. In my direct testimony I asserted a
16 midpoint of cost of equity for Questar Gas of
17 9.25 percent. That is surrounded by what I consider
18 to be a reasonable range of approximately 8.65 to
19 9.75 percent.

20 In arriving at this conclusion I considered a
21 number of options in the discounted or D -- DCF model,
22 the capital asset pricing model. I also developed a
23 risk premium model based upon Value Line financial
24 strength ratings, which I used as a check on other
25 models.

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1 In developing the DCF models I applied
2 earnings-only growth rates, dividend-only forecast
3 growth rates, and a 75/25 percent weighted average
4 forecast earnings and dividend growth rates that the
5 Commission used in its 2002 Questar case.

6 I supported -- or I support this weighting of
7 75/25 as a reasonable compromise between the arguments
8 for earnings-only growth rates and for dividend-only
9 growth rates. I compiled -- I compiled DCF estimates
10 based upon ten-year historical growth rates.

11 And the single-stage or one-step DCF models
12 had a range from 8.69 percent to 9.56 percent. I
13 estimated two-stage DCF models that had a range from
14 8.65 percent to 9.09 percent. I have applied several
15 variations with the CAPM, including a version similar
16 to the model used by Mr. Hevert, except that I updated
17 the risk free rates from his direct testimony.

18 Using 20-year bonds as the risk free rate,
19 the CAPM models ranged from roughly 8 1/2 percent to
20 10.4 percent. My risk premium model had a range from
21 8.95 percent to 10.44 percent. Given these data and
22 ranges, I have concluded that a reasonable point
23 estimate is 9.25 percent.

24 With respect to capital structure, cost of
25 debt, cost of preferred stock -- which the Company

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1 doesn't have, but I wrote it in here anyway -- I have
2 no particular argument with the Company's proposals
3 and have accepted them for my testimony.

4 The primary differences between the Company
5 witness Mr. Hevert and I are, one, his use primarily
6 of earnings-only growth rates and of sustainable
7 estimates in his DCF estimates. His reliance on
8 historical authorized returns from other
9 jurisdictions.

10 His sole reliance on the 82-year
11 Morningstar -- or I may refer to it as Ibbotson, since
12 I'm used to calling it Ibbotson rather than
13 Morningstar -- time period. And his decision to
14 assert that the top of his reasonable range is -- has
15 the relevant cost of equity for Questar Gas.

16 In sum, I believe my 9.25 percent cost of
17 equity recommendation is fair and reasonable and is
18 supported by substantial evidence. My overall cost of
19 capital estimate is 8.02 percent, which I also believe
20 is fair and reasonable and supported by substantial
21 evidence. This completes my summary, thank you.

22 COMMISSIONER BOYER: Thank you, Mr. Peterson.
23 Nicely done.

24 Ms. Bell, are you going to conduct the cross
25 examination, or Mr. Monson?

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1 MS. LARKIN BELL: Mr. Monson will be.

2 COMMISSIONER BOYER: Okay. Welcome,
3 Mr. Monson.

4 MR. MONSON: Thank you.

5 CROSS EXAMINATION

6 BY MR. MONSON:

7 Q. Mr. Peterson, you just talked about the 2002
8 order in the Questar Gas rate case, so I assume you've
9 reviewed that order?

10 A. Yes, I have briefly reviewed it.

11 Q. And are you aware that the Commission chose a
12 reasonable range in that order?

13 A. I know that they -- yes, I'm aware of that.

14 Q. And are you aware that the high end of that
15 range was based upon an earnings-only growth forecast
16 for the DCF model?

17 A. Yes.

18 Q. Thank you. You are aware that the Division
19 of Public Utilities is charged by statute with
20 balancing the interests of ratepayers and investors;
21 is that right?

22 A. Yes.

23 Q. And the Committee doesn't have that
24 obligation, do they?

25 A. They have a different --

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1 MS. SCHMID: Objection. Mr. Peterson is not
2 an expert with regard to the Committee's
3 responsibilities.

4 COMMISSIONER BOYER: You want to -- I sustain
5 that. Would you like to rephrase your question,
6 Mr. Monson?

7 Q. (By Mr. Monson) Do you understand what the
8 obligations of the Committee are in terms of who
9 they're supposed to represent in proceedings before
10 the Commission?

11 A. Generally they have a certain constituency --
12 mainly residences, small businessmen -- to represent
13 them.

14 Q. Okay. So they represent those interests.
15 They aren't required to balance the interest of
16 shareholders; is that right?

17 A. I presume not.

18 Q. So, and when you balance something you give
19 equal weight to both positions?

20 A. Yes. Well, not necessarily equal weight.
21 You consider both positions. It's not strictly a
22 balancing of putting rocks in one end of the scale and
23 rocks in another.

24 Q. But if you don't give equal weight then you
25 don't achieve a balance, do you?

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1 A. You -- if you, if you give equal weight you
2 may otherwise also have a distortion if the interest
3 of the Company as defined by the Company, or the
4 interest of the ratepayers as defined by the
5 ratepayers, are unrealistic or unreasonable.

6 Simply splitting the difference between the
7 two is not what I believe we're expected to do.

8 Q. Okay. I just, I just asked you if you need
9 to give equal consideration to the interest of
10 shareholders and ratepayers.

11 A. No, you said equal weight, I believe.

12 Q. Okay. Equal weight? I'm not talking about
13 their -- I'm not talking about their perceptions. I'm
14 talking about the market perceptions.

15 A. Okay, well --

16 Q. Do you agree with that?

17 A. We are supposed to give consideration to the
18 Company, yes.

19 Q. In your surrebuttal testimony you don't
20 address Dr. Woolridge's direct testimony; is that
21 right?

22 A. I don't believe so, no.

23 Q. Isn't it true that Dr. Woolridge uses many
24 factors and inputs in his models that are different
25 than the ones you choose to use?

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1 MS. SCHMID: Objection. I believe that this
2 is beyond the scope of Mr. Peterson's testimony as
3 just established.

4 COMMISSIONER BOYER: You know, I think
5 Ms. Schmid is right, Mr. Monson.

6 MR. MONSON: Your Honor, I think I have the
7 opportunity to test this witness's perception, his --
8 what he's done in this case. He's an expert witness.

9 I believe I have the opportunity to question
10 him on issues that would show -- that would impeach
11 him. That would show bias. That would show lack of
12 consistency in his application of principles. A
13 variety of issues. And if you want, I can cite a
14 Supreme Court case to you.

15 COMMISSIONER BOYER: I can agree with that,
16 I'm just not sure how your question gets to those
17 issues on credibility.

18 MR. MONSON: It gets to the issue of bias.

19 COMMISSIONER BOYER: Okay. Ask your question
20 again and I'll, I'll listen more carefully this time.

21 MR. MONSON: Okay. I asked him if
22 Dr. Woolridge used many different factors and inputs
23 in his models than Mr. Peterson uses.

24 MS. SCHMID: And again, I renew the
25 objection.

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1 COMMISSIONER BOYER: Well, I -- okay, I'm
2 gonna overrule it on the second listening to that.
3 Because I -- because Mr. Peterson did -- in his direct
4 testimony and rebuttal testimony did speak to
5 Dr. Woolridge.

6 Go ahead, Mr. Monson.

7 THE WITNESS: Would you repeat the question
8 again, please?

9 Q. (By Mr. Monson) Sure. Isn't it true that
10 Dr. Woolridge used many different inputs and factors
11 in his models than the ones you used in your models?

12 A. He did different calculations than I did. I
13 don't know which specific factors you are referring
14 to. He did come up with different results than I did.

15 Q. Okay. Let me, let me just give you one
16 example. When he did the CAPM model, when he did it
17 the traditional way he used 82 years of Morningstar
18 data; is that right?

19 A. I will accept that that's right. I don't
20 recall right now.

21 Q. But you don't agree with that?

22 A. I think the 82-year period is a questionable
23 thing to do, yes.

24 Q. Okay. But you didn't note the differences
25 between you and Dr. Woolridge in your surrebuttal

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1 testimony, did you?

2 A. No.

3 Q. So did you view your job as simply being to
4 criticize the Company's testimony in this case?

5 A. In surrebuttal my -- I perceived my job was
6 to respond to Mr. Hevert's criticisms of my testimony.

7 Q. And so you didn't view that you had any
8 obligation in balancing the interests of shareholders
9 and ratepayers to look at the Committee's
10 recommendation?

11 A. Well, I did look at the Committee's
12 recommendations, but Mr. -- Dr. Woolridge's proposed
13 cost of equity of 9.0 percent, I believe, is within
14 the reasonable range that I arrived at independently
15 in my analysis.

16 Q. So based on his result, you didn't think it
17 was necessary to look at his methodology?

18 A. I didn't think that it was as critical to
19 look at his methodology as it was the Company's
20 methodology. Which was substantially -- which was
21 giving results that were substantially different than
22 what I was seeing as the -- as reasonable numbers.

23 Every analyst will do things a little bit
24 differently. And the fact that Mr. -- Dr. Woolridge
25 calculates his DCF model or some other model slightly

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1 different is not necessarily something to comment on.

2 Q. Only if it achieves a difference in end
3 result. Is that your basis for commenting?

4 A. Well, that would be one basis for commenting.
5 As I said, his, his end result of 9.0 was within my
6 reasonable range.

7 Q. You commented on Mr. Hevert's Chart 1 in your
8 surrebuttal testimony; is that right? Do you remember
9 what that is?

10 A. Offhand, I don't recall what it is.

11 Q. Do you have his testimony?

12 A. No, I don't.

13 MR. MONSON: Can I approach the witness?

14 COMMISSIONER BOYER: Yes, you may.

15 MR. MONSON: Thank you.

16 For everyone else, this is on page -- let's
17 see. It's on page 8 of Mr. Hevert's rebuttal
18 testimony.

19 Q. (By Mr. Monson) Now, you've taken issue with
20 Mr. Hevert's use of authorized returns from other
21 states in his testimony; is that right?

22 A. Yes.

23 Q. And -- but in, but in your surrebuttal you
24 pointed out that your range, your recommended range,
25 that at least the upper half of your recommended range

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1 is within the range supported by the data on Chart 1;
2 is that right?

3 A. Yes. In the context that if it were a
4 concern that the Commission be within the range of
5 other authorities -- rate authorizations, that they
6 would not be breaking new ground in doing that. That
7 was the point of that conversation.

8 Q. Okay.

9 A. Or that testimony.

10 Q. All right. And you would agree with me that
11 your range doesn't approach the middle -- midpoint or
12 the middle of the range shown on this chart; is that
13 right?

14 A. That's right.

15 Q. In fact, your range -- the upper half of your
16 range is below all but 12 of the 80 decisions that are
17 shown on this chart; is that right?

18 A. I would accept --

19 COMMISSIONER BOYER: Mr. Peterson, would you
20 pull your mic just a little bit closer? We're
21 streaming the audio from this hearing and I don't
22 think it's picking up. Thank you.

23 THE WITNESS: I haven't counted the number,
24 but I'll accept your number.

25 Q. (By Mr. Monson) And so, so your -- the top

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1 half of your range overlaps with the lowest 15 percent
2 of the awards shown in this chart; is that right?

3 A. Approximately, yes.

4 Q. And your point range -- your point estimate
5 of 9.25 is lower than 79 of the 80 authorized ROE's
6 shown on this chart?

7 A. Apparently so.

8 Q. If someone were trying to balance something
9 on this chart where would that balance fall?

10 A. Well, if somebody were going to balance
11 something on this chart they would want to know how
12 all of those other authorized rates of return were
13 arrived at. Whether they were settlements. Whether
14 there were other considerations given in return for a
15 higher ROE.

16 Whether there were local laws or agreements
17 that have been entered into. Time certainly has a, a
18 factor. What witnesses were presented, or what
19 information were presented at hearings. There would
20 be a lot of things that you would want to know before
21 you would want to arrive at a balance.

22 But this is a hypothetical question, because
23 I'm not one who agrees that you arrive at a balance
24 necessarily by examining this kind of data.

25 Q. So, so are you telling me that you can't

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1 just, based on the results of the -- that are shown on
2 this chart, tell me where the balance lies on this
3 chart?

4 A. Well, sure. I could do a mathematical
5 analysis and stick my finger in the middle and say,
6 Well, that's the middle, that must be the balance.

7 Q. And your range doesn't fall within that
8 balance, based on the results; is that right?

9 A. Well, that's what we discussed before, yes.

10 Q. Okay. And would you agree that investors
11 look at authorized rates of return in their decisions?

12 A. Yes. And I'm sure they look at trends in
13 authorized rates of returns.

14 Q. You also, in your surrebuttal testimony,
15 cite, in support of your position, the New Mexico
16 decision we've talked a little bit about; is that
17 right?

18 A. Yes.

19 Q. And that decision was issued in June of 2007;
20 is that right?

21 A. Yes.

22 Q. You're also aware that there's other awards
23 in that time period, such as an 11.35 percent award in
24 California; is that right?

25 A. Well, I'm aware that there are other awards.

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1 Q. You don't know any specifics?

2 A. Not exact -- I do not, as I sit here, know
3 the specifics.

4 Q. These were shown on Mr. Hevert's exhibit to
5 his direct testimony. I think it's Exhibit 1. Do you
6 have that?

7 A. No, I do not have that in front of me.

8 Q. Would you accept subject to check, just to
9 speed this up, that there was an award of
10 11.35 percent in California on that chart, and that
11 that was in the same time frame of this New Mexico
12 decision?

13 A. I don't have a reason to dispute that.

14 Q. And that there's even more recent awards,
15 such as the ones that have been stricken on the
16 summary exhibit. The one was 10.9 percent in Wyoming
17 in November of 2007. Do you have any reason to
18 dispute that?

19 A. No.

20 Q. Ten point seven five -- 10.75 three times in
21 Wisconsin in January of 2008?

22 A. Don't have any reason to dispute that as you
23 read those.

24 Q. Ten point five percent in Kentucky?

25 MS. SCHMID: Excuse me, objection. I think

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1 that this to some extent, although interesting, I
2 think that if we are going to go through every Rate of
3 Return ever awarded we could be here for a very long
4 time.

5 And I believe that Mr. Peterson's position
6 has already been stated and is clear.

7 COMMISSIONER BOYER: Well, I'm going to
8 overrule that. I don't think Mr. Monson is going to
9 carry this quite that far.

10 MR. MONSON: Thank you, your Honor.

11 COMMISSIONER BOYER: He's going somewhere
12 with it.

13 MR. MONSON: And I was just going to point
14 out two other ones.

15 Q. (By Mr. Monson) Ten point five percent in
16 Kentucky in August and October of 2007. Do you have
17 any reason to dispute those awards?

18 A. No.

19 Q. Do you believe it's balanced to call the
20 Commission's attention to one of the very few low
21 awards and not point out the high awards?

22 A. I think it's balanced in that it advocates
23 for the position that I already arrived at in my
24 analysis. To let the Commission know that there are
25 other jurisdictions that are considering awards below

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1 9 -- or below 10 percent.

2 In, in that regard I think it's important for
3 the Commission to know that the 9 1/4 percent or the
4 range -- or the upper half of my range is not wholly
5 outside what other jurisdictions have been awarding.
6 That was the point of the New Mexico reference.

7 That's the repor -- that's the point in my
8 surrebuttal of -- describing that the upper half of my
9 range is in -- is within the data that Mr. Hevert has
10 so graciously provided to us.

11 I, I just do not think that this data shows
12 that either my range or Dr. Woolridge's point number
13 are wholly unacceptable and outside of what other
14 jurisdictions have been awarding.

15 Q. So you viewed your responsibility, as the
16 representative of the public interest, to point out to
17 the Commission something that defended your, your
18 position?

19 A. Of course I want to defend my position.

20 Q. Okay.

21 A. I arrived at it independently of this data.
22 But I think it's important for the Commission to know
23 that this data is not weird or completely outside the
24 realm of what others have considered and done.

25 Q. So if it's the lowest recommendation, if it's

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1 lower than 79 of 80 other recommenda -- other awarded
2 ROEs, you don't think that's unusual?

3 A. Well, it's 79 of 80 in this particular list.
4 We've recently heard of other awards. Some 10
5 percent. But the upper range is -- you've said
6 yourself it has 15 percent of the awards. And the
7 point is that the range or the point estimate I
8 arrived at independently of these authorizations.

9 And it turns out that apparently there are at
10 least some commissions that are also willing to agree
11 that those are valid ranges and estimates. And I
12 think that was important for the Commission to note,
13 because I realized that there being an argument in the
14 other direction.

15 Q. Okay, we won't go any further on that. In
16 your testimony you mentioned that you worked for
17 12 years in the Property Tax Division of the Utah
18 State Tax Commission?

19 A. Yes.

20 Q. And you were the manager of the centrally
21 assessed utilities section; is that right?

22 A. Yes.

23 Q. And your job was to determine the fair market
24 value of property of public utilities for property tax
25 purposes?

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1 A. Among other properties, yes.

2 Q. Okay. And one method of determining the
3 value is the income capitalization method; is that
4 right?

5 A. Yes.

6 Q. And in that you use the weighted average cost
7 of capital; is that right?

8 A. Yes.

9 Q. And the weighted average cost of capital is
10 based in part -- it's the same thing we do here. It's
11 the cost of equity times the capital structure and the
12 cost of debt and so forth; is that right? Same thing
13 we're doing in this case?

14 A. Well, generally similar. There at the Tax
15 Commission the capital structure was all market-based
16 capital structure, as an example.

17 Q. So it was --

18 A. That's --

19 Q. I'm sorry, go ahead.

20 A. Go ahead. I'm done.

21 Q. Okay. So instead of being book value, as it
22 is in this Commission, it was market value for the
23 capital structure?

24 A. Yes.

25 Q. But the cost of equity you determine is the

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1 same cost of equity determined in this proceeding; is
2 that right?

3 A. Well, it was -- we're supposed to compute a
4 cost of equity in that -- in the Tax Commission, yes.

5 Q. Okay. And can we assume the Tax Commission,
6 in fulfilling its responsibilities, tries to set a
7 value for property that's neither too high nor too low
8 but is a fair representation of fair market value of
9 the property?

10 A. Well, the, the specific mandate of the Tax
11 Commission is to set the price -- set the value of the
12 property at the amount that a willing buyer and
13 willing seller would enter into a transaction to
14 purchase the property.

15 As part of the fair market value definition
16 you are going to ignore extremes, high or low. But it
17 should still be a fair market transaction in which
18 actual transactions could take place at that price.

19 Q. Okay. And the -- and in your work at the
20 Property Tax Division if you find an ROE that's low,
21 that results in a higher value; is that right?

22 A. Well, in general if an RO -- everything else
23 being equal, if you have a low ROE that would result
24 in a higher income approach value.

25 Q. Right. And so if, if one were to assume that

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1 the Property Tax Division were attempting to achieve
2 high valuations, it would come up with low costs of
3 equity; is that right?

4 A. What do you mean by "achieve high
5 valuations"?

6 Q. Higher than otherwise would be the case.

7 MS. SCHMID: I'll object to this line of
8 questioning. I think that it's clearly known that
9 Mr. Peterson was employed to support the Tax
10 Commission.

11 And it's also been stated in the testimony
12 that the Tax Commission has things like a Rule 62 and
13 other things that aren't directly equivalent to what
14 he's doing here, as an employee for the Division of
15 Public Utilities.

16 COMMISSIONER BOYER: What is the relevance,
17 Mr. Monson? Are you trying to assert that he's using
18 an approach similar to the tax -- that he might have
19 used at the Tax Commission in this case, which is a
20 different kind of animal?

21 MR. MONSON: No, I'm trying to show the
22 opposite. I'm trying to show that the Tax Commission,
23 when he was doing that work he did one thing, and when
24 he's here he's doing another thing.

25 COMMISSIONER BOYER: Let me ask -- well,

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1 okay. I'm gonna overrule it and let you ask a couple
2 more questions and see if you can tie it up.

3 MR. MONSON: Okay.

4 Q. (By Mr. Monson) Well, you mentioned Rule 62
5 in your testimony. You talked about it, right?

6 A. Yes.

7 Q. And in fact you cited an article in your
8 testimony -- that you wrote after you were employed by
9 the Division of Public Utilities -- that talks about
10 Rule 62; is that right?

11 A. Yes.

12 Q. And you compare and contrast in that article
13 the work of the Tax Commission in the application of
14 Rule 62 with the Commission -- the Public Service
15 Commission's setting of ROEs in its proceedings; is
16 that right?

17 A. Yes.

18 Q. So when you were the manager of the section
19 that engaged in this process were you the witness on
20 cost of capital and income capitalization before the
21 Tax Commission when that issue was in dispute?

22 A. Most of the time, yes.

23 Q. And as the manager of that section did you
24 have a lot to do with the analysis done by the section
25 with regard to what the cost of capital was? Cost of

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1 equity for those -- for the companies?

2 A. Yes.

3 MS. SCHMID: And again I'd like to renew my
4 objection.

5 COMMISSIONER BOYER: Okay. Overruled.

6 MR. MONSON: Thank you.

7 Q. (By Mr. Monson) Isn't it true that the
8 centrally-assessed taxpayers in Utah claimed in the
9 past the Property Tax Division was biased in it's
10 appraisals of their property, particularly in years
11 prior to 1999?

12 A. Well, the taxpayer organization certainly
13 did. But then that didn't surprise me.

14 Q. Wasn't that part of the impetus for the
15 enactment of Rule 62?

16 A. That was part of the impetus, yes.

17 Q. Do you have your article --

18 A. I don't have it with me, no.

19 Q. -- that you cited?

20 MR. MONSON: Can we pass out some cross
21 exhibits?

22 COMMISSIONER BOYER: You can and may.

23 MR. MONSON: Thank you. May we -- Mother may
24 I?

25 Q. (By Mr. Monson) Mr. Peterson, is the article

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1 that you've just been handed that's at the top of the
2 stack of documents you've just been handed, is that
3 the article we've been talking about?

4 A. It appears to be.

5 Q. And this was an article coauthored by you and
6 professor Robert Malko; is that right?

7 A. Yes.

8 Q. And in this article you discuss your work at
9 the Tax Commission and the Tax Commission's rule and
10 then you also discuss the Public Service Commission,
11 right?

12 A. Yes.

13 Q. And isn't it true that under Rule 62 that the
14 Tax Commission requires the use of the CAPM model?

15 A. Yes.

16 Q. And in fact in your testimony in this case
17 you've urged this Commission to use the CAPM model as
18 part of its analysis; is that right?

19 A. Yes.

20 Q. And you mention in this article that one of
21 the problems that this Commission had with the CAPM
22 method was that there was some question about the
23 statistical significance of beta; is that right?

24 A. That was raised or mentioned in the 2002
25 decision. And I'm not sure what, what exactly that

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1 referred to.

2 Q. Okay. But you've reviewed Mr. Hevert's
3 testimony in this proceeding, right?

4 A. Yes.

5 Q. And he addresses the issue of the statistical
6 significance of beta in that testimony. Do you
7 remember that?

8 A. I don't remember him using those terms
9 exactly. And I don't know that that had a
10 relationship to the 2002 rate case.

11 Q. So his testimony at lines 760 -- do you have
12 his testimony?

13 A. No, I don't.

14 MR. MONSON: May I approach the witness?

15 COMMISSIONER BOYER: You may.

16 Q. (By Mr. Monson) Let me refer you to page 31.

17 A. I have it.

18 Q. Look at line 7 -- the question on line 769
19 and then the answers following that question briefly.

20 A. On Page 7 -- oh, page 31?

21 Q. Right. Line 769?

22 MS. SCHMID: Did I mislead the witness and
23 provide him with a copy of the wrong thing?

24 MR. MONSON: I'm looking at the direct.

25 THE WITNESS: This is rebuttal testimony.

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1 MR. MONSON: Do you have the direct?

2 MS. SCHMID: Not easily accessible. It's
3 somewhere in the file.

4 MS. LARKIN BELL: May I approach?

5 COMMISSIONER BOYER: Go ahead, Ms. Bell.

6 Q. (By Mr. Monson) So can you see the reference
7 I was talking about, Mr. Peterson?

8 A. Yes.

9 Q. Okay. And I just want to ask you to -- I
10 assume you reviewed this?

11 A. I did.

12 Q. And do you agree with, with Mr. Hevert that
13 the, that the statistical issue has been demonstrated,
14 that that problem has been cleared up, with beta?

15 A. I'm not sure that it has been with this.

16 Q. So is it your position then the Commission
17 shouldn't use the CAPM?

18 A. No. I'm just -- we're arguing about what was
19 the statistical problem in 2002. And I don't know
20 what that was.

21 Q. Oh, okay. You don't know if this was the
22 specific statistical issue; is that what you are
23 saying?

24 A. No. And my recollection is that this -- and
25 I'd have to review it. But I think the -- well, I'd

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1 have to review it. Mr. Hevert, as I recall, was
2 comparing the -- whether the betas between the proxy
3 groups were statistically significant.

4 Q. Okay.

5 A. I don't think this resolves it. The question
6 about -- from the 2002 case.

7 Q. Okay, that's fine. Can you turn to page --
8 the pages aren't numbered in this article, the copy we
9 have, I apologize for that. But it would be page --
10 if you count the cover then it's one, two, three,
11 four, five, six, seven, eight.

12 I think I've highlighted it. Can you find
13 the page that's talking about Rule 62, and it's
14 highlighted?

15 A. Yes.

16 Q. Okay. The methods that this addresses are
17 CAPM, risk premium, and dividend growth. Is dividend
18 growth the same as the DCF?

19 A. Yes.

20 Q. Okay. And this talks about use of the CAPM,
21 then it goes into some specifics about the CAPM. It
22 says:

23 "The risk free rate shall be the
24 current market rate on 20-Year Treasury
25 bonds."

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1 A. Yes.

2 Q. That's the rate you used in this case, right?

3 A. Yes.

4 Q. "The beta should reflect an average
5 or value-weighted average of comparable
6 companies and should be drawn
7 consistently from Value Line or an
8 equivalent source."

9 Is that the beta you used?

10 A. I used Value Line and equivalent sources.

11 Q. Okay. And is Value Line beta an adjusted
12 beta?

13 A. The Value Line beta is.

14 Q. Okay. So did you understand when you were on
15 the Tax Commission staff, the Property Tax Division,
16 that you were supposed to use an adjusted beta?

17 A. No, that wasn't specifically the --
18 mentioned.

19 Q. Okay. Did you use an adjusted beta?

20 A. Typically, yes.

21 Q. Thank you. Then the next one says:

22 "The risk premium shall be the
23 arithmetic average" -- let's stop there
24 for a minute.

25 One of your points of debate with Mr. Hevert

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1 is whether you should use the arithmetic average or
2 the arithmetic -- I'm sorry, I don't know how to say
3 that word -- or the geometric mean; is that right?

4 A. Yes.

5 Q. And this rule requires you to use the
6 arithmetic average, right?

7 A. Yes.

8 Q. Okay. And that -- and you used the
9 geometric, Mr. Hevert used the arithmetic, right?

10 A. I -- in one of my CAPM models I used the
11 geometric. But only in one.

12 Q. You used geometric only in one, or arithmetic
13 in only one?

14 A. No, I only had one geometric model. The
15 others are arithmetic.

16 Q. Okay. And it also says that you should use
17 the data for the entire historical period in the
18 Ibbotson Yearbook; is that right?

19 A. Yes.

20 Q. So that's the whole -- in this case that
21 would be the whole 82-year period; is that right?

22 A. Yes. Whatever it is since 1926.

23 Q. Right. Do you think that the fact
24 that -- well, first of all, when the Tax Commission
25 adopted Rule 62 did they go through a process where

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1 people got to provide input on Rule 62?

2 A. Yes, they did.

3 Q. And did you provide input?

4 A. Yes, we did.

5 Q. So the Tax Commission heard from you on what
6 your position was on these issues; is that right?

7 A. Well, I don't know if they heard from us.
8 They accepted our findings.

9 Q. Okay.

10 A. The -- being a participant in those hearings,
11 it came right after the famous Will Tell decision,
12 where the Commission had decided to go a completely
13 different direction.

14 And it was then that they instituted the
15 Rule 62, with the direction that the Division was to
16 cooperate in arriving at a rule with industry and that
17 we were no longer to oppose industry positions. Those
18 were our directions.

19 So to say that they had input from us is a
20 little bit of a misleading statement, in my view.

21 Q. Okay. I didn't -- I don't know the process.
22 So, so you didn't advocate, when they were adopting
23 Rule 62, that they not use the entire historical
24 period then? Or did you?

25 A. We have advocated that before. But again,

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1 this was being driven by industry decisions that they
2 wanted in the rule.

3 Q. Okay. And the fact that the Tax Commission
4 accepted those positions, would that indicate that in
5 their judgment they thought those were the better
6 positions in terms of properly fulfilling their
7 responsibility to value the property?

8 MS. SCHMID: Objection. This witness cannot
9 know what the Tax Commission --

10 COMMISSIONER BOYER: Sustained.

11 MR. MONSON: Okay.

12 COMMISSIONER BOYER: You don't have to answer
13 that one, Mr. Peterson.

14 THE WITNESS: Huh?

15 COMMISSIONER BOYER: You don't have to answer
16 that question.

17 THE WITNESS: Thank you, sir.

18 MR. MONSON: I think he wanted to answer it.
19 But nonetheless.

20 Q. (By Mr. Monson) Okay. So while you were
21 with the Property Tax Division you participated each
22 year in a capitalization study, right? Capitalization
23 rate study?

24 A. Yes.

25 COMMISSIONER BOYER: Excuse me Mr. Monson, so

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1 you are working on another document now?

2 MR. MONSON: I am.

3 COMMISSIONER BOYER: This would be a natural
4 break, wouldn't it?

5 MR. MONSON: Sure.

6 COMMISSIONER BOYER: So we're gonna take an
7 hour and-a-half lunch. And we'll resume with
8 Mr. Monson's cross examination at around 1:30.

9 (A luncheon recess was taken
10 From 12:04 to 1:32 p.m.)

11 COMMISSIONER BOYER: Okay, so I had a chance
12 over the lunch hour to use my rudimentary math skills,
13 and if we have handled 2 1/4 witnesses in 4 hours it's
14 not likely that we're gonna do 6 3/4 in the next 3
15 hours -- 3 1/2 hours.

16 So as we finish with the cross examination of
17 Mr. Peterson would you be thinking about how we
18 accommodate our out-of-town witnesses? I'm thinking
19 that perhaps we should hear Dr. Woolridge. And is
20 it -- who else is from out of town, Mr. Reed?

21 MS. LARKIN BELL: Mr. Reed is from out of
22 town, but he has made special arrangements to be here
23 all of today and through at least noon tomorrow.

24 COMMISSIONER BOYER: Tomorrow may not help
25 us. And then Mr. Ball has a scheduling issue if we

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1 were to reschedule. Our next available date is next
2 February, because we have all these cases pending.
3 I'm exaggerating here for emphasis.

4 We do have the time set aside for the Revenue
5 Requirement hearing. So I suppose if we have to, we
6 could do that. But be thinking about that, if you
7 would, as we hear more from Mr. Peterson. And we'll
8 go from there. Mr. Monson you are on.

9 Q. (By Mr. Monson) Mr. Peterson, before we move
10 to the next exhibit just real quickly --

11 MR. MONSON: First of all, I guess we should
12 have marked this as QGC Cross 1. Are we on Cross 1?
13 QGC Cross 1. This is the article.

14 Q. (By Mr. Monson) And could you just flip to
15 the page in back of the -- page with the Rule 62
16 highlighting on it? And you see I highlighted another
17 paragraph there. And rather than having you take time
18 to read it, would you just acknowledge that there you
19 are setting forth some of the benefits of the CAPM
20 model?

21 A. Yes.

22 Q. Okay. Okay, that's QGC Cross 1. Let's go to
23 QGC Cross 2, which is the 2000 Capitalization Rate
24 Study -- excerpts from it. Does this look familiar to
25 you, Mr. Peterson?

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1 MS. SCHMID: Objection. I believe that,
2 while Mr. Monson may claim that he's attempting to
3 show bias, it is not a productive use of the
4 resources. And that clearly it's -- different arenas
5 put different emphasis on things.

6 For example, it's very likely that Questar
7 Gas would argue for a lower property rate before -- or
8 lower property value before the Tax Commission and a
9 higher rate base rate in front of the Public Service
10 Commission. So I'm, I'm frustrated by this.

11 COMMISSIONER BOYER: I guess I'm not
12 frustrated, but I'm waiting for the punch line as we
13 go through this testimony. I understand you're
14 talking about credibility and reliability and that
15 sort of thing.

16 MS. SCHMID: We have already stated that
17 Mr. Peterson worked for the Tax Commission. We've
18 gone through his article at length. I, I question the
19 relevance of this.

20 COMMISSIONER BOYER: Well, I think it does go
21 to credibility and the reliability of his testimony.
22 So we'll overrule. Go a little, a little further.
23 But I'm guessing that your end game is that you would
24 like him to admit that his number is low, or get him
25 to admit that it could be adjusted upward or something

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1 at some point in time?

2 MR. MONSON: I think, I think that it will be
3 actually pretty short. I'm just gonna go through two
4 or three questions on each of these different pages
5 and establish what his cost of equity finding was at
6 the Tax Commission.

7 COMMISSIONER BOYER: Okay. We're gonna let
8 you do that. But we're more interested in what he's
9 done and the work that he's done in this particular
10 case.

11 MR. MONSON: I understand.

12 Q. (By Mr. Monson) So the question was, are you
13 familiar with this?

14 A. It looks like it's a familiar format anyway.

15 Q. Okay. And if I represent to you this was --
16 these are excerpts from the 2000 Capitalization Rate
17 Study by the Property Tax Division would that seem
18 correct?

19 A. Yes.

20 Q. Okay. And I've got two pages here. The
21 first page is a summary of the equity yield rate.
22 Which is the cost of equity capital, right?

23 A. Yes.

24 Q. And the Property Tax Division in this
25 particular year for natural gas utilities said it was

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1 10.49; is that right?

2 A. Yes.

3 Q. And if you flip to the second page, that was
4 based on a DCF analysis of 11.71, CAPM of 10.13, and
5 the risk premium of 11.94?

6 A. Yes.

7 Q. And is that same risk premium model that you
8 used in your testimony in this case?

9 A. At least an early version of it.

10 Q. Okay. So it evolved over time a little bit?

11 A. A little bit.

12 Q. Okay.

13 A. Essentially, yes.

14 Q. Okay. And you are aware that the Commission
15 had -- that Questar Gas had a rate case before this
16 Commission in 2000; is that right?

17 A. 2000 or 2002?

18 Q. 2000.

19 A. I'm not familiar with that one.

20 Q. Okay. I can show you the order if you want,
21 but maybe to try to speed it up. So you don't know
22 what the Commission ordered for ROE in that year?

23 A. No.

24 Q. Okay. Would you accept, subject to check,
25 that it was 11 percent?

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1 A. Well, I'll accept your representation.

2 Q. Okay. And then the next rate case was the
3 one in 2002, right?

4 A. Yes.

5 Q. Okay. Now I, I didn't have a complete set
6 for 2002. But the rate case was filed, let's see. It
7 was filed in May of 2002. And hearings were held in
8 October 2002. Do you remember that from the order?
9 You said you reviewed the order?

10 A. I will accept your representations.

11 Q. Thank you. And the capitalization study in
12 2002 was released in April of 2002, right? Based on
13 this page, Exhibit -- what's now marked as QGC
14 Cross 3; is that right?

15 A. From the Tax Commission?

16 Q. Yeah. From the Property Tax Division.

17 A. Well, they're usually done before the first
18 of March.

19 Q. Okay.

20 MS. SCHMID: If I may, I think that
21 Mr. Peterson would have no direct knowledge of this
22 document as he was not employed by the Tax Commission
23 in 2008. And perhaps it could be a representation
24 thereof, but I don't think it's appropriate to ask
25 Mr. Peterson to authenticate it.

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1 MR. MONSON: Okay. We're on 2002 here, so.

2 MS. SCHMID: Oh. Sorry.

3 Q. (By Mr. Monson) You were still with the Tax
4 Division in 2002?

5 A. Yes.

6 MS. SCHMID: My apologies.

7 Q. (By Mr. Monson) And the document is just a
8 one-page document. It has the date on it 11 April
9 '02. Is that the date it was produced, or do you
10 know?

11 A. Well, probably the date it, the date it was
12 printed. This would be -- okay.

13 Q. Okay. Anyway, in the spring of 2002?

14 A. Right.

15 Q. Okay. And the, and the yield capitalization
16 rate found by the Property Tax Division that year was
17 10.63, right?

18 A. Yes.

19 Q. Okay. And then because the 2002 rate case
20 started in May and went on and the order was issued in
21 December, I thought maybe it would be helpful to look
22 at the 2003 capitalization rate study because that's
23 based on data at the end of 2002, right?

24 MS. SCHMID: Excuse me. Can Counsel provide
25 the witness's counsel with a copy of these documents?

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1 I'm not finding them in the packet that I was handed.

2 MR. MONSON: Sure.

3 MS. SCHMID: I go from 2000, a two-page study
4 in 2000 to 2008. And I apologize for the delay, but
5 I'd like to see the documents.

6 MS. LARKIN BELL: It was this one.

7 MS. SCHMID: Yeah, I've got, I've got that
8 one but it doesn't have -- for whatever reason it
9 doesn't have the middle stuff.

10 MR. MONSON: That's 2002. 2003, okay.

11 MS. SCHMID: Thank you. Thank you.

12 Q. (By Mr. Monson) Okay. So do you have the
13 document that I marked as QGC Cross 4, which is 2003
14 Capitalization Rate Study excerpts?

15 A. I think I do, yes.

16 Q. Okay. And that's got a date on it of
17 March 4, 2003?

18 A. Yes.

19 Q. Okay. And what does that show for the ROE or
20 the cost of equity capital for natural gas utilities?

21 A. Ten point zero one percent.

22 Q. Okay. And there's -- just real quickly. The
23 number below that looks like it's been pasted over.
24 Do you recall that that was actually the way this
25 study came out, with the number pasted over for

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1 pipelines? Do you remember? Maybe you don't
2 remember.

3 A. I don't recall.

4 Q. Okay. And the second page of that one shows
5 a DCF of 9.97, a CAPM of 9.67, and a risk premium of
6 11.02; is that right?

7 A. That's what it shows.

8 Q. Okay. And what did the Commission order in
9 the 2002 rate case? This Commission?

10 A. Eleven point two percent, I believe.

11 Q. Okay. So based on these two examples where
12 Questar Gas had a rate case at the Commission during
13 the same time frame that the Property Tax Division was
14 doing -- setting cost of equity or determining cost of
15 equity, the Property Tax Division was about 50 to 60
16 basis points lower than what the Commission found
17 reasonable, the Public Service Commission found
18 reasonable; is that right?

19 A. Apparently so.

20 Q. Okay.

21 MS. SCHMID: Objection. Wouldn't we need to
22 clarify the test year that was used for the rate case,
23 and get that on the record and compare it to the test
24 year or the time period for the actual months that
25 were involved in this, to have it be relevant and

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1 probative?

2 COMMISSIONER BOYER: Well Ms. Schmid, I don't
3 know the answer to that. Are we --

4 MS. SCHMID: Well, objection.

5 COMMISSIONER BOYER: Let's ask Mr. Peterson
6 if we're talking about apples and oranges here.

7 THE WITNESS: Well, to interpret what I
8 believe Mr. Monson's point is, is that between the
9 issuance of a cost of capital study by the Property
10 Tax Division in 2002 and the issuance of a subsequent
11 cost of capital study in 2003, the Public Service
12 Commission issued its order on Questar Gas in their
13 2002 docket.

14 And he's noting for some reason that there is
15 a difference between the numbers. That's what I
16 gather.

17 MR. MONSON: Your Honor, can I ask him
18 another question to kind of clarify that a little bit?

19 COMMISSIONER BOYER: Well, let's -- go ahead.

20 Q. (By Mr. Monson) In the capitalization
21 studies the information, as I understand it, the
22 analysis is done on year-end data; is that right? For
23 the prior year?

24 A. Yes.

25 Q. So the 2002 study is done on 2001 data?

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1 A. Well, December -- as close to the
2 December 31st date as we could.

3 Q. Right. And so the 2003 study is done on
4 December 2002 data?

5 A. Yes.

6 Q. And in this case, for example, your analysis
7 was done based on data as of March 14th or something
8 like that; is that right, of 2008?

9 A. That's when -- that was my cutoff time
10 period, yes.

11 Q. Okay. So can you look now at the next
12 document, which is Capitalization Rate Study for
13 January 1, 2008? That's QGC Cross 5. And that would
14 have been done based on data as of the end of 2007,
15 right?

16 A. Yes.

17 Q. Okay. And what, what cost of equity did the
18 Property Tax Division find for this study?

19 A. For natural gas utilities?

20 Q. For natural gas utilities.

21 A. It appears 11.08 percent.

22 Q. And if you look at the next page, that's
23 based on a DCF analysis of 8.23; is that right?

24 A. Well, that's been calculated there, yes.

25 Q. And a capital asset pricing model of 11.05?

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1 A. Yes.

2 Q. And a risk premium model of 11.17?

3 A. That's what it shows.

4 Q. Okay. And is this risk premium model similar
5 to the one -- do you know if it's the same as the one
6 you used in this case?

7 A. I think they've simplified it since I was
8 there.

9 Q. Okay, all right.

10 A. It would take me half a day to do mine,
11 and --

12 COMMISSIONER BOYER: Mr. Peterson, I don't
13 think we need to go there. If Mr. Peterson wasn't
14 working there at the time I don't think he has any
15 personal knowledge of what they used or didn't use.

16 MR. MONSON: I just wondered if he could -- I
17 wondered if he knew. That's what I was asking.

18 THE WITNESS: Okay.

19 Q. (By Mr. Monson) Okay. Now, in your
20 surrebuttal testimony you cite professor Roger Morin;
21 is that right?

22 A. Yes.

23 Q. And you cite his book, New Regulatory
24 Finance?

25 A. I'm familiar with it.

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1 Q. And again, I'm gonna try to speed this up.
2 You've got a copy of some excerpts from the book. And
3 if you want, I'll give you the book. Would you
4 rather --

5 A. No, that's fine.

6 Q. Okay. I just want to run through some
7 elements on the -- that Dr. Morin addresses that are
8 addressed in your testimony. First of all on raw beta
9 versus adjusted beta. Would you agree that Dr. Morin
10 says you should use adjusted beta?

11 A. I would agree that he says that you should
12 use adjusted beta. But he does not specifically say
13 you should use an adjusted beta that regresses toward
14 1.0.

15 Q. I guess we have to read it. Can you read for
16 me the first sentence highlighted -- the sentence
17 highlighted on page 72?

18 A. "The regression tendency of betas
19 to converge to 1.0 over time is very
20 well known and widely discussed in
21 financial literature."

22 Q. And can you read the sentence --

23 A. May I explain that statement?

24 Q. Sure.

25 A. This tendency is based upon analyses of a

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1 very broad market group. It is not specific to any
2 particular industry, for example electric or gas
3 utilities. So that's the first caution. That's my
4 first comment. So that's -- you can proceed to your
5 next quote.

6 Q. Okay. This book by Dr. Morin is talking
7 about determining cost of capital for public
8 utilities, isn't he?

9 A. Well, he is, but there -- the studies he's
10 referring to deal with broad market analyses.

11 Q. Okay. So then what's his conclusion about
12 use of adjusted or unadjusted beta? On page 73,
13 right?

14 A. Yes. He says because of this observed
15 regression tendency, a company's raw unadjusted beta
16 is not appropriate measure of the company market risk
17 to use. If you look above there he says, in the
18 paragraph above:

19 "The tendency of true betas not only
20 to vary over time but to move back
21 toward average levels is not
22 surprising."

23 And in the paragraph above that he cites
24 Gombola and Kahl 1990, which is a study I cited in my
25 direct testimony. Which was specific to utility

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1 companies. Which showed a tendency to regress towards
2 a mean of about .5.

3 So in -- on page 73 here, if you read it
4 carefully, all he's saying is that you should make
5 some adjustment to betas. And not necessarily the
6 adjustment that's used by Value Line.

7 Q. Okay. And if I continue on -- since you
8 brought it up. On page 74 he criticizes the Gombola
9 study and says it was done before certain things
10 occurred; is that right? I mean, I don't -- I'm
11 trying to speed this up again.

12 A. Well, he says that, but many of the studies
13 that he sites for beta going to 1 were done before a
14 number of things. In fact, Gombola was in response to
15 the previous study. So he -- we can point fingers all
16 day to different studies.

17 Q. Okay. Could you turn to page 114, the next
18 highlighted quote?

19 MS. SCHMID: And sorry to be so active, but I
20 object. I think that the document speaks for itself.
21 Unless the witness feels that it's necessary to
22 explain any of the highlighted material.

23 COMMISSIONER BOYER: So is that just a
24 statement of fact?

25 MS. SCHMID: Sorry, that was an objection.

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1 COMMISSIONER BOYER: Well, we'll let him
2 continue as he's going. Thank you.

3 MS. SCHMID: Okay.

4 Q. (By Mr. Monson) Dr. Peterson, one of the
5 other areas of disagreement between you and Mr. Hevert
6 is whether you should use -- let's see. Whether you
7 should use the 82-year history or some shorter
8 history; is that right? Of the Ibbotson or the
9 Morningstar data?

10 A. Yes.

11 Q. And what does Dr. Morin say about that, on
12 the top of page 114?

13 A. "The historical risk premium approach
14 assumes that the average realized return
15 is an appropriate surrogate for expected
16 return, or, in other words, that
17 investor expectations are realized.

18 "However, realized returns can be
19 substantially different from prospective
20 returns anticipated by investors,
21 especially when measured over short time
22 periods.

23 "Therefore, an historical risk
24 premium study should consider the
25 longest possible period for which data

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1 are available."

2 Q. Thank you. Another area of dispute between
3 you and Mr. Hevert is whether you should use the
4 arithmetic -- arithmetic or geometric average; is that
5 right?

6 A. Yes. Well, not exactly. I think that both
7 of them should be used and considered.

8 Q. Okay. What does Dr. Morin say about that
9 dispute? It's on page 116, over continuing on to
10 page 117.

11 A. Do you want me to read it or come to him
12 conclusion?

13 Q. You can read it or you can summarize it if
14 you know it.

15 A. Well, basically Dr. Morin is an advocate of
16 what I styled in my direct testimony as the Ibbotson
17 method. So he comes down in favor of arithmetic
18 averages. And I cited in my direct testimony other
19 authorities that would disagree with that. So we can
20 engage in battling authorities if you would like.

21 Q. Okay. And Dr. Morin says there's no dispute
22 in academic circles as to whether the arith --
23 arithmetic or geometric average should be used.

24 A. That's absolutely false.

25 Q. Okay. You don't agree?

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1 A. I disagree with that completely. I can
2 cite -- and I did cite -- references to academic
3 authorities that disagree with that.

4 Q. Okay. All right. Okay, if you did the, if
5 you did the CAPM analysis following the
6 recommendations of Dr. Morin -- well, did you do it
7 that way?

8 A. I, I, to the extent that I've correctly
9 characterized Dr. Morin's CAPM as being basically what
10 I've styled the Ibbotson method of CAPM, then I have
11 followed that.

12 Q. And what result did you get?

13 A. I think in this case -- if you'll give me a
14 minute. Using 20-year bonds as the risk free rate I
15 came up with 10.4 percent.

16 Q. Okay. And, but then you didn't -- but then
17 you said in your testimony that you didn't include
18 that in your reasonable range; is that right?

19 A. It's not in the reasonable range, although it
20 was averaged with the other CAPM data.

21 Q. Okay. Let's see. Can you look now at the
22 next exhibit, which I've marked as QGC Cross 7?

23 A. Okay. What does it look like?

24 Q. It's the one that's colored.

25 A. Okay. I don't have the markings on it, so.

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1 Q. Oh, okay. Yeah, actually I don't think I
2 highlighted anything on it. But it's, it's a document
3 called Utilities -- "Utility ROEs: An Overview, April
4 2008." And it's published by CitiGroup, right?

5 A. That's what it appears.

6 Q. Do you have that? Can you turn to page 8 of
7 that document, please?

8 A. Okay.

9 Q. And do you see on that document that they're
10 presenting the spread between ROE-gas spread to
11 30-year treasury in basis points. On the bottom
12 right -- in the column at the right-hand side of the
13 bottom table. Do you see that?

14 A. Yes.

15 Q. And what does it show for 2007?

16 A. For which column?

17 Q. For the -- that column. The ROE-gas spread
18 to 30-year treasury bond -- to 30 year treasury.

19 A. ROE?

20 Q. The top row.

21 A. Oh, the top row.

22 Q. Yeah.

23 A. All right, are we looking at the spreads --

24 Q. Right. The top row of the spreads table.

25 A. All right. So I got to find the gas spread.

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1 Okay. ROE-gas spread to Moody's "A" utility index, is
2 that the one you would like?

3 Q. No, to 30-year treasury. The last one.
4 Farthest one on the right.

5 A. Oh, the 30 -- okay. The far -- I got it. It
6 shows 578 basis points.

7 Q. Okay. And one of the issues in this case is
8 what's the risk premium, right?

9 A. Well, that would be one of the issues.

10 Q. And that's one of the serious differences
11 between you and Mr. Hevert in your analysis, right?

12 A. Well, it depends -- risk premium as applied
13 to the capital asset pricing model.

14 Q. Right. And if you took 578 and divided it by
15 the beta. And I'll represent to you the beta in your
16 exhibit, at least the Value Line beta, is about .85.
17 Does that sound right?

18 A. Yes.

19 Q. So if you divide 578 by .85, that would give
20 you the risk premium; is that correct?

21 A. No.

22 Q. It wouldn't? Okay. You don't agree with
23 that. Now could you turn to page 5 of this exhibit?
24 You filed testimony pretty much contemporaneously with
25 the testimony in this case in the Rocky Mountain Power

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1 case, right?

2 A. Yes.

3 Q. And in that case you are recommending an ROE
4 of 10.1 percent; is that right?

5 A. Yes.

6 Q. And in this case you are recommending
7 9.25 percent?

8 A. Yes.

9 Q. Okay. Looking at the electric and gas yields
10 that are shown on this table, ROEs -- which would be
11 the top two lines; is that right?

12 A. Apparently, yes.

13 Q. Would you agree with me that the -- that
14 there's not a 85 basis point spread between the gas
15 and the electric ROEs?

16 A. Well, I would agree that the lines as drawn
17 here are together pretty much.

18 Q. And in fact there's hard -- there's -- it
19 looks like the gas is slightly lower, but not --

20 A. Not meaningfully.

21 Q. Not significantly? Okay.

22 A. And I'd also note that the trend is clearly
23 downward toward 10 percent.

24 Q. Well, where is the trend in 2008, based on
25 this exhibit? Where does it, where does it show?

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1 A. Well, if you go back here exhibit on page 8
2 at the top. It shows 2007 allowed ROEs at 10.25, down
3 20 basis points from 2006.

4 Q. Okay.

5 A. So, and clearly there's a downward trend
6 towards 10 percent --

7 Q. And go back to --

8 A. -- on ROEs.

9 Q. I'm sorry, were you through?

10 A. Yes, I'm through.

11 Q. Okay. Go back to page 5. So for 2008 where
12 are they showing? What are they showing, roughly?

13 A. Well, they're showing close to 10 percent.

14 Q. Well, isn't it more like 10.25, or --
15 roughly? I mean, it's --

16 A. Maybe 10.2 or 25.

17 Q. It's not up to 10.5 but it's more than 10
18 certainly, right?

19 A. No, it's about 10. I'll agree with that.

20 Q. Would you agree it's approximately 100 basis
21 points above your recommendation?

22 A. Oh, approximately.

23 Q. Okay. All right. Another area of dispute
24 between you and Mr. Hevert is on the growth rate
25 that's used in the DCF analysis; is that right?

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1 A. Yes.

2 Q. Okay. Could you turn back to Dr. Morin's
3 quotes. Do you have that?

4 A. Just a minute, I think I have shuffled it
5 somewhere.

6 Q. I'm having a hard time finding it too. Have
7 you got it? In fact in your --

8 A. I think I do, yeah.

9 Q. I'm sorry. In fact, in your surrebuttal
10 testimony you cited Dr. Morin as a source for using
11 historical growth rates, right?

12 A. Yes.

13 Q. Okay. What conditions did he say need to be
14 in effect if you're gonna use historical growth rates?

15 A. Well, one of the conditions is that you would
16 like to have some stability. And that you wouldn't be
17 at a -- some kind of -- this isn't his term, but sort
18 of an inflection point. Where growth rates are either
19 going to dramatically increase or decrease. That
20 there is no expectation of that.

21 Q. So, so he says that it's, it's good to use
22 historical growth rates or it's okay to use them if
23 the, if the industry and the book values and so forth
24 are stable, right?

25 A. I think that at least is a reasonable

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1 characterization.

2 Q. Okay. Could you turn to the quote on
3 page 297 and read that one, the one I've highlighted?

4 A. "The major point of all this is that
5 it is perilous to apply historical
6 growth when a utility is in a transition
7 between growth paths. When payout
8 ratios, equity return, and
9 market-to-book ratios are changing,
10 reliance on historical growth is
11 hazardous."

12 Q. Do you agree that the, the payout ratios for
13 gas companies are changing right now?

14 A. Well, for their holding companies they
15 possibly could be. I haven't studied that
16 specifically though.

17 Q. Okay. Okay. And with regard to the trend of
18 return on equity, is that stable or is it going down
19 as you said?

20 A. The trend of return on equity? I think --
21 well, the authorized returns that the Company wants to
22 bring up, they're clearly trending down towards the
23 low 10 percent range for both gas and electric. And,
24 and these are averages, too. I mean, this doesn't --
25 that reflects an average. It isn't the full range.

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1 Q. Okay. The next two exhibits deal with the
2 New Mexico case. Quest -- QGC Cross 9 is a document
3 that has a title on it "Power & Utilities." And then
4 on the become right-hand corner it says "Lehman
5 Brothers." Do you have that?

6 A. Yes.

7 Q. Could you turn to page 2 on that? In your
8 testimony you said that the Commission could assume
9 that investors weren't really expecting returns above
10 10 percent; is that right? Not, not just for this
11 company but for -- in the natural gas business right
12 now?

13 A. Well, let's be careful about when you are
14 saying what investors are expecting and what returns
15 they're expecting. Are you expect -- are you saying
16 returns that a stock investor expects to get himself
17 for an investment, or?

18 Q. Right.

19 A. Okay.

20 Q. The returns that a holder of common equity is
21 expecting in -- from a natural gas utility, okay? And
22 in your testimony you said, Don't be worried that I'm
23 recommending 9.25, because investors aren't -- and I
24 think you were criticizing Mr. Hevert.

25 You were saying his, his statements about

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1 witness -- about investors requiring returns above
2 10 percent, you were challenging that. And you were
3 saying, Don't be worried about that, they're not
4 expecting returns above 10 percent; is that correct?

5 A. Well, I don't think that's an exact quote.
6 But I'll accept it, for the moment, to answer your
7 question.

8 Q. Okay. In the interest of time?

9 A. In the interest of time, I'll say that's
10 correct.

11 Q. All right. What, what does this report by
12 Lehman Brothers indicate that, that, with regard to
13 Public Service of New Mexico, that investors were
14 expecting before the decision in the case?

15 A. I don't see anything that says where
16 investors are expecting anything.

17 Q. Okay. Do you have the page that's page 61?

18 A. Yes.

19 Q. And do you see -- well, okay. I see what
20 you're, what you're challenging. What was Lehman
21 Brothers expecting as a result in that case?

22 A. Well, to help speed this up, Lehman Brothers
23 had been expecting a 10 1/2 percent outcome from the
24 rate case. Which they didn't get.

25 Q. Right. They got 9.53; is that right?

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1 A. That sounds correct.

2 Q. Now, what was the reaction to that in the
3 market?

4 A. Well, I, I know the stock had already
5 collapsed prior to -- in the early 2008. And that was
6 due to problems that they were having with one of
7 their generation plants. So I don't think you can
8 distinguish clearly what the reaction was from the
9 other problems the Company was having.

10 Q. Can you look --

11 A. PNM Resources have had very low actual
12 returns on equity over a number of years. Speaking of
13 the parent Company. And they're not even coming close
14 to the 9 1/2 percent. So continued low profitability
15 of the actual operations I think are more significant
16 to investors, outside stock investors than the rate
17 case, per se.

18 Q. Can you look at the last document I gave you,
19 which is also a report from --

20 COMMISSIONER BOYER: Mr. Monson, before you
21 go on. You've been referring to this as QGC Cross
22 Exhibit 9. Shouldn't it be 8?

23 MR. MONSON: Maybe. If I miscounted, it
24 should be.

25 COMMISSIONER BOYER: Eight is the next one in

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1 sequence.

2 MR. MONSON: Okay, then that's 8. The one we
3 just talked about is 8. So the next one would be 9.

4 Q. (By Mr. Monson) This one is a little thicker
5 do you have that one?

6 A. Okay, which?

7 Q. The one that's dated October 23, 2007.

8 A. Yes, I have it.

9 Q. Okay. And could you turn to the second page
10 of that?

11 A. I have it.

12 Q. And in, in the quote that's highlighted -- in
13 the portion of this report that's highlighted at the
14 bottom of the page isn't it correct that Lehman
15 Brothers is saying that they are discounting the value
16 of the Company by 5 percent due to rate case risk?

17 A. Well, give me a chance to read it.

18 Q. Okay.

19 (Pause.)

20 THE WITNESS: Well, it's kind of curious.
21 They're actually raising the target price of the
22 stock. But they do refer to a 5 percent discount that
23 they're applying somehow which they claim is due to
24 rate case risk, so.

25 Q. (By Mr. Monson) And this was at -- this was

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1 issued after the decision, right? That came out in
2 New Mexico?

3 A. Yeah, some months after, I think.

4 Q. Right. And I want to ask you just one more
5 thing about this. The other thing I quote -- I
6 highlighted at the top of the page, it says:

7 "This recommendation highlights New
8 Mexico's higher cost of capital
9 regulatory environment."

10 Now, the New Mexico Commission ordered a
11 9.53 ROE, right?

12 A. Yes.

13 Q. Do you understand why Lehman Brothers would
14 call that a "higher cost of capital regulatory
15 environment"?

16 A. Well, without further --

17 MS. SCHMID: Again --

18 COMMISSIONER BOYER: Mr. Monson, you are
19 asking him to speculate.

20 MS. SCHMID: Yes.

21 COMMISSIONER BOYER: You can answer if you
22 know, Mr. Peterson.

23 THE WITNESS: Well, that's what I was about
24 to say. Without knowing more information I would only
25 be guessing or speculating, so.

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1 Q. (By Mr. Monson) Mr. Peterson, are you aware
2 that, by lowering the ROE for Public Service of New
3 Mexico to 9.53, that it is possible that the
4 Commission actually increased their cost of capital?

5 A. It would be theoretically possible, yes.

6 Q. Because if their cost of debt went up a lot
7 that would do it, wouldn't it?

8 MS. SCHMID: Again, he's asking
9 Mr. Peterson -- I object, he's asking Mr. Peterson to
10 speculate. Not all relative facts -- not all relative
11 facts are in evidence.

12 COMMISSIONER BOYER: Well, if you know,
13 Mr. Peterson.

14 THE WITNESS: Well, as -- again, as a general
15 proposition it would be -- you could construct capital
16 structure and debt rates such that it would raise the
17 overall cost of, of capital. That's a theoretical
18 possibility.

19 Q. (By Mr. Monson) Well, and let me -- are you,
20 are you aware, from the research you've done and from
21 reviewing exhibits in this case, which states have
22 awarded higher ROEs and which ones have awarded lower
23 ROEs, in general?

24 A. Well, I've noticed that Wisconsin seems to be
25 among the higher ones. But I really haven't done a

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1 study of that, so.

2 Q. And was California also one of the higher
3 ones?

4 A. It could be.

5 Q. And in fact isn't California still awarding
6 11-plus ROEs to their natural gas and electric
7 utilities?

8 A. Well, I won't dispute that. I don't know.

9 Q. Okay. And in this column of -- they've got
10 Tier 1, lowest cost of capital. And they've listed
11 just a few states there. In the second column both
12 California and Wisconsin are in that column, aren't
13 they?

14 A. Yes.

15 Q. And yet in the highest cost of capital
16 column, Tier 5, they've listed New Mexico; is that
17 right?

18 A. Yes.

19 MR. MONSON: Give me just one moment,
20 Mr. Chairman.

21 (Pause.)

22 MR. MONSON: I'm done.

23 Thank you, Mr. Peterson.

24 COMMISSIONER BOYER: Mr. Monson, do you wish
25 to move the admission of Cross Exhibits 1 through 8?

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1 MR. MONSON: I would. One through nine.

2 COMMISSIONER BOYER: Nine.

3 MR. MONSON: Yeah, I would, please.

4 COMMISSIONER BOYER: Are there objections to
5 the admission of QGC Cross Exhibits 1 through 9?

6 MR. PROCTOR: The Committee would object to
7 the admission of QGC 8. In particular because
8 page 61, as referred to by Mr. Monson, doesn't include
9 the balance of the paragraph that would follow on
10 page 62, and the information that would be contained
11 thereafter.

12 At the very least if you're going to enter an
13 exhibit it ought to be at least be the whole paragraph
14 so you can read the whole thing.

15 MR. MONSON: I'd be happy to supplement it,
16 your Honor.

17 COMMISSIONER BOYER: Okay. With the --

18 MR. PROCTOR: Well, if we can -- he can
19 supplement that page and then let me take a look at it
20 at an appropriate time, and then we can deal with it
21 later. Because who knows what it says. That's the
22 problem.

23 COMMISSIONER BOYER: Do you have the ability
24 to make a copy of this today, or would you have to
25 supplement it anyway?

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1 MR. MONSON: I think we can do it today. I
2 don't think I have it with me, although I might.
3 Actually I've got a -- let me look. I don't have the
4 complete document here with me, but we can get it.

5 MR. PROCTOR: I would appreciate that, thank
6 you.

7 COMMISSIONER BOYER: Okay. Well, we'll --
8 then QGC Cross Exhibits 1 through 7 and 9 are admitted
9 into evidence. And on QGC Cross 8 we'll wait until we
10 see the full text of that before admitting it into
11 evidence.

12 Okay. Mr. Proctor, your turn to cross
13 examination -- to cross examine Mr. Peterson.

14 MR. PROCTOR: The Committee has no questions.

15 COMMISSIONER BOYER: Thank you.

16 Mr. Dodge, have you questions for
17 Mr. Peterson?

18 MR. DODGE: No questions, thank you.

19 COMMISSIONER BOYER: Mr. Ball?

20 MR. BALL: Nothing, thank you sir.

21 COMMISSIONER BOYER: Commissioner Allen?

22 COMMISSIONER ALLEN: No questions.

23 COMMISSIONER BOYER: Commissioner Campbell?
24 Commissioner Boyer? No. Okay.

25 Mr. Peterson, thank you so much --

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1 MS. SCHMID: Pardon me, I have --

2 COMMISSIONER BOYER: Oh, you want some
3 redirect? I'm sorry.

4 MS. SCHMID: I have limited redirect
5 examination, I apologize.

6 COMMISSIONER BOYER: I had my momentum going
7 there. I apologize, Ms. Schmid.

8 REDIRECT EXAMINATION

9 BY MS. SCHMID:

10 Q. Mr. Peterson, running back to Mr. Hevert's
11 exhibits, for example Exhibit 2. Do you know whether
12 that exhibit contains only comparable companies, or
13 companies that were used as a proxy in this case by
14 you? Or Doctor -- or Mr. -- Dr. Hevert?

15 A. Could you remind me what the Exhibit 2 is
16 again, please?

17 Q. I -- you have my copy. I believe that it is
18 the bar chart. If --

19 A. Oh, the bar chart? Yes. It's -- it contains
20 more than just proxy companies.

21 Q. Okay. When you did your -- chose your proxy
22 companies did most of them include some sort of rate
23 stabilization mechanism?

24 A. That's my understanding. Rate stabilization
25 broadly -- being broadly defined to include things

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1 like weather normalization and things like that. All
2 the way to a pretty full -- well, pretty complete rate
3 stabilization. I can't think of the term offhand.

4 Q. It's been a long day. Coming back to
5 Hevert's Exhibit 2. Can you identify if there are
6 companies without a rate stable mechanism in that
7 exhibit? From the exhibit itself?

8 A. No.

9 Q. Okay. You were asked questions about your
10 use of Value Line, and criticized for value -- using
11 Value Line betas by Mr. Monson. Do you recall if
12 Dr. Hevert also used Value Line?

13 MR. MONSON: Can I -- I guess I want to
14 object, only because I don't think I criticized him
15 for using Value Line. I thought I was doing the
16 opposite, but.

17 MS. SCHMID: If you were not criticizing I'll
18 certainly withdraw the question.

19 Q. (By Ms. Schmid) You went through a lengthy
20 cross examination considering your prior employment
21 with the Utah Tax Commission. Rather than go through
22 that and -- in detail, would you -- do you have any
23 general comments that you would like to make briefly
24 on the difference between the Tax Commission and what
25 you do for the Division, and how it rates -- relates

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1 to return on equity?

2 A. Well, through both Rule 62, Commission
3 decisions, and informal communications between the
4 Division and the Tax Commissioners, the Property Tax
5 Division is pretty limited in what it can do in terms
6 of determining -- or in terms of being flexible to
7 determine a cost of equity.

8 Some of the differences I noticed is that in
9 some of the exhibits the cost of -- capital asset
10 pricing model was either much higher or much -- or
11 noticeably lower than the DCF model. And in recent
12 years the practice at the Property Tax Division has
13 been to exclude, just blanket exclude the lowest of
14 the three indicators.

15 Q. Also, in the documents that Mr. Monson
16 provided, there -- for example in the 2008
17 Capitalization Rate Study there's a column entitled:
18 "Percent Debt & Pref.," and then a --

19 A. That would be preferred stock.

20 Q. Preferred stock? And then a column entitled:
21 "Percent Common Equity," and it has figures in there.
22 For natural gas utilities the figures are 30 percent
23 debt and preferred stock, and 70 percent common
24 equity.

25 Do you know if that is the same debt/equity

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1 ratio that Questar filed in this case?

2 A. Well, it's not. As I explained to Mr. Monson
3 early on, one of the differences between the Tax
4 Commission and Public Service Commission is that those
5 capital structures are estimated to be market capital
6 structures.

7 So it's the market value of the debt, the
8 market value of the equity. So they're -- they
9 wouldn't be comparable.

10 Q. Do the 30 percent debt and the 70 percent
11 common equity influence the 11.08 percent equity yield
12 rate in the 2008 exhibit provided by Mr. Monson?

13 A. No. The capital structure doesn't relate to
14 the calculation of the cost of equity.

15 Q. Okay. Just a couple more. You were asked
16 about electric companies and electric rate of returns.
17 Do you know if, in the charts provided by Mr. Monson,
18 if those utilities had things such as a PCAM or a pass
19 through, or is the information insufficient?

20 A. There's no information on that.

21 Q. And finally, Mr. Monson also asked you
22 questions about Utah Code 54-4A-6, which pertains to
23 the obligations of the Division of Public Utilities.
24 Did you have an opportunity to review that section
25 during the break?

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1 A. Yes.

2 Q. Did you see the word "balance" anywhere in
3 that section?

4 A. I didn't see that particular word, no.

5 Q. Do you believe that your analysis was
6 consistent with these objectives?

7 A. I believe so, yes.

8 MS. SCHMID: That's all I have, thank you.

9 COMMISSIONER BOYER: Thank you Ms. Schmid.
10 Thank you Mr. Peterson, you may step down.

11 Have you had a chance to consider my, my
12 query about accommodating out-of-state witnesses,
13 Counsel?

14 MS. SCHMID: We would have no -- Dr. Powell
15 certainly could be shuffled down in the order if we
16 have an out-of-town witness who needs go today.

17 COMMISSIONER BOYER: Okay. Well, let's
18 shuffle the deck a little bit here. Let's hear from
19 Dr. Woolridge, and then Mr. Reed, and Mr. Ball. See
20 if that -- how far that takes us this afternoon. And
21 then we'll resume with the local witnesses if we have
22 time.

23 Dr. Woolridge, did I swear you this morning?
24 I believe I did, didn't I?

25 THE WITNESS: Yes, you did.

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1 COMMISSIONER BOYER: So you're still sworn.

2 THE WITNESS: Yes, you did.

3 COMMISSIONER BOYER: Thank you. All right,
4 Mr. Proctor?

5 MR. PROCTOR: Thank you, Mr. Chairman.

6 J. RANDALL WOOLRIDGE,

7 called as a witness,

8 having previously been duly sworn,

9 was examined and testified as follows:

10 FURTHER DIRECT EXAMINATION

11 BY MR. PROCTOR:

12 Q. Dr. Woolridge, you've been sworn. Your
13 testimony has been entered into evidence. I only have
14 one question. You are our professor at Penn State
15 University; is that correct?

16 A. Yes.

17 Q. And do you occupy an endowed chair at the
18 university?

19 A. Yes.

20 Q. Which chair is that?

21 A. Goldman, Sachs.

22 Q. Thank you, sir. Do you have a summary of the
23 testimony you provided earlier?

24 A. Yes.

25 Q. Could you provide that please to the

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1 Commission at this time?

2 A. Yes, I will. And I'll keep this brief. Five
3 issues I want to address. Obviously a theme of my
4 testimony is the capital costs or historic loads.
5 Interest rates and -- and this is for three reasons:
6 First of all --

7 COMMISSIONER BOYER: Dr. Woolridge, would you
8 make sure that your microphone is on?

9 THE WITNESS: Okay, I'm sorry.

10 COMMISSIONER BOYER: Thank you.

11 THE WITNESS: -- interest rates are low,
12 declining equity risk premiums, and change in taxes.
13 I, I highlight this in my testimony. Just focussing
14 on interest rates for a minute.

15 The 10-year treasury yield, which is --
16 probably has the longest history in terms of being
17 covered by the Treasury, it has been in the 4 to 5
18 percent range now for three to four years. The last
19 time it was that low you have to go back to like 1964.

20 Now to put that date in perspective, I don't
21 know if you remember the night that the Beatles were
22 on the Ed Sullivan Show?

23 COMMISSIONER BOYER: Actually, I do --

24 THE WITNESS: You do, all right. Okay.

25 COMMISSIONER BOYER: I might even have been

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1 grown at that time.

2 THE WITNESS: Just to give you a perspective
3 how long ago that was, okay? Point No. 1. Point
4 No. 2, the DCF model. The DCF in terms of dividend
5 yield plus growth is about 9 to 9 1/2 percent. The
6 key issue in this case is obviously the projected
7 growth rate on the DCF model.

8 Now -- and specifically how much weight you
9 give the analysts' earning per share growth rate
10 forecasts. Now, I provided a study. I've done a
11 study on this. The results don't surprise people who
12 work on Wall Street.

13 I show that long-term earnings forecasts,
14 growth rate forecasts, have an upward bias. An
15 optimistic bias to it. And I've covered this over the
16 last 20 years. This data is science. It involves
17 about a half million data points.

18 It's been covered in the Wall Street Journal,
19 CNBC, Bloomberg, that sort of thing. It's a
20 well-known bias that's known. Anecdotal evidence
21 doesn't refute science. And so the fact is, when you
22 look at these forecasts, you have to recognize this.

23 And in fact if you go back and look at the
24 last Commission's decision with respect to Questar,
25 they made -- in that decision they make the point that

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1 the over -- overly-optimistic earnings forecast lead
2 to excessive DCS equity cost rates. So this
3 Commission recognized this in the last decision.

4 Issue No. 3, which is really the primary
5 issue in this case, is the equity risk premium.
6 Mr. Hevert has used a equity risk premium of
7 7.1 percent. Now, that 7.1 percent is what we know,
8 the Ibbotson approach, stock returns between 1926 and
9 19 -- 2006.

10 And in my testimony I deal with all of the
11 issues about why historic returns are poor measures of
12 expected returns. I talk about survivorship bias,
13 taxes, transactions, costs, the changes in risk and
14 return, and that sort of thing. So I talk about that
15 a lot.

16 Two things I want to comment about, because
17 this issue has come up. You know, 2000 -- I mean 1926
18 to 2006 is an arbitrary time period. There are other
19 studies, for example Joel Siegel has taken this data
20 back to 1802. And he finds that there is a lower
21 equity risk premium if you go back further.

22 So it is an arbitrary time period. And also,
23 this equity risk premium of 7.1 percent is measured
24 with a huge amount of error. The standard deviation
25 on this number is about 20 percent. So what that says

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1 is that we can measure this -- we think -- we have a
2 95 percent confidence that that actual equity risk
3 premium is between 47.1 percent and minus
4 39.9 percent.

5 So this -- there's a lot of variability, in
6 terms of the measurement, once you consider the
7 standard deviation of that equity risk premium. Now,
8 one other element about what I see in terms of
9 disparity in terms of how Mr. Hevert deals with the
10 date and I deal with it.

11 Now, when it comes to the DCF growth rate,
12 Mr. Hevert throws out all the historic data and relies
13 strictly on projections. On the other hand, when it
14 comes to computing the historic with the equity risk
15 premium, Mr. Hevert says, All we can rely on is the
16 historic data. And he throws out all the projections.

17 Now, I consider both. But, you know, it's
18 like you can't pick and choose your data. You like
19 the historic or you don't. In some cases you use it,
20 in some cases you don't. Now, one issue. My equity
21 risk premium is 4.51 percent. It's a combination of
22 30 studies. It includes six studies of historical
23 risk premiums.

24 Now, the Ibbotson study is not the only study
25 of historic risk premiums. Number 2, it includes 19

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1 studies done by some of the best academics around:
2 Fama-French, John Campbell, Peter Diamond, that sort
3 of thing.

4 These are people who studied this and used
5 standing models to measure the equity risk premium. I
6 included all the studies over the last decade where
7 they estimated equity risk premium.

8 And No. 3, it dealt with surveys. So we --
9 there were surveys done. CFO surveys include almost
10 500 CFOs. They provide their opinion about what the
11 expected stock and bond return is over the next ten
12 years.

13 So as it turns out, I've used all different
14 approaches, 30 studies, and I find that the equity
15 risk premium is more in the 4 to 5 percent range as
16 opposed to the 7 percent range. In fact, if you look
17 at all these studies and surveys, firstly none of them
18 come up with an equity risk premium as high as
19 7.1 percent.

20 And I think it's important to recognize these
21 are people who do these studies who they know what the
22 Ibbotson results are. Anyone who's had a finance
23 class knows what the Ibbotson results are. But none
24 of them come up with an equity risk premium as high as
25 7.1 percent.

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1 I think it's especially true when you look at
2 the CFOs, who do this stuff every day. Or McKenzie,
3 the biggest and best-known consulting firm around,
4 they publish a study and say their equity risk premium
5 is 3.75 percent. Now, if I use strictly their equity
6 risk premium, I can come up with a number somewhat
7 below 9 percent, I might add.

8 I think maybe because of this ambiguity of
9 the equity risk premium, if you go back and read the
10 decision from the last case you'll see that the
11 Commission made the statement in that case, We cannot
12 rely on the capital asset pricing model. And the
13 issue is not the risk free rate, it's not beta, it's
14 the equity risk premium.

15 Issue No. 4 -- and it's related to it -- are
16 the authorized returns of these -- of different
17 regulatory commissions. First of all, authorized
18 returns, many come through settlement. Many of them
19 involve agreements or other things that are involved.
20 So the ROE may, may imply other factors.

21 Now, I mentioned in my testimony one thing I
22 believe is regulatory commissions have been rather
23 slow to recognize this decline in the equity risk
24 premium. Which has been highlighted in over, you
25 know, hundreds of studies or commentaries over the

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1 last decade.

2 But that's not surprising. If you look at
3 the capital asset pricing model, which was developed
4 in 1964, it didn't start showing up in rate cases for
5 25 years. As it turns out, it tends to take a while
6 for some of these academic developments to really make
7 it into rate cases.

8 Issue -- a related issue is a lot of the
9 decisions we've been talking about relate to decisions
10 which have been made over the last year, but it
11 reflects data, old data from early in 2007 and before.
12 Interest rates have declined.

13 I saw a reference to a decision in Texas
14 where Atmos got 9.25 percent recently. Well, that's
15 gonna reflect more up-to-date data. So the numbers
16 are starting to reflect the more up-to-date data.

17 And finally, the fact that allowed returns
18 for gas companies have been in the 10, 10 1/2 percent
19 range in 2007 to some degree reflects the fact that,
20 look, the market-to-book ratios are 2.0. That tells
21 you one thing: Those authorized returns are above the
22 returns that investors require. Which is the cost of
23 equity capital. And I think it's because regulatory
24 commissions have been slow to recognize this.

25 Last issue and I'm done is the CET. I

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1 provide a range of 8.6 to 9 percent. I picked
2 9 percent, recognize -- without adoption of the CET.
3 Or at least without recognizing the risk for the CET.
4 I cite cases where regulatory commissions have
5 recognized this and built a factor into it,
6 recognizing it reduces the risk of, of the business of
7 the gas company.

8 Now, Mr. Curtis earlier today said that the
9 vast majority -- and I think he said 90 percent or
10 so -- of the revenues of the Company will be affected
11 by the CET. Now, Mr. Hevert has done a couple studies
12 looking at these companies. But if you look at these
13 companies, first of all these companies only get about
14 70 percent of their revenues from regulated gas.

15 And he also has done a study that shows that
16 they only get about 50 percent -- only about 50
17 percent of their volumes are covered by the -- by
18 their regular -- their CET-type mechanisms. So what
19 we're saying is roughly a third, 35 percent, of their
20 revenues are affected by CET-type mechanisms.

21 And as a result, why you don't see a big
22 impact is it's not -- not all their revenues are
23 covered. Plus a lot of their revenues aren't tied to
24 regulated gas operations.

25 Q. (By Mr. Proctor) Does that conclude your

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1 summary, sir?

2 A. Yes.

3 MR. PROCTOR: Dr. Woolridge is available for
4 cross examination.

5 COMMISSIONER BOYER: Good. Thank you
6 Dr. Woolridge. Let's turn to the Company for cross
7 examination. Mr. Monson again?

8 MR. MONSON: Thank you.

9 CROSS EXAMINATION

10 BY MR. MONSON:

11 Q. Dr. Woolridge, do you have the exhibits that
12 were handed out as part of the summary of Mr. Hevert's
13 testimony this morning?

14 A. No.

15 Q. And that were not admitted?

16 A. No. I have, I have them over at the table.

17 Q. Okay. I want to just ask you about one of
18 them.

19 MR. PROCTOR: What --

20 MR. MONSON: Maybe we should pass all this
21 stuff out. Should we go ahead?

22 (Pause.)

23 COMMISSIONER BOYER: Counsel, could you give
24 the reporter a copy of that exhibit as well?

25 MR. MONSON: Are you ready?

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1 THE WITNESS: Yes.

2 Q. (By Mr. Monson) Okay one of the issues in
3 the areas of dispute between you and Mr. Hevert is
4 whether analyst forecasts of earnings growth are
5 upwardly biased, right?

6 A. Yes.

7 Q. And it's your position that they are?

8 A. Yes.

9 Q. And that was -- and this is based on
10 information about the Stock Market generally; is that
11 right?

12 A. No. It's based on academic studies done,
13 myself and others.

14 Q. Okay, but those academic studies are about
15 the Stock Market generally. They're not about the
16 proxy group of companies in this case?

17 A. They're about all companies who trade in the
18 market, yes.

19 Q. Thank you. We've provided you a copy of a
20 document that was earlier marked QGC Summary 3.2, I
21 believe. Do you have that?

22 A. Yes.

23 Q. This is an analysis of the proxy group
24 companies in this case and whether their analysts'
25 projections are upward or lower -- are upwardly biased

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1 or whether they're too low. Do you recognize that?

2 A. No. Yeah, I recognize it. I saw it this
3 morning, yes.

4 Q. Okay. Would you agree with the conclusions
5 of this that, with regard to the proxy group of
6 companies, that in some cases they're too high, in
7 some cases they're too low, but on average they're too
8 low?

9 A. No.

10 MR. PROCTOR: Objection. This, again, this
11 is a summary of another party's testimony. Another
12 witness's testimony. Which has been not admitted.
13 Rejected by this commission.

14 And now to seek to bring that same summary of
15 Mr. Hevert in by calling it a cross exhibit -- which I
16 suspect they will attempt to do -- or by asking this
17 witness about it, when he has not seen it before.

18 One of the reasons that it was rejected was
19 because it hadn't been a subject to any examination by
20 any of the parties here prior to that, outside of this
21 Commission's scheduling order with respect to when
22 testimony and exhibits were to be filed.

23 So this line of questioning is not
24 appropriate and ought not to be allowed.

25 COMMISSIONER BOYER: Well, I'm going to

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1 overrule the objection. I think Mr. Monson can ask
2 Dr. Woolridge if, if he has knowledge of it, whether
3 or not he would agree with the trends indicated on
4 that, that exhibit. Which is not an exhibit.

5 MR. MONSON: Not yet.

6 COMMISSIONER BOYER: Not yet.

7 THE WITNESS: Could you repeat your question?

8 COMMISSIONER BOYER: Why don't you ask the
9 question again?

10 MR. MONSON: Okay.

11 COMMISSIONER BOYER: I think you -- I'll let
12 you ask it.

13 MR. MONSON: All right, thank you.

14 Q. (By Mr. Monson) The question was, does this
15 exhibit indicate, with regard to the proxy group
16 companies in this case, that, at least in recent
17 years, that the analysts have sometimes overestimated,
18 sometimes they've underestimated, but on average have
19 underestimated the earnings growth of these companies?

20 A. No.

21 Q. Okay. Let me -- in your testimony, in your
22 surrebuttal testimony you said that it's generally
23 recognized in the market that there is an upward bias.
24 I think you said that in your summary today as well,
25 right?

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1 A. Yes.

2 Q. In support of that statement in your
3 testimony you cite an article from The Wall Street
4 Journal; is that right?

5 A. Yes.

6 Q. And this article is attached to your
7 surrebuttal testimony as an exhibit; is that right?

8 A. Yes.

9 Q. And the study the article refers to is your
10 study; is that right?

11 A. Yes.

12 Q. So you're citing your own study in support of
13 your view that the market generally recognizes bias?

14 A. It's -- my study is, at this point, probably
15 the most recent and the most prominent. I mean, you
16 know, when I get calls from CNBC and Bloomberg to
17 appear to talk about it, it's because it's the news of
18 the day. It's, you know, it's a scientific study.
19 It's not anecdotal evidence.

20 Q. Thank you. You have a website -- that I
21 think you mentioned in your testimony -- called
22 ValuePro.net; is that right?

23 A. Yes.

24 Q. One of the issues in this case is whether we
25 should rely on analysts' estimate of future growth; is

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1 that right?

2 A. Yes.

3 Q. I've handed you some pages from your website.
4 And I've excerpt -- I haven't given the whole website,
5 I've just taken some pages. But would you look at the
6 first page. This -- is that part of your website?

7 A. Yes.

8 Q. And it looks like, if you look at the third
9 paragraph -- or the second paragraph, you are
10 answering the question: Why should I buy a program
11 when the online valuation service is for free? And
12 you're saying there it's 44.95, and we think it's a
13 bargain; is that right?

14 A. We don't sell much of it.

15 Q. Okay. I was gonna ask you that, but you
16 volunteered.

17 A. We tried to sell it to AOL. Just -- they
18 didn't, they didn't buy it.

19 Q. So Google and AOL, those people haven't
20 picked it up?

21 A. I -- no. I was really hoping. This was back
22 in the days of the Internet boom. I thought they were
23 gonna go for it.

24 Q. Okay. Now, you see the, you see the
25 paragraph -- or the sentences I've highlighted -- I

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1 guess it's two sentences -- in the sixth paragraph on
2 that page? Could you read those, please?

3 A. Yes.

4 "The two inputs that have the
5 greatest effect on intrinsic value are
6 the growth rate of the company's sales
7 and cash flows, and the company's net
8 operating profit margin (NOPM.) For
9 growth rates, we use analyst
10 expectations."

11 Q. Okay. Now could you turn about three
12 pages -- it's really on the fourth page of this
13 handout, but it starts renumbering page 1 of 2. Is
14 this also a page from your website?

15 A. Yes.

16 Q. And could you read the paragraph I've got
17 highlighted at the bottom of that page?

18 A. Yes. It says:

19 "The Growth Rate is the most
20 important influence on valuation for
21 most stocks. In our DCF approach in our
22 general screen, the growth rate impacts
23 revenues and earnings in the same
24 magnitude.

25 "As a proxy for growth, we use

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1 analyst estimates for EPS growth over
2 the intermediate term - 5 to 10 years,
3 if it's available."

4 THE COURT REPORTER: Sir, I can't understand
5 when you read that fast.

6 THE WITNESS: I was just testing you. Sorry.
7 I'll start again.

8 "The Growth Rate is the most
9 important influence on valuation for
10 most stocks. In our DCF approach in
11 general -- our general screen, the
12 growth rate impacts revenues and
13 earnings in the same magnitude.

14 "As a proxy for growth, we use
15 analyst estimates for EPS growth over
16 the intermediate term - 5 to 10 years,
17 if it's available. If analyst estimates
18 are not available, we use historical
19 growth data.

20 "If historical info is not
21 available, our Service defaults to an
22 assumed 5 percent per year growth rate."

23 Q. (By Mr. Monson) Thank you.

24 MR. MONSON: And we'd like that marked as QGC
25 Cross 10; is that the right number?

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1 COMMISSIONER BOYER: That is the right
2 number.

3 THE WITNESS: Can I -- one comment I'd like
4 to make is I know you didn't --

5 MR. MONSON: Your Honor, he can do this on
6 redirect if he wants. But I didn't ask him a
7 question. I just asked him to read those statements.

8 COMMISSIONER BOYER: Well, he did --

9 MR. PROCTOR: If I may respond?

10 COMMISSIONER BOYER: Go ahead, Mr. Proctor.

11 MR. PROCTOR: I've made similar objections to
12 Mr. Monson's. And I think every time the Commission
13 has correctly noted that in this type of
14 administrative quasi-judicial proceeding the witnesses
15 are allowed to explore and further elaborate upon a
16 question such as that which Mr. Monson had put to this
17 witness.

18 COMMISSIONER BOYER: Yeah, I'd like to hear
19 what Dr. Woolridge -- I mean, you're talking about his
20 website and had him read from his website. Let him
21 clarify if he needs to give some context for it.

22 THE WITNESS: Well, the only point I want to
23 make is that he -- Counsel noted that he didn't copy
24 my entire website. If he had, he would have found a
25 section where we highlight the fact there's a bias in

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1 analyst growth rate forecasts.

2 But this is not the entire website, so you
3 didn't copy that section.

4 Q. (By Mr. Monson) But you still use analyst
5 growth rate forecasts if they're available?

6 A. We do that, with the caveat that we tell our
7 users that there's studies available, such as mine,
8 that indicate analyst growth rate forecasts are
9 biased.

10 Q. And if they're not available, then you use
11 historical?

12 A. Yes.

13 Q. Okay, thank you. Now could you -- well,
14 first of all. In your Appendix A to your direct
15 testimony you've listed a large number of cases in
16 which you've testified; is that right?

17 A. Yes.

18 Q. And I didn't count them all. There was 51 in
19 Pennsylvania; does that sound right? I did count
20 Pennsylvania, but.

21 A. There may be. I didn't count them either.

22 Q. Okay. But there's a lot of cases, is my
23 point, right?

24 A. Yes.

25 Q. It looks like you started testifying in

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1 Pennsylvania in about 1981; is that right?

2 A. I was ten years old. No, I'm sorry. That
3 was a joke.

4 Q. I understand. But does that sound about
5 right when you started offering expert testimony --

6 A. Yes.

7 Q. -- expert witness testimony on ROE?

8 I decided I couldn't go back that far, nor
9 would the cases readily be available. But I tried to
10 go back for the period 1999 to 2007 and pick out cases
11 where you made an ROE recommendation and where the
12 Commission ordered an ROE. And I was able to find 20
13 cases.

14 Are these cases -- do they all appear to be
15 cases that were on your Appendix A, as far as you can
16 see?

17 A. They, they look like cases that were in my
18 Appendix A, yes.

19 Q. Okay. And, and does the ROE proposed appear
20 to be the ROE proposed in those cases by you?

21 A. I don't remember.

22 Q. Okay. And do you know if the ROE order is
23 the ROE ordered by the Commission in those cases?

24 A. I mean, I remember a couple. Most recently,
25 obviously, the ones in California. Which of course

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1 were primarily electric cases. You have them cited as
2 gas cases. But if you were involved in the cases you
3 knew they weren't, they weren't -- there wasn't very
4 much of gas.

5 But also, they were tied to some benchmarks
6 which the Commission had offered -- for example, PG&E.
7 And due to a settlement order, they can't -- they're
8 allowed return has to be 11.31 percent until they
9 achieve an A bond rating.

10 That's because of their bankruptcy and the
11 settlement between the Commission and PG -- PG&E. So
12 their rates are high because they're all tied to what
13 PG&E has as part of a settlement from several years
14 ago.

15 So, I mean -- I do remember that one,
16 obviously, very, very well. Now, there's other cases
17 I don't see that are in here that I'm familiar with.
18 Well.

19 Q. These were the only ones we could find where
20 there was both -- and I'm sorry. These are natural
21 gas and electric cases. We eliminated the water
22 cases. There was -- you testify in a lot of water
23 cases too, don't you?

24 A. Some water cases, yes.

25 Q. Okay. I mean, in, in Pennsylvania, of those

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1 51 cases, nearly half of them are water cases. Is
2 that -- does that seem about right?

3 A. That could be right.

4 Q. Okay.

5 A. I haven't counted them all.

6 Q. Okay. But anyway, these are -- I represent
7 to you these are electric and gas cases from 1999 to
8 2007 in which we could find both a proposed ROE by you
9 and an ROE ordered by the Commission.

10 Would you accept, subject to check -- and
11 obviously you can check this and you can add
12 additional cases if you can provide them -- that this
13 is an accurate representation of the -- your proposal
14 and the ROE ordered in these cases?

15 A. Okay, I'll agree with that subject to check,
16 yes.

17 Q. Okay. And one of these cases, No. 16, is a
18 Missouri case, Kansas City Power & Light. Do you
19 remember that case?

20 A. Very well.

21 Q. I've handed you an excerpt from the order in
22 that case. That would be QGC Cross 11.

23 A. Yes.

24 Q. Could you turn to what's the second page of
25 this handout?

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1 COMMISSIONER BOYER: Mr. Monson, are you
2 going use your comparison of ROE as No. 11?

3 MR. MONSON: Is that 11?

4 COMMISSIONER BOYER: That should be 11.

5 MR. MONSON: Okay, I'm sorry. That's 11, so
6 this is 12.

7 COMMISSIONER BOYER: So, and the excerpt from
8 the Missouri case would be --

9 MR. MONSON: Twelve.

10 COMMISSIONER BOYER: -- 12.

11 MR. MONSON: Thank you, Chairman Boyer.

12 Q. (By Mr. Monson) Could you turn to what's
13 page 21 of that order and read the statement -- well,
14 first of all, did you testify for the DOE in that
15 case?

16 A. Yes.

17 Q. Could you read the sentence that I've
18 highlighted on the bottom of page 21 and top of
19 page 22?

20 A. Yes. The highlighted page says:

21 "Because the return on equity
22 recommended by DOE falls outside of the
23 'zone of reasonableness,' the Commission
24 will discard it and find that it merits
25 no further discussion."

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1 Q. So --

2 A. Now --

3 Q. Well, let me -- go ahead.

4 A. Well, I mean, it was -- that was the big
5 issue, because shortly thereafter there was a case
6 involving Union Electric in Missouri as well. And
7 what they realized was that the zone of reasonableness
8 had been a fuzzy number in Kansas City Power & Light.

9 And in fact we presented to the Commission
10 evidence -- which you could find out if you looked at
11 the order -- that indicated that that KCP -- Kansas
12 City Power & Light decision, ROE 11.25 percent, was
13 the highest allowed return in the country for the
14 previous two years for electric or gas Company.

15 And their commission was, I would say
16 embarrassed, to know that they were granting the
17 highest authorized returns in the country. And so
18 subsequently in the Union Electric Company that zone
19 of reasonableness and everything came much further
20 down.

21 And I think they recognized the mistake they
22 made in the Kansas City Power & Light. But they were
23 ranked No. 1. The best ROEs in the country at the
24 time.

25 Q. Well, let me call your attention to the case

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1 on page -- on line 9, or source 9, Florida Power &
2 Light. That was within two years of that decision,
3 wasn't it?

4 A. Well, if you look at any cases in Florida,
5 Florida is a state -- well, Florida, California,
6 Wisconsin, their authorized returns are much higher
7 than they are in other states. I mean, the document
8 that was presented earlier from CitiGroup.

9 I mean, Florida's Commission always grants
10 high authorized returns on equity. I mean, anybody
11 who's in this business knows that.

12 Q. I noticed, by the way, that your proposed
13 returns in California were somewhat higher than they
14 were in the other states, probably by a factor of 100
15 to 125 basis points. Except for the -- well, roughly.
16 I mean, the San Diego one was a little less than that.

17 But did you reach a higher result in that
18 case because you knew that commission was going to
19 award a higher result?

20 A. No.

21 Q. In any event -- well, you brought up the
22 Union Electric Company case. Isn't it true that in
23 the order in that case -- I didn't make a copy of
24 this -- but isn't it true that in the order in that
25 case that the Commission noted your testimony and your

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1 recommendation of 9 percent, but then in discussing
2 the factors involved in its ROE determination did not
3 mention your testimony once?

4 A. I don't remember.

5 Q. Would you accept that subject to check?

6 A. I'll accept it subject to check. If you were
7 there at the hearings you would have known how the
8 Commission reacted to the testimony that was
9 presented.

10 Q. And so on -- in summary, on QGC Cross 11. In
11 the cases that are listed on this exhibit, your
12 recommendations have been lower than the Commission's
13 award by 1.48 percent; is that correct?

14 A. That, that's the averages over the time frame
15 you looked at, yes. I mean, and they change, you
16 know. Most recent ones in Connecticut Light & Power,
17 I was 9.1, the Commission was 9.4. Florida Power,
18 Power Utilities I was 9.15, they were 11. But again.
19 And again, it varies by state.

20 I mean, if you work in different states you
21 understand commissions do different things when it
22 comes to return on equity and how they balance that
23 with other elements of the rate case. Florida, and
24 California, and Wisconsin are always going to be high.

25 Q. There's several other states listed on this

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1 exhibit, aren't there?

2 A. Yes.

3 MR. MONSON: Thank you, that's all I have.
4 Oh, I want to offer QGC Cross 10, 11, and 12.

5 COMMISSIONER BOYER: Any objections to the
6 admission of QGC Cross Exhibits 10, 11, and 12?

7 MR. PROCTOR: No.

8 COMMISSIONER BOYER: Seeing none, they are
9 admitted into evidence.

10 Let's see. Ms. Schmid, have you cross
11 examination of Dr. Woolridge?

12 MS. SCHMID: No questions.

13 COMMISSIONER BOYER: Mr. Dodge, have you
14 questions for Mr. Woolridge -- Dr. Woolridge?

15 MR. DODGE: Very briefly.

16 CROSS EXAMINATION

17 BY MR. DODGE:

18 Q. Dr. Woolridge, you mentioned in your summary
19 and in your testimony the commissions that had adopted
20 a specific ROE deduct or decoupling-type mechanism.
21 To your knowledge did those commissions do so only
22 based upon quantitatively-demonstrated impacts either
23 on stock prices or variance from ROE of other
24 companies, or was it based on some other factor?

25 A. As best I can tell, it was related strictly

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1 to a subject of -- not an, not a -- there was not a
2 numerical or quantitative knowledge.

3 Q. It was basically a decision based on that
4 utility and reduction in risk expected?

5 A. It was simply -- and in some ways the way
6 that the order is read it was a recognition of the
7 reduction of the risk.

8 Mr. Dodge: Thank you. No further questions.

9 COMMISSIONER BOYER: Thank you, Mr. Dodge.

10 Mr. Ball, have you questions for
11 Dr. Woolridge?

12 MR. BALL: No, thank you.

13 COMMISSIONER BOYER: Thank you.

14 Commissioner Allen? Commissioner Campbell?
15 Nor do I. Thank you very much -- let's see now. Is
16 there redirect, Mr. Proctor?

17 MR. PROCTOR: Yes, just a couple of
18 questions.

19 REDIRECT EXAMINATION

20 BY MR. PROCTOR:

21 Q. Dr. Woolridge, I want to draw your attention
22 now to the PG&E case that is cited on Exhibit -- Cross
23 Exhibit 11 from Questar. Did you vary at all your
24 analysis because of this commission-imposed ROE based
25 upon their -- the Company achieving a particular bond

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1 rating?

2 A. It -- no, no. They -- it was tie -- I mean
3 it was based on -- in this case I used a fairly large
4 group of companies. And it was based on a risk study
5 I did comparing PG&E in San Diego and Southern
6 California Edison to the riskiness of the group.

7 Q. So the -- your analysis and the results of
8 that analysis were based upon objective -- an
9 objective study, objective surveys, and so forth,
10 without regard to a particular result that was desired
11 by either your client or anybody else's?

12 A. No. And this was done last summer. Interest
13 rates were 50 to 75 basis points higher than they are
14 today.

15 Q. You mentioned also that if one had been at
16 the Commission hearings in the Union matter you would
17 have some additional understanding about that
18 Commission's response and the ROEs there as
19 determined.

20 What, what was the Commission's reaction to
21 the testimony in that case?

22 A. Well, the issue dealt with this: The
23 Commission in Missouri at the time had thought they
24 had a firm understanding of what authorized returns
25 were. And they drew a zone of reasonableness, being

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1 100 basis points either side of that.

2 And in fact the company's witness at the time
3 was -- had a return request of over 12 percent. And a
4 couple of their witnesses were saying the current
5 authorized returns for gas companies and electric
6 companies were in the 10.75 to 11 percent range.

7 And that simply wasn't true. And in fact the
8 Company's witness return, once we recognized that the
9 authorized returns were significantly lower, their
10 Company witness was well above the zone of
11 reasonableness.

12 But then we highlighted the fact that Kansas
13 City Power & Light was an outlier. This was the
14 highest authorized return in two years for a gas or
15 electric utility. And that, to me, I mean, it was
16 very obvious, given the Commissioner questions at the
17 end, that they were very -- they appeared embarrassed.

18 MR. PROCTOR: Okay. Thank you,
19 Dr. Woolridge.

20 COMMISSIONER BOYER: Thank you,
21 Dr. Woolridge. You may step down. And if you have a
22 plane to catch or whatever, you are excused.

23 Okay, it's a few minutes before 3:00. Let's
24 take a ten minute recess. And then we'll move to
25 Mr. Reed, followed by Mr. Ball. And then we'll keep

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1 on plowing forward.

2 MR. BALL: Chairman, if I may? On the
3 procedural issue.

4 COMMISSIONER BOYER: Mr. Ball.

5 MR. BALL: I've been thinking who I might
6 want to cross, cross examine, given that we might not
7 get an opportunity for me to do that with all
8 witnesses today, and that there may not subsequently
9 be an opportunity where I can be present when you
10 might want to go forward with the rest of this
11 hearing.

12 I would ask, please, that we go back a little
13 bit to your memorandum about the running order today.
14 And I would ask if you would agree to have Questar put
15 up Mr. Allred after -- before or after Mr. Reed, and
16 before me this afternoon. Thank you.

17 COMMISSIONER BOYER: All right. We'll
18 contemplate that during the recess. Thank you.

19 (A recess was taken from 2:56 to 3:08 p.m.)

20 COMMISSIONER BOYER: We're going to hear from
21 Mr. Reed at this point, taking into consideration
22 Mr. Ball's request. After Mr. Reed we'll hear from
23 Mr. Ball. Then, time permitting, we'll hear from
24 Mr. Allred so Mr. Ball can ask questions of
25 Mr. Allred. But for the moment, let's begin with

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1 Mr. Reed.

2 (Mr. Reed was sworn.)

3 COMMISSIONER BOYER: Please be seated. And
4 welcome.

5 THE WITNESS: Thank you.

6 JOHN J. REED,
7 called as a witness, having been duly sworn,
8 was examined and testified as follows:

9 DIRECT EXAMINATION

10 BY MS. LARKIN BELL:

11 Q. Good afternoon Mr. Reed.

12 A. Good afternoon.

13 Q. Would you please state your name and business
14 address for the record?

15 A. My name is John J. Reed. My business address
16 is 293 Boston Post Road West, Suite 500, Marlboro,
17 Massachusetts.

18 Q. And by whom are you employed and what is your
19 position there?

20 A. I am the chairman and chief executive officer
21 of Concentric Energy Advisors.

22 Q. Would you please briefly describe your duties
23 and responsibilities in that position?

24 A. I have both administrative responsibilities,
25 as chairman and CEO, for setting the strategy and

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1 growth initiatives for the Company, as well as acting
2 as the responsible officer for many of the firm's
3 largest engagements.

4 I should say I'm also the chairman and CEO of
5 our securities firm, which is CE Capital. Which is a,
6 what used to be called an NASD member securities firm,
7 now it's a FINRA member securities firm. And I act as
8 the, again, chief executive officer of both companies.

9 Q. Would you please describe briefly your
10 background and professional experience, in particular
11 your experience testifying in proceedings where you
12 have been an expert?

13 A. I've been involved in public utility
14 regulation for 32 years and have testified from the
15 1970s to current year. And testified dozens and
16 dozens of occasions. I've appeared as an expert in
17 courts, arbitration cases, and administrative cases,
18 and before elected bodies. All across the U.S. and
19 Canada.

20 I think I've now appeared in about 40
21 different jurisdictions. Always testifying on the
22 issues of financial and economic issues associated
23 with the utility industry.

24 Q. Are you the same person who filed 31 pages of
25 direct testimony with 6 exhibits on December 19, 2007,

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1 and 3 pages of rebuttal testimony with no exhibits
2 dated April 28, 2008 in this case? And I believe
3 these were already admitted this morning.

4 A. Yes, I am.

5 Q. Have you prepared a brief summary of your
6 testimony filed in this case?

7 A. Yes, I have a brief summary.

8 Q. And would you proceed with that?

9 A. Certainly. I want to focus on simply three
10 key points from my testimony. The first is, I believe
11 that it is clearly appropriate for this Commission to
12 consider and evaluate Questar Gas Company's management
13 performance, corporate performance, as an element of
14 setting the authorized return on equity in this case.

15 Secondly, I think the evidence is abundantly
16 clear that the Company's performance is definitely
17 superior to the norm in the industry. And in fact for
18 the most recent year was the top performing firm in my
19 benchmark analysis.

20 And third, that using this information to
21 determine where within the reasonable range of
22 authorized returns on equity the Company's return
23 should be established is justified from an economic
24 perspective.

25 We're talking about, if we move to the top

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1 half of the range in Mr. Hevert's range or in
2 Mr. Peterson's range, that's up 50 basis points.
3 Fifty basis points represents \$2.6 million in
4 additional revenue requirement.

5 And that is less than 1/100th of the savings
6 on annual basis that our benchmarking analysis
7 indicates that Questar has been able to achieve. Let
8 me elaborate just briefly on those points. First with
9 regard to why I think it's clearly appropriate that
10 these issues be considered in the ROE determination.

11 We should begin by remembering that public
12 utilities are rate regulated because policy makers
13 have determined that the public interest is best
14 served by substituting regulation for competition in
15 market forces, because these markets are not workably
16 competitive.

17 In these circumstances where we choose to
18 apply regulation instead of relying on market forces
19 the purpose of rate regulation is often described as
20 trying to simulate the results that would have been
21 achieved in a competitive market.

22 In a competitive market it is widely accepted
23 that a Company's productivity performance is a source
24 of potential competitive advantage. And that the
25 shareholders of an enterprise derive the value of any

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1 competitive advantage through higher earnings.

2 In a rate-regulated environment, conversely,
3 regulators determine the authorized level of earnings
4 for the enterprise, and provide the enterprise with a
5 reasonable opportunity to earn that return. Where a
6 rate-regulated utility is able to achieve higher
7 levels of productivity, the rate setting process
8 passes those savings on to the utilities customers.
9 Either immediately, as is the case for gas costs, or
10 in rate cases like this one.

11 The utility's owners are not able to derive
12 any sustained level of benefit from the Company's
13 superior performance. For this reason regulators in
14 other states, and previously in Utah, have determined
15 that performance should be considered in setting the
16 authorized return on equity for a utility.

17 It is important to understand that this is
18 not some form of a departure from traditional
19 cost-based rate regulation in favor of incentive
20 regulation or deregulation. In order to achieve the
21 objective of simulating the result that would have
22 been achieved in a fully-competitive market,
23 performance should be considered in setting the
24 appropriate level of earnings for the utility.

25 In this case Questar is not seeking to share

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1 in the savings the Company's superior performance has
2 created. It is not seeking an adder to earnings above
3 the appropriate cost of equity. It is simply asking
4 the Commission to consider this evidence in
5 determining where, within that reasonable range of
6 returns, Questar's authorized return on equity should
7 be set.

8 I fully agree with this proposal. Let me
9 also briefly review my conclusions regarding how
10 successful Questar has been in achieving a superior
11 financial and operational performance. We developed a
12 set of 20 standard metrics for financial and operating
13 performance. And we gathered the data for Questar and
14 19 other companies to evaluate Questar's relative
15 performance.

16 We focused on 2006 data, but we also looked
17 at the data for 2002 to 2005 as well. Questar Gas'
18 performance in 2006 was in the first or second
19 quartile on each of the 20 metrics. It is the only
20 LGC in our study group to achieve this result.

21 Overall, Questar Gas ranked first of the
22 20 companies in management performance in 2006 and in
23 2005, and has improved over the five years of data we
24 reviewed. To examine whether Questar Gas had some
25 situational advantage which accounted for its top

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1 performance we examined 14 variables which could
2 explain the operational and financial metrics.

3 Interestingly, what we concluded was that
4 Questar's Gas' exogenous factors should have caused it
5 to score below average, making its actual performance
6 even more notable.

7 Finally, we wanted to determine how much the
8 Wexpro contract affected Questar Gas' performance
9 rankings. So we removed this effect and recalculated
10 Questar Gas' rankings and determined that it still
11 achieves an overall No. 1 ranking, even when the
12 Wexpro effects are removed.

13 Quite simply, Questar Gas' strengths are
14 broad based and significant. It's also worth taking
15 just a minute to understand and explain why
16 Mr. Peterson's analysis suggests that Questar Gas is
17 not a top performer.

18 Primarily he reaches this conclusion by
19 focussing on financial metrics that reflect Questar
20 Gas' lower-than-average earnings and
21 lower-than-average revenues, which are derived largely
22 from lower gas costs.

23 Quite simply, Mr. Peterson is right that
24 Questar Gas is not a top performer for its owners or
25 shareholders. But it is for its customers. The only

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1 metric that Mr. Peterson cites that reflects
2 management's productivity is the ratio of receivables
3 to revenue, called "day of sales outstanding."

4 But on this item, his analysis actually has
5 serious data flaws. To correct these data problems I
6 went and back and prepared a table which used
7 corrected data. And on that metric, Questar Gas is
8 still a top performer. In fact, it turns out to be
9 No. 2 in Mr. Peterson's comp group when the data are
10 corrected for the flaws and other data sources he
11 used.

12 We have prepared a table on that. We can
13 distribute it if it's the Commission's preference that
14 we do so. And I can explain what the data errors
15 were. But the conclusion is inescapable: Questar is
16 absolutely the top performer.

17 Mr. Peterson's principal opposition to my
18 recommendation does not stem from our data
19 differences. It stems from our differences on the
20 policy issue of whether a company's performance should
21 even be considered in setting the appropriate level of
22 earnings.

23 Quite simply, we can only be true to the
24 purposes for which regulation was created if we do
25 consider it. Based on the evidence I've submitted I

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1 urge the Commission to set Questar Gas' authorized
2 return on equity at the top end of the reasonable
3 range, which is warranted by Questar Gas' clearly
4 superior performance on the operational and financial
5 metrics we examined. Thank you for your attention.

6 Q. Mr. Reed, does that conclude your summary?

7 A. It does.

8 MS. LARKIN BELL: Mr. Reed is now available
9 for questions.

10 COMMISSIONER BOYER: Thank you Ms. Bell.

11 Ms. Schmid?

12 MS. SCHMID: Thank you, I have two.

13 CROSS EXAMINATION

14 BY MS. SCHMID:

15 Q. Mr. Reed, would it surprise you that the Utah
16 Public Service Commission has, in the past, sent
17 various issues such as test year and rate design to
18 task force -- to task forces for study?

19 A. No, that would not surprise me.

20 Q. So it wouldn't be groundbreaking if the
21 Commission chose to, as recommended by Mr. Peterson,
22 send the issue of management performance as an element
23 involved in setting the ROE to a task force; isn't
24 that right?

25 A. If it were to set what issue to the task

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1 force specifically?

2 Q. The management performance issue that you
3 raise in your testimony.

4 A. I would say that it would be a retreat from
5 its prior order. Where it said specifically, in two
6 cases, that it should consider management performance
7 in determining the authorized return on equity. So
8 again, I'm not saying it can't do that, but it would
9 seem to be a retreat from its prior decisions.

10 MS. SCHMID: Thank you.

11 COMMISSIONER BOYER: Okay. Mr. Proctor?

12 MR. PROCTOR: I have no questions.

13 COMMISSIONER BOYER: No questions?

14 Mr. Dodge?

15 MR. DODGE: I have no questions, thank you.

16 COMMISSIONER BOYER: Mr. Ball?

17 MR. BALL: Thank you, Chairman.

18 CROSS EXAMINATION

19 BY MR. BALL:

20 Q. Mr. Reed, you remarked that you had corrected
21 some of your results for the effects of Wexpro. Does
22 that mean that you've taken account of the fact that
23 Questar Corporation is earning almost twice as much in
24 Rate of Return from Wexpro, all of which is ultimately
25 coming out of the pockets of ratepayers, as they are

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1 through Questar Gas Company?

2 A. No, Mr. Ball. Our analysis focused on
3 Questar Gas Company, the distribution company. And
4 what we did was to remove those elements of the
5 metrics, the 20 metrics, where the results partially
6 rely on gas costs.

7 We removed those elements from the
8 consideration. And as I said, Questar still ranked as
9 the No. 1 company.

10 Q. So you're not taking any account of the fact
11 that there's perhaps another \$25 million coming out of
12 Wexpro to Questar Corporation's bottom line than there
13 would be if Wexpro was under the same Rate of Return
14 regulation as Questar Gas Company?

15 A. I would say no. We focused on the issue that
16 we thought was relevant to this Commission, which is
17 the regulation of the distribution company.

18 MR. BALL: Thank you. Thank you, Chairman.

19 COMMISSIONER BOYER: Mr. Ball.

20 Commissioner Allen? Commissioner Campbell?

21 I have no questions either.

22 Redirect, Ms. Bell?

23 MS. LARKIN BELL: Give me one minute. No.

24 COMMISSIONER BOYER: Very well. Thank you so
25 much, Mr. Reed, you may step down. You may be excused

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1 if you need to leave.

2 THE WITNESS: Thank you.

3 COMMISSIONER BOYER: All right, let's move to
4 Mr. Ball. This would be your opportunity to make a
5 brief summary, Mr. Ball, and then subject yourself to
6 the hot light inquisition of cross examination.

7 MR. BALL: Chairman, I wondered after
8 yesterday whether I actually need to introduce myself
9 again in the way that I did yesterday. Your guidance,
10 please. Do I need to say who I am and where I operate
11 from and that kind of thing?

12 COMMISSIONER BOYER: No, I think not.

13 MR. BALL: Thank you.

14 COMMISSIONER BOYER: Well, you might for the
15 record just state your name, if you would. For the
16 recorder -- the reporter's information.

17 MR. BALL: Thank you. My name is Roger Ball.
18 Commissioners, my, my testimony really covers four
19 points. And I'd like to briefly review each of them.
20 Mr. Allred testified in his original direct testimony
21 that, "Investors require sufficient and fair return in
22 order to provide the needed capital."

23 Questar Gas Company is provided all its
24 equity capital by one source, Questar Corporation,
25 which enjoys the benefit of the gas company's entire

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1 return. However, Questar Corporation also receives
2 returns from other sources, but all paid for by the
3 gas company's ratepayers -- I'm talking about certain
4 specific sources, not every Questar Corporation
5 source -- as a result of its corporate ownership of
6 subsidiaries created over the past few decades by
7 having certain activities off from what was once a
8 vertically-integrated utility but is now merely a
9 local distribution Company.

10 My first point is that Questar Corporation
11 received a 19.9 percent average annual Rate of Return,
12 after tax, on Wexpro's net investment base of
13 \$300 million. Or in other words, about \$60 million in
14 2007.

15 That Rate of Return is almost double the
16 return on equity earned by the gas company in recent
17 years, suggesting a premium return on Questar
18 Corporation's equity in Wexpro in excess of
19 \$25 million.

20 Wexpro manages the hydrocarbon wells
21 previously owned by the vertically-integrated utility
22 that were in the rate base of the
23 vertically-integrated utility and subject to Rate of
24 Return regulation by this Commission.

25 I testified that the Commission should take

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1 that premium return that Questar Corporation is
2 earning from Wexpro and adjust the Rate of Return on
3 equity that it otherwise determines for the gas
4 Company downward by that amount.

5 Second point: Questar Corporation is
6 benefitting from gas company ratepayers through its
7 ownership of Questar Pipeline Company, due to assets
8 now held by the latter previously in rate base and
9 regulated by this Commission.

10 Further, that while holding back on
11 developing additional Wexpro resources, and as a
12 result of shifting exploration and production to
13 Questar Exploration & Production Company, that the
14 corporation has been enjoying much-increased profits
15 from the sale of natural gas, while ratepayers have
16 essentially seen their rates increase by 50 percent in
17 8 1/2 years.

18 Ratepayers have been exposed to the risks of
19 rapidly increasing and unpredictable market rates,
20 while dividends have increased and stock prices
21 approximately quadrupled. Questar Corporation would
22 not have enjoyed such returns without its ownership of
23 the LGC. And the Commission should initiate an
24 investigation of its corporate structure and "follow
25 the money" to ensure that ratepayers' interests are

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1 balanced with those of stockholders.

2 My third point is that Questar Gas Company's
3 ratepayers most recently were saddled with higher
4 rates, as a result of the conservation-enabling
5 tariff, than they would otherwise be paying. Whether
6 or not investors uninvolved with Questar Gas Company
7 registered that shift of risk, ratepayers are paying
8 for it.

9 Ratepayers are also paying for a bunch of
10 other things, like weather normalization, remote meter
11 reading, subsidies for customers in rural communities
12 that effectively grew the gas company's business at
13 the expense of other fuel suppliers and so on.

14 Much as stockholders deserve a reasonable
15 return, ratepayers deserve fair prices. And they
16 look, as do I, to the Commission to balance our
17 interest with those of the owners of Questar Gas
18 Company. In other words, Questar Corporation.

19 Rates cannot be just and reasonable if the
20 Commission takes no account or inadequate account of
21 risks that have been shifted. And my final point is,
22 this will be the first case in which the Commission
23 will use a fully-forecasted test year for Questar Gas
24 Company.

25 It's doing so because Senate Bill 61 in 2003

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1 amended Title 54, Chapter 4, Section 4, Subsection 3,
2 of the Utah Code to remove its option of using a
3 purely historic test year. And both permit, but more
4 particularly encourage the Commission to use an
5 entirely future test period.

6 However, the statute and the legislature have
7 been silent on the question of the financial windfall
8 that could accrue to the utility as a result of the
9 current rule. Utilities represented that historic
10 test periods expose them to the risk of "regulatory
11 lag."

12 A future test period would eliminate that
13 risk. It turns out that in this case it does so, at
14 an expense to ratepayers of about \$22,157,542,
15 according to Questar Gas Company Exhibit 6.2U, page 1
16 of 4, column G, line 3.

17 The appropriate way for the Commission to
18 balance the shift of risk and the interest of
19 ratepayers and stockholders is to deduct
20 22.16 million, there or thereabouts, from the revenue
21 requirement otherwise determined in this proceeding.

22 That concludes my summary. Thank you,
23 Chairman.

24 COMMISSIONER BOYER: Thank you Mr. Ball.

25 Mr. Ball is now available for cross

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1 examination. Let's begin with the Company.

2 MS. LARKIN BELL: No questions, thank you.

3 COMMISSIONER BOYER: Company has no
4 questions.

5 Ms. Schmid?

6 MS. SCHMID: No questions.

7 COMMISSIONER BOYER: Mr. Proctor?

8 MR. PROCTOR: No questions.

9 COMMISSIONER BOYER: Mr. Dodge?

10 MR. DODGE: No questions, thank you.

11 COMMISSIONER BOYER: Commissioner Allen?

12 Commissioner Campbell? Commissioner Boyer? No. Very
13 well.

14 Thank you, Mr. Ball. You may be seated.

15 MR. BALL: Thank you.

16 COMMISSIONER BOYER: Let's proceed now with
17 Mr. Allred.

18 (Mr. Allred was sworn.)

19 COMMISSIONER BOYER: Thank you so much.

20 Please be seated.

21 Ms. Bell?

22 ALAN K. ALLRED,

23 called as a witness, having been duly sworn,

24 was examined and testified as follows:

25 ***

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1 DIRECT EXAMINATION

2 BY MS. LARKIN BELL:

3 Q. Good afternoon Mr. Allred. Would you please
4 state your name and business address for the record?

5 A. Alan K. Allred. Business address is 180 East
6 First South, Salt Lake City, Utah.

7 Q. By whom are you employed and what is your
8 position there?

9 A. Questar Gas, as president and CEO.

10 Q. Did you file 13 pages of direct testimony
11 with 9 exhibits on December 19, 2007, in this case,
12 and 5 pages of Rate of Return rebuttal testimony with
13 no exhibits on April 28, 2008, in this case?

14 A. Yes.

15 Q. Mr. Allred, have you prepared a summary that
16 you would like to give for us today?

17 A. Yes, I have.

18 Q. Please proceed.

19 A. The Commission's allowed ROE decision in this
20 case is not simply an academic exercise of choosing
21 between growth rates or other financial model
22 determinants advocated by Mr. Hevert, Dr. Woolridge,
23 or Mr. Peterson.

24 The Commission's decision on allowed ROE will
25 be a key determinant of Questar Gas' ability to serve

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1 customers and the cost of that service. None of the
2 models presented in this case will provide the capital
3 necessary to connect new customers, meet the growing
4 peak-day demand of customers, and replace aging feeder
5 lines.

6 The new capital Questar Gas needs must be
7 provided by investors. The Commission must determine
8 the allowed return that will provide investors with a
9 return that is comparable to the returns from other
10 investments with similar risks.

11 Investors will compare the allowed and actual
12 returns Questar Gas provides with the returns offered
13 by other gas, local distribution companies, or other
14 investments with comparable risk. My rebuttal
15 testimony provided examples of recently decided
16 allowed returns in Wisconsin and California, which are
17 at the levels recommended by Mr. Hevert.

18 In those cases the Commissions determined
19 that the allowed return had to be set above the level
20 produced by models such as those used in this case in
21 order to meet the Hope and Bluefield standard.

22 Mr. Peterson did not refute those returns but
23 stated: "Mr. Allred confuses the authorized return
24 from a regulatory commission with the returns that the
25 Commission -- returns that common equity investors are

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1 getting and expecting in the marketplace."

2 My rebuttal testimony dealt with the allowed
3 returns, but since Mr. Peterson raises the point of
4 actual earned returns I will -- I find it interesting
5 that in both Wisconsin and in California there are
6 considerable time periods in the past where regulated
7 companies have earned substantially more than the
8 Commission's authorized allowed return.

9 Another statement that Mr. Peterson made in
10 his testimony was, and I quote: "As demonstrated by
11 my direct testimony, investors in gas utility common
12 stock are likely expecting to receive sub-10 percent
13 returns on their investment." Note that he referred
14 to his direct testimony.

15 Now let me quote, from that direct testimony,
16 what Mr. Peterson had to say about market
17 expectations. Again I quote from Mr. Peterson's
18 direct testimony: "Part of the Bluefield and Hope
19 criteria is the ability to attract capital."

20 At this time I know of no evidence that Wall
21 Street, i.e. the financial markets, would be expecting
22 cost of equity awards in the low 9 percent range. An
23 award of 9.25 percent by this Commission might have
24 ramifications for the company's bond rating, and
25 otherwise its ability to attract capital.

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1 Mr. Peterson's direct testimony may
2 demonstrate that his DCF and CAPM models produce
3 estimates of sub-10 percent returns, but his own
4 direct testimony states that he knows of no evidence
5 that financial markets would be expecting allowed
6 returns in the low 9 percent range.

7 The gas utility investors I talk to are
8 expecting returns well above the -- that
9 sub-10 percent level. They expect returns in the
10 range recommended by Mr. Hevert. As I stated in my
11 rebuttal testimony, this statement alone should cause
12 the Commission to reject the Division and the
13 Committee's ROE recommendations.

14 Investors can get returns that are
15 substantially above the levels recommended by
16 Mr. Peterson and Dr. Woolridge. In states such as
17 California, Wisconsin, and Alabama they can get
18 returns near or above the returns recommended by
19 Mr. Hevert.

20 Adoption of either Dr. Woolridge or
21 Mr. Peterson's recommendation will send a powerful
22 message for investors to take their capital to other
23 gas LGCs that offer much higher return. This will
24 make it more difficult and more expensive for Questar
25 Gas to get the capital necessary to connect new

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1 customers, to meet the growing peak day demand, and to
2 replace aging feeder lines.

3 Questar Gas provides natural gas service to
4 its customers at rates that are about the lowest in
5 the nation. Utah is one of the fastest-growing states
6 in the country. Questar Gas has supported that growth
7 by connecting new customers and meeting growing peak
8 day demands.

9 Questar Gas is one of the most efficient
10 utilities in the country. Questar Gas customer
11 satisfaction ratings are at all-time highs. The
12 Division and Committee propose to reward Questar Gas
13 investors for this performance by cutting their
14 allowed return by almost 20 percent from the current
15 11.2 to 9.25 or 9 percent.

16 If the Commission adopts the DPU or CCS
17 recommendation Questar Gas investors would be earning
18 the lowest returns in the nation, while Questar Gas
19 customers are enjoying the best natural gas service in
20 the nation. Questar Gas is asking the Commission to
21 maintain the current allowed ROE.

22 The California Commission considered the
23 return required by equity investors and allowed ROEs
24 in the 11.1 to 11.5 range for gas utilities. This
25 Commission should do likewise.

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1 The Utah code justifies just and reasonable
2 rates as rates which both maintain financial integrity
3 of the public utilities by assuring a sufficient and
4 fair Rate of Return, and protect the long-range
5 interest of consumers in obtaining continued quality
6 and adequate levels of service at the lowest cost.

7 The DPU and CCS recommended allowed returns
8 may appear to be lowest cost today, but they are not
9 the lowest cost either in the long term or in the
10 short term. I might add that the statute requires
11 that that lowest long-term cost also has to be
12 consistent with the other considerations in the
13 statute, which include the financial stability of the
14 utility.

15 Mr. Curtis pointed out this morning that the
16 costs that damaged credit ratings incur are not only
17 higher capital costs but higher operating costs
18 throughout the operations of the Company. In his
19 surrebuttal testimony Mr. Peterson continues to
20 caution that -- the Commission that his recommendation
21 may be low.

22 I urge the Commission to reject the DPU and
23 CCS recommendations.

24 Q. Does that conclude your summary, Mr. Allred?

25 A. Yes.

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1 MS. LARKIN BELL: Mr. Allred is available for
2 questioning.

3 COMMISSIONER BOYER: Thank you, Mr. Allred.

4 Ms. Schmid, have you questions for
5 Mr. Allred?

6 MS. SCHMID: Just a few.

7 CROSS EXAMINATION

8 BY MS. SCHMID:

9 Q. Mr. Allred, you've appeared before the Utah
10 Public Service Commission many times, haven't you?

11 A. Yes.

12 Q. And I believe that your retirement is
13 imminent? Sort of imminent?

14 A. Not soon enough.

15 Q. Okay.

16 A. But yes, it is. It will happen later this
17 year.

18 Q. We'd like to wish you well.

19 A. Thank you.

20 Q. Questar, as a regulated utility, is aware
21 that it has a duty to serve, maintain, and modernize
22 its plant and equipment, isn't it?

23 A. Yes.

24 Q. Thank you.

25 A. And I would add to that, to enable us to do

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1 that we have to attract capital from investors. And
2 to do that we have to offer them returns comparable to
3 the returns they can get from other investments of
4 similar risk.

5 Q. The Stewart case that discusses the
6 obligation to serve, have you read that?

7 A. Yes, I have.

8 Q. Do you recall if it, if it limits or
9 qualifies the obligation of a utility to serve,
10 maintain, and modernize by a Rate of Return? I don't
11 believe it does.

12 A. I don't believe it does. But the Stewart
13 case dealt with a telephone case. Where the telephone
14 Company said unless they got a certain Rate of Return,
15 they would not invest. We are making no such claim
16 here.

17 We're simply pointing out our ability to
18 serve customers and to modernize the system is highly
19 dependent on the ability to attract capital. And
20 without that capital being attracted, or if that
21 capital has to be attracted at a higher cost, the cost
22 to customers of that service is going to be higher.

23 MS. SCHMID: Thank you.

24 COMMISSIONER BOYER: Thank you, Ms. Schmid.

25 Mr. Proctor?

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1 MR. PROCTOR: Mr. Allred, I want to ask you
2 questions about the 33rd South condition, but I won't.
3 So I have no other questions.

4 THE WITNESS: I would be glad to answer
5 those, though.

6 COMMISSIONER BOYER: Mr. Dodge, cross
7 examination?

8 MR. DODGE: No questions.

9 COMMISSIONER BOYER: Okay. Mr. Ball, have
10 you cross examination of Mr. Allred?

11 MR. BALL: Thank you, Chairman.

12 CROSS EXAMINATION

13 BY MR. BALL:

14 Q. Good afternoon, Mr. Allred.

15 A. Good afternoon, Mr. Ball.

16 Q. Has Questar Gas Company given any thought to
17 filing a further rate case in the wake of the
18 Commission's decision about test period?

19 A. Yes. I can tell you that we were thinking
20 about filing a case before the Commission's decision
21 on test year. The change in test year and the level
22 of investment we're able to reflect in this case will
23 accelerate the filing of that case over what it would
24 have been otherwise.

25 Q. When are you currently contemplating filing

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1 another rate case?

2 A. We haven't established an exact time frame
3 yet. But I think it was fair to say it may be soon
4 upon the completion of this case.

5 MR. BALL: Thank you very much.

6 Thank you, Chairman.

7 COMMISSIONER BOYER: Thank you, Mr. Ball.

8 Commissioner Allen, any questions?

9 Commissioner Campbell? Neither do I.

10 I thank you so much, Mr. Allred.

11 Okay. We have two tech -- two more
12 technical -- what we've considered technical
13 witnesses. We've gone off course here a little bit
14 this afternoon. We were gonna hear from Dr. Powell
15 and Mr. McKenna. Is Mr. McKenna here?

16 MR. DODGE: He is.

17 COMMISSIONER BOYER: He is? And Dr. Powell
18 is here, I see that. Let's hear first from
19 Dr. Powell. And we'll proceed. I didn't see
20 Mr. Higgins here. Is he?

21 MR. DODGE: I'm gonna call him right now.

22 COMMISSIONER BOYER: If he needs to be here?
23 We seem to be picking up some steam here late in the
24 day. Or at least you all do. We're losing steam up
25 here on the bench.

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1 (The witness was sworn.)

2 COMMISSIONER BOYER: Ms. Schmid?

3 WILLIAM POWELL,

4 called as a witness, having been duly sworn,

5 was examined and testified as follows:

6 DIRECT EXAMINATION

7 BY MS. SCHMID:

8 Q. Good afternoon, Dr. Powell. Are you the same
9 William Powell -- also known as "Arty" -- who
10 submitted the received evidence DPU No. -- Exhibit
11 No. 3.0, your prefiled direct testimony with
12 accompanying exhibits, and DPU Exhibit No. 3.0R, your
13 prefiled rebuttal testimony?

14 A. Yes.

15 Q. If asked the same questions today as when you
16 wrote the testimony would your answers be the same?

17 A. With the exception of a couple of grammatical
18 errors, yes.

19 Q. Okay. Well, we'll trust that people can
20 interpret those correctly. Do you have a brief
21 summary that you would like to give today?

22 A. Yes, I do.

23 Q. Please proceed.

24 A. My testimony in this case was fairly limited.
25 Basically it addressed two issues. There were a

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1 couple of other side issues I addressed, but I'm not
2 gonna go over those today. I presented some general
3 guidelines for establishing the cost of equity capital
4 for a regulated utility. And then I made some
5 comments on UAE witness Mr. McKenna's testimony. His
6 direct testimony.

7 In particular, with regards to Mr. McKenna's
8 testimony, I demonstrated that his assumptions -- and
9 he made two that are critical to the results that he
10 gets. One -- the first assumption that he made was
11 that the 25 observations that we -- that he used in
12 his, what I refer to as a "hedging model," represents
13 the universe or the population of all possible
14 outcomes.

15 He also, from that assumption, made another
16 assumption that each of those outcomes was equally
17 likely. I demonstrated in my testimony that the idea
18 of equal likelihood for each of the 25 observations
19 was not valid. And proposed a different assignment of
20 probabilities based on valid statistical methods.

21 To skip over a little bit what I had written
22 out here, maybe I could illustrate the difference in
23 the assumptions that we're making with a very simple
24 example. Suppose we had a fair coin that we were
25 going to flip. The sample space for that coin or the

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1 universe of all possible outcomes is simply heads and
2 tails.

3 The probability associated with each of those
4 two outcomes is one-half. And so looking at the
5 probability mass function for that type of an
6 experiment, they do sum to one. But now let's suppose
7 that we flipped a coin three times. Regardless of
8 what the outcomes are for those it's one-half, plus
9 one-half, plus one-half, which is greater than one.

10 I believe this illustrates the difference in
11 the assumptions that we're making. I assumed that the
12 25 observations were simply one draw or one sample out
13 of numerous possibilities. Mr. McKenna, again,
14 assumed that those 25 observations were the only
15 possible outcomes.

16 Based on those differences I concluded --
17 once you substitute more realistic probabilities into
18 his hedging model -- that the results are not
19 reliable. In fact, I concluded that you would come up
20 with about a 200 basis point reduction in the ROE.

21 And I believe that, looking at either
22 Mr. Peterson's testimony, the Company's testimony, or
23 the Committee's testimony on the range of
24 reasonableness, a 200 basis point adjustment would be
25 outside of that range. That's my summary.

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1 MS. SCHMID: Thank you. Dr. Powell is
2 available for cross examination.

3 COMMISSIONER BOYER: Thank you.
4 Thank you, Dr. Powell.

5 We'll begin with the Company. Cross
6 examination?

7 CROSS EXAMINATION

8 BY MR. MONSON:

9 Q. Dr. Powell, if you were a commissioner would
10 you adjust the ROE based on the fact that the CET
11 pilot program is in place?

12 A. No.

13 MR. MONSON: Thank you.

14 COMMISSIONER BOYER: Okay. Mr. Proctor?

15 MR. PROCTOR: I have no questions, thank you.

16 COMMISSIONER BOYER: Mr. Dodge?

17 CROSS EXAMINATION

18 BY MR. DODGE:

19 Q. Dr. Powell, first the softball; are you a
20 lawyer?

21 A. You know, that reminds me of a question --
22 yes, thank you, Mr. Dodge, for that softball. A
23 famous economist was once asked how much he knew about
24 macroeconomics. And his answer was nothing, and he
25 thanked the Lord for that every day. And I would

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1 answer the same.

2 Q. Dr. Powell, in response to Mr. Monson's
3 question you said no, you weren't if you were a
4 commissioner. That's consistent with the Division's
5 position taken during the CET that there was no change
6 in risk and therefore should be no adjustment to the
7 ROE, correct?

8 A. I believe that's correct.

9 Q. And you read the Commission's order finding
10 that there was a reduction in risk and that it should
11 be considered in the context of a rate case ROE
12 process, correct?

13 A. Yes.

14 Q. So the fact that you wouldn't recommend that
15 again is consistent, but not necessarily what our
16 Commission has indicated?

17 A. Say that again, please.

18 Q. Never mind. I'll withdraw it. Secondly, in
19 your direct testimony you indicate that there is a
20 partial adjust -- or I mean that an adjustment to the
21 ROE has been partially justified based upon two
22 things.

23 You point to an Illinois case in which there
24 was a specific reduction in an ROE for a
25 volume-balancing adjustment mechanism. And also you

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1 point to Mr. Hevert's own testimony in another case in
2 Arkansas in which he recommended a 35 basis point
3 adjustment upon the adoption of a decoupling
4 mechanism. Correct?

5 And you said based on those two you could
6 indicate that an adjustment might be partially
7 justified, or something like that?

8 A. I think I used the word or the phrase there's
9 a weak justification based on those two facts, yeah.

10 Q. As I look at your rebuttal you actually said
11 part -- or your direct you said it's partially
12 supportable.

13 A. Weakly. There's a weakly in there something.
14 Weak, w-e-a-k.

15 Q. Not in this particular. It may be. And what
16 I'm looking at are lines 337 to 339. You said: "I
17 would say a reduction" --

18 A. I have got to put on some glasses. What page
19 are you on now?

20 Q. I'm on page 19 of your direct, line 337 to
21 339. You said:

22 "I would say a reduction in the cost
23 of equity for Questar in the range of 10
24 to 25 basis points may be partially
25 supportable."

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1 A. Yes, that's what it says there. Hang on one
2 second, because I...

3 Q. I'm not representing you didn't say "weak"
4 somewhere else. I don't recall it, but you may have.

5 A. It's not in the lines that you are referring
6 to. But I, I had thought I said that earlier in the
7 testimony. But I don't see it right at the moment.

8 Q. You heard testimony today from Dr. Woolridge
9 that at least three other case -- in at least three
10 other cases by two other commissions there was a
11 similar reduction in ROE attendant to a decoupling
12 mechanism, correct?

13 A. Yes. In fact, after reading Dr. Woolridge's
14 testimony, I went and reviewed the orders. And my
15 recollection is similar to the way he characterized
16 it, is those reductions were not based on any
17 empirical analysis or evaluation.

18 It was simply the Commission's opinion
19 somehow that a reduction was justified.

20 Q. And as an economist you have a hard time with
21 that, don't you? If you can't show it in a model, it
22 doesn't exist. Is that a fair statement?

23 A. I would rather base assumptions on some kind
24 of empirical evidence or justification. But as an
25 economist I'm not opposed to making assumptions

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1 either.

2 Q. And, and you heard this morning in the
3 discussion of the Hope and Bluefield cases that in the
4 very case, the Hope case that you cite for kind of
5 their economic parameters you look at, the Commi --
6 the Supreme Court acknowledged, with approval, that
7 the Federal Power Commission had looked at a whole
8 host of factors that aren't empirical, per se, but
9 that relate to the utility's risk, among other things.
10 You heard that, that discussion?

11 A. I heard the discussion that you're referring
12 to, but my recollection was is that the factors that
13 the Supreme Court -- or that are mentioned in the
14 decision were based on some kind of empirical
15 evidence. I don't remember anything that was not --
16 at least could be attributed to empirical evidence.

17 Q. Well, let me talk about that.

18 A. So yeah.

19 Q. The Company -- this is --

20 A. I think I have that, so let me --

21 Q. This is page 10 of the Hope decision, on the
22 right-hand side.

23 A. And you're talking -- well, I thought I had
24 it here. Yes, I do.

25 Q. Again, this is the Supreme Court

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1 acknowledging what the Federal Power Commission had
2 done and upholding the Federal Power Commission's
3 decision.

4 A. Are you on the left or the right-hand column?

5 Q. The right-hand column, partway through. It
6 stated that:

7 "The Company was a seasoned
8 enterprise whose risks have been
9 minimized by adequate provisions for
10 depletion and depreciation."

11 Down further, the Commission concludes:

12 "The Company's efficient management,
13 established markets, financial records,
14 affiliations, and prospective business
15 place in a strong position to attract
16 capital."

17 Those aren't likely the result of economists'
18 models -- economic modeling, are they? Rather
19 observations about the status of the Company
20 sufficiency in its risk profile?

21 A. Do you have a specific factor there that you
22 don't think is related back to some kind of data?

23 Q. I'm saying do you believe that each of these
24 was based on an economic -- an econometric model of
25 some sort? That it was a seasoned enterprise? Can

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1 you tell me what kind of model might produce that?

2 A. In my mind when you say "economic" or
3 "econometric" that's a very narrow description of the
4 possible models that might have been considered. So
5 there might be some financial models or other factors.

6 I believe that the Company's witnesses, for
7 example, have put forth some analysis relative to the
8 Company's efficient management. Which is the first
9 one that's being mentioned there, so. What I'm
10 getting at is I don't see any of these that couldn't
11 be backed up with data.

12 Q. Well, nobody is saying it's not backed up
13 with data. We're saying with a model that you can --
14 that you find acceptable in some manner or another.
15 In other words, do you think there's a specific data
16 that said how far the ROE would go down because of
17 the -- if they're up or down because of efficient
18 management?

19 A. Probably not, no.

20 Q. In other words it's somewhat of a subjective
21 analysis, isn't it? That the Supreme Court
22 acknowledged that the Federal Power Commission went
23 through?

24 A. I would agree that there's probably some
25 subjectivity to it, yes.

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1 Q. And then finally, your comments on
2 Mr. McKenna's modeling. You agree, do you not, that
3 in reaching the 204 basis point conclusion that your
4 sum of probabilities is 600-and-some-odd percent?

5 A. I don't dispute that. But as I explained in
6 my summary, it has to do with the difference in the
7 assumptions that Mr. McKenna and I are making. Again,
8 he's assuming that those 25 observations represent the
9 only possible outcomes. And therefore he's able to
10 assign a probability of 1/25th to each one of those
11 outcomes.

12 That type of an assumption just doesn't --
13 it's illogical. In other words --

14 Q. What kind of assumption would you make?

15 A. In other words, the -- when we get down to
16 the end of 2008, Questar will calculate what the
17 change in usage was for the year. And I would be
18 willing to bet my next year's salary on the fact that
19 that is not gonna be exactly equal to any of those 25
20 observations.

21 Q. So you tell us what it will be.

22 A. I don't know what it will be. It --

23 Q. Exactly. So one has to make assumptions,
24 doesn't he?

25 A. Yes, that's true. And I base my assumptions

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1 on at least some empirical evidence, whereas
2 Mr. McKenna just grabbed an assumption out of the air.

3 Q. Is that --

4 A. And what I demonstrated in my testimony was
5 that his assumptions were not valued. They're not
6 consistent with the data that we have available to us.

7 Q. But again, you did that by addressing -- by
8 adding up to 636 percent probability. And when
9 divided, your number is very close to his. When
10 divided by the reality of a hundred percent?

11 A. But the correction is not -- that you're
12 referring to is not appropriate.

13 Q. Well, we can disagree on that.

14 Mr. Dodge: With that, I have no further
15 questions.

16 THE WITNESS: We do disagree on that. Thank
17 you.

18 COMMISSIONER BOYER: Thank you, Mr. Dodge.

19 Q. (By Mr. Dodge) I'm sorry, I do have one
20 further question. I see -- I notice, Dr. Powell, that
21 the only witness you went after was UAE's on this
22 issue.

23 And the Company went after an adjustment
24 upwards in the range of reasonableness based on
25 non-qualitative -- quantitative factors. Do you have

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1 any comment of why you wouldn't address that?

2 A. Mr. Peterson and I kind of divided up the
3 responsibilities. And Mr. Peterson was addressing
4 Mr. Reed's testimony.

5 Q. And you are the UAE attack dog?

6 MS. SCHMID: Objection.

7 THE WITNESS: If you want to put it that way.
8 I don't...

9 Mr. Dodge: Thank you. No further questions.

10 COMMISSIONER BOYER: Thank you, Mr. Dodge.

11 Mr. Ball, any questions for

12 Mr. -- Dr. Powell?

13 MR. BALL: No thanks, Chairman.

14 COMMISSIONER BOYER: Commissioner Allen?

15 Okay, nor do I.

16 Redirect, Ms. Schmid?

17 MS. SCHMID: Very brief.

18 REDIRECT EXAMINATION

19 BY MS. SCHMID:

20 Q. Dr. Powell, earlier you referenced the
21 thought that you had used the word "weak" in your
22 testimony. If you turn to your direct testimony at
23 line 249, do you see the word "weak" in connection
24 with the CET and reduction of equity capital?

25 A. Which line again, 249?

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1 Q. Two forty-nine.

2 A. Yes, that, that's the reference that I was
3 trying to find in my testimony, thank you, where it
4 says: "Albeit very weak evidence of a reduction."
5 Yes.

6 Q. And lastly, while I can't call you a lawyer,
7 can I call you a statistician?

8 A. If I can clarify.

9 Q. Okay.

10 A. My degree is actually in economics, with a
11 major field in econometrics. I have approximately
12 30 hours of graduate study and work in statistics,
13 mathematical statistics and econometrics. My
14 dissertation was -- if I can even remember what it
15 was. Was "Simultaneous Equation Estimation of
16 Partially-Reduced Form Tobit Models." Which is an
17 application of Bayesian techniques to estimating
18 partially-reduced form Tobit models, so.

19 Q. Thank you.

20 A. I think that's probably perfectly clear.

21 Q. Yes. And I'm very grateful I'm a lawyer,
22 thank you.

23 COMMISSIONER BOYER: Well, I managed to pass
24 graduate statistics myself, so. If I can do it anyone
25 can do it. Thank you so much, Dr. Powell. You may be

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1 seated.

2 Okay, that is -- according to my records,
3 that leaves us the pleasure of hearing from
4 Mr. McKenna and Mr. Higgins. And Mr. McKenna was here
5 earlier -- first, so shall we hear from him first?

6 Mr. Dodge: Yes. And he's been sworn in.

7 COMMISSIONER BOYER: That's correct. And in
8 correcting his testimony. Very well.

9 Welcome back to the witness chair,
10 Mr. McKenna.

11 THE WITNESS: Thank you. Is this still on?

12 COMMISSIONER BOYER: Appears to be on, yes.

13 ROBERT MCKENNA,

14 called as a witness, having been duly sworn,
15 was examined and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. DODGE:

18 Q. Mr. McKenna, would you please give a brief
19 description of who you are and your background, where
20 you work?

21 A. Yeah. Robert McKenna. I work for Energy
22 Strategies. And --

23 COMMISSIONER BOYER: Mr. Dodge, would you
24 slide your mic closer to yourself or turn it on?

25 MR. DODGE: Turn it on, that would work as

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1 well.

2 THE WITNESS: And at Energy Strategies work
3 with clients to evaluate the, the economic potential
4 of various investment opportunities and the economic
5 impact of, of various situations.

6 Historically I, after receiving an MBA in
7 finance worked for a couple of Fortune 500 companies
8 in the development area -- business development and
9 acquisition area. Looking at opportunities and the
10 impact of uncertainty on those opportunities.

11 Q. (By Mr. Dodge) Thank you. And would you
12 give a brief summary of both your direct and your
13 surrebuttal testimonies?

14 A. Yes. To be, to be clear here, you know, the,
15 the technical experts that we've heard from so far
16 today have all focused on the range of reasonable
17 returns. I just want to be clear that that was never
18 the intent nor is it the intent of any part of my
19 testimony to discuss the range of reasonable returns.

20 The simple intent of my testimony is to
21 provide information and potential framework for
22 evaluating the impact that the CET might have on the
23 Rate of Return, Rate of Return on equity within that
24 range of reasonable return, which is, which is
25 established by the Commission.

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1 To do that, I, you know, there are various
2 ways that that could be done. The framework that I
3 chose to use was the framework of a, a hedging
4 position. Which is demonstrated in my testimony as
5 exactly what the CET offers.

6 It's a combination of, of a written call and
7 a help put. And if you were to plot out the potential
8 payoff of that type of a hedge position it, it exactly
9 equals what the impact of the CET has on the potential
10 net operating income of the Company with respect to
11 one variable of the change in usage per customer.

12 It doesn't address any other uncertainty or
13 any other sources of risk other than that, that one
14 risk factor. Alternatively, I chose a hedge position
15 or a hedge portfolio to model this. Other examples or
16 analogies could have been used.

17 For example, an insurance policy is a similar
18 but different entity that could have been used to, to
19 model and represent what the CET offers to the
20 Company. Which is a reduction in risk with respect to
21 that one risk factor of changes in usage per customer.

22 It could have been modeled with the Company
23 purchasing an insurance policy to protect against
24 downside risk, and underwriting a policy to -- that
25 would limit the upside in the case of increasing usage

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1 per customer. So there are various ways to model this
2 and represent this.

3 The one -- the key factor here though is in,
4 in both cases, if the historic decline -- or if the
5 historic usage per customer changes in usage per
6 customer per year were equally distributed around
7 zero, and equally likely to go up and down, then the
8 cost of those offsetting positions, risk positions,
9 whether it be the hedging portfolio or the
10 insurance -- combination of insurance policies, would
11 likely be zero.

12 Meaning you could buy a position to protect
13 against downside risk for the same cost that you could
14 underwrite or receive revenue for a position to go
15 against the upside potential. But because the
16 historic change in annual changes and usage per
17 customer has been negative -- and in fact over the
18 25 year period that I represent it's a negative
19 1.61 percent per year on average -- it would cost more
20 to protect against the downside risk than the upside
21 risk.

22 It would simply just cost more to buy an
23 insurance policy for something that's more likely to
24 be negative than the benefit you would get from
25 underwriting a policy to offset something that's less

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1 likely to be positive. So the position is that the
2 Company is receiving benefit from this CET in such a
3 way that they're receiving benefit, not being required
4 to pay for the benefit.

5 In an -- if they were buying insurance for
6 some other reason they would be required to pay a
7 premium. If they were buying a hedging portfolio they
8 would be required to pay for that position, say gas
9 prices or other types of things that are uncertain.
10 The, the Company is receiving that benefit as well as
11 other benefits, such as the -- in the budgeting
12 process, knowing that they don't have to factor in the
13 risk associated with the changes in usage per
14 customer.

15 So I'm not -- I've never recommended that the
16 Company be required to pay for that CET, which would
17 be unreasonable. Just that it be considered, when
18 considering where -- within the range of reasonable
19 returns that it be considered that the Company is
20 receiving a benefit. And as Mr. Ball discussed,
21 there's a shifting of risks that's taking place here.
22 And simply asking that that be considered.

23 Now, in response to -- well, you know, just
24 finally I'm not, you know, alone in this. It's been
25 previously discussed. Dr. Powell in his testimony

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1 cited Mr. Hevert's testimony and stated that this
2 potential reduction in the cost of a return on equity
3 or cost of equity is partially supportable. And he
4 cited a range of 10 to 25 basis points.

5 Dr. Woolridge in his summary earlier today
6 cited examples of in other jurisdictions where
7 adjustments were made for things such as this. So
8 you, you know, I'm not alone in making this
9 recommendation.

10 Now, to address a couple of the points made
11 by Dr. Powell. First of all, he made a, an overt
12 point to say that I stated the 25 points that I chose
13 are the universe of possibilities. Certainly for my
14 example, for my model, I did say these are the
15 assumptions that I'm making. That this is the
16 universe of possibilities for my example.

17 We could talk about what would be the
18 appropriate estimates to put in there. What would be
19 the appropriate assumptions. I could have made an
20 alternative argument which is looking at only the
21 previous ten years. Where the Company -- where the
22 decline in usage per customer has decreased at
23 actually a faster rate than the 1.61 percent cited for
24 the average for the previous 25 years.

25 So I, agree, there are different assumptions

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1 that could be used there. It's just inaccurate to say
2 that that is the, you know, what I was saying is the
3 universe of possibilities. I was stating that's my
4 assumption for this analysis. Other assumptions could
5 be made, as he proposed in his, in his rebuttal to my
6 testimony.

7 And then on this point of the three coins
8 flipping, you know, say you flip a coin three times
9 and it adds up to a probability greater than
10 100 percent. In the end you have to average those and
11 figure out what is the average probability of
12 something taking place.

13 And so it is inaccurate to say that there is
14 a 636 percent probability of something happening as
15 Dr. Powell used to get to his conclusion that my, my
16 analysis would result in a 204 basis point adjustment.
17 That's just not possible to have 636 percent
18 probability of something happening.

19 If you were to average those, then you would
20 get to the 32 basis points -- his, his analysis where
21 it resulted in 32 basis points, versus the 35 basis
22 points that I had originally testified to. And
23 then -- actually, that's the end of my summary.

24 Q. (By Mr. Dodge) Thank you.

25 MR. DODGE: Mr. McKenna is available for

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1 cross.

2 COMMISSIONER BOYER: Very well. Let's go
3 first to the Company. Mr. Monson?

4 MR. MONSON: Mr. McKenna, I didn't have any
5 questions before your summary but I do have a couple
6 now.

7 THE WITNESS: Glad I could cause some.

8 MR. MONSON: Thank you.

9 CROSS EXAMINATION

10 BY MR. MONSON:

11 Q. If Questar Gas buys insurance for one --
12 for -- to cover the risk of some utility operational
13 function, doesn't it get to recover the cost of that
14 insurance in its rates?

15 A. I don't know enough about how, how rates are
16 made. It is -- every cost pass through I don't know.

17 Q. Okay. And if it buys a hedging position on
18 the cost of gas doesn't it get to pass through the
19 cost of that hedging position?

20 A. Same answer.

21 Q. You don't know? You mentioned that if there
22 was an equal likelihood that the usage per customer
23 would be higher as there is that it would be lower
24 than the amount included in rates, that the cost of
25 this CET benefit would be zero?

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1 A. That is, that is my interpretation, yes.

2 Q. Okay. So if -- do you understand in rate
3 making that the Commission is setting rates based upon
4 conditions that it expects to be in place during a
5 rate effective period in the future?

6 A. I'll believe you if you tell me that's the
7 case.

8 Q. And so if the Commission and the parties
9 together set the proper usage level for customers
10 during the rate effective period, then effectively the
11 CET does nothing and there would be no costs
12 associated with it; is that right?

13 A. Yes.

14 Q. Okay. You mentioned Mr. Hevert's testimony
15 in Arkansas. Have you read the testimony that was
16 filed in Arkansas?

17 A. I have not. I only referred to Dr. Powell's
18 inclusion of that in his testimony. I have not read
19 Dr. Hevert's or Mr. Hevert's -- sorry Doctor --
20 Mr. Hevert's testimony.

21 Q. Are you aware whether or not the, the rate --
22 the coupling mechanism that was proposed in Arkansas
23 had the Company returning or lowering rates if
24 customers used more than was anticipated, or do you
25 know?

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1 A. I know nothing about the Arkansas case.

2 Q. And do you also know whether or not
3 Mr. Hevert's recommendation was that if the Commission
4 were to find an ROE in the range recommended by
5 certain witnesses saying 9.75, that he believed no
6 adjustment should be made for the revenue
7 stabilization mechanism?

8 A. (Witness shrugs.)

9 Q. You don't know?

10 A. Huh-uh (negative.)

11 MR. MONSON: Thank you.

12 COMMISSIONER BOYER: Thank you, Mr. Monson.

13 And then Mr. Proctor?

14 MS SCHMID: Or Ms. Schmid?

15 COMMISSIONER BOYER: Or Ms. Schmid, I'm

16 sorry.

17 MS. SCHMID: Thank you.

18 CROSS EXAMINATION

19 BY MS. SCHMID:

20 Q. Mr. McKenna, in your summary you talked about
21 averaging probabilities. Could you site a reference
22 where averaging probabilities is the correct approach?

23 A. No.

24 MS. SCHMID: Thank you.

25 COMMISSIONER BOYER: Now Mr. Proctor?

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1 MR. PROCTOR: I have nothing.

2 COMMISSIONER BOYER: Mr. Dodge? I didn't see
3 your -- he's your witness. Mr. Ball and then
4 Mr. Dodge.

5 MR. BALL: No thank you, Chairman.

6 COMMISSIONER BOYER: Okay. We'll go to the
7 Commissioners first and then we'll see if there's any
8 redirect.

9 No questions? No questions? Nor I, but we
10 commend you on your creativity.

11 MR. DODGE: I do have one follow up.

12 COMMISSIONER BOYER: Mr. Dodge.

13 REDIRECT EXAMINATION

14 BY MR. DODGE:

15 Q. Mr. McKenna, your -- is it in your head that
16 you need an authority to say that the maximum
17 probability is 100 percent of anything happening?

18 A. That's been my experience. There's only a
19 100 percent probability of something happening.

20 Q. Thank you, no further questions.

21 COMMISSIONER BOYER: Very well, thank you.

22 You may step down. Thank you, Mr. McKenna.

23 Mr. Higgins?

24 MR. DODGE: Mr. Higgins was sworn in the test
25 year phase of this case.

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1 COMMISSIONER BOYER: Yes, I recollect seeing
2 him around here before.

3 Welcome, Mr. Higgins.

4 THE WITNESS: Thank you.

5 KEVIN C. HIGGINS,
6 called as a witness, having been duly sworn,
7 was examined and testified as follows:

8 DIRECT EXAMINATION

9 BY MR. DODGE:

10 Q. Mr. Higgins, your testimony has already been
11 introduced or accepted into the record. Would you
12 please give a brief description of who you are, who
13 you work for, and a brief summary of your testimony?

14 A. Yes. My name is Kevin C. Higgins. I'm a
15 principal with the firm Energy Strategies. I appear
16 as an expert witness in utility rate proceedings
17 around the country. I've participated in a little
18 more than 80 proceedings in 27 jurisdictions, I
19 believe.

20 And in this phase of this proceeding I filed
21 some brief direct testimony that recommended that the
22 Commission take into account Mr. McKenna's analysis
23 when determining where, within the range of reasonable
24 returns, that Questar Gas Company's return on equity
25 should be established.

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1 I also filed surrebuttal testimony that
2 responded to the arguments of Dr. Powell and
3 Mr. Hevert that Mr. McKenna's analysis was
4 inconsistent with Hope and Bluefield.

5 And I pointed out that both Dr. Powell's
6 analysis and Mr. Hevert's prior analysis made
7 recommendations that were not dissimilar from the time
8 of recommendation that Mr. McKenna and I are making.
9 Namely in this very proceeding Dr. Powell had
10 indicated that there was some basis for making a CET
11 adjustment of 10 to 25 basis points.

12 And Mr. Hevert had made a recommendation in
13 Arkansas, that's been previously discussed, that a
14 35 basis point reduction in a return in equity was
15 appropriate if a particular revenue stabilization
16 mechanism were adopted.

17 So I point out that the -- that their, that
18 their argument that Mr. McKenna's testimony was
19 inconsistent with Hope and Bluefield is misplaced and
20 inconsistent with positions they, themselves, have
21 taken.

22 I also point out that Questar Gas itself has
23 made recommendations in this proceeding that analysis
24 which does not look at the proxy group used for
25 setting return on equity should be used for making

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1 determinations as to where, within the range of
2 reasonable returns, the return equity should be set.
3 With that, I conclude my summary.

4 MR. DODGE: Thank you.

5 Mr. Higgins is available for cross.

6 COMMISSIONER BOYER: Thank you, Mr. Higgins.

7 We'll turn to the Company.

8 MR. MONSON: No questions.

9 COMMISSIONER BOYER: No questions from the
10 Company.

11 Ms. Schmid?

12 MS. SCHMID: No questions.

13 COMMISSIONER BOYER: Mr. Proctor?

14 MR. PROCTOR: No questions.

15 COMMISSIONER BOYER: Mr. Ball?

16 MR. BALL: No thank you, Chairman.

17 COMMISSIONER BOYER: Commissioner Allen? Nor
18 do I.

19 Redirect, Mr. Dodge?

20 MR. DODGE: May I? No.

21 COMMISSIONER BOYER: Well, according to my
22 information, that's everyone. And I must congratulate
23 everyone for the dispatch with which we took care of
24 business this afternoon.

25 Thank you, Mr. Higgins, you may step down.

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1 COMMISSIONER BOYER: We're waiting for you,
2 unless someone else has an objection to this exhibit.

3 MR. PROCTOR: Was it your intent, now that we
4 have the whole thing, to just admit the whole thing?

5 MR. MONSON: Actually what I'd recommend, in
6 light of saving paper, is that maybe we do admit -- we
7 added page 62, which then includes the full discussion
8 of PNM. Is that --

9 MR. PROCTOR: Yeah, and I'm --

10 MR. MONSON: Is that acceptable?

11 MR. PROCTOR: I didn't only there was only a
12 line and-a-half of additional discussion, so. But --
13 so is it your, your request to do the whole thing, or
14 just that additional line?

15 MR. MONSON: We'll do either.

16 MR. PROCTOR: What's the Commission's
17 pleasure?

18 COMMISSIONER BOYER: Our pleasure is to save
19 a tree if we can and just put in pages 61 and 62.

20 MR. PROCTOR: We've already killed the tree.

21 COMMISSIONER BOYER: We'll have to make
22 additional copies for other people, I suppose.

23 MR. PROCTOR: That, that's fine. And I have
24 no objection to its admission.

25 COMMISSIONER BOYER: Does anyone else object

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1 to the admission of pages 61 and 62? They're admitted
2 into evidence therefore.

3 MR. PROCTOR: Thank you very much.

4 COMMISSIONER BOYER: Okay. With that and
5 with the editorial comments I made earlier, that will
6 conclude this hearing.

7 (The hearing was concluded at 4:18 p.m.)

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C E R T I F I C A T E

STATE OF UTAH)
) ss.
COUNTY OF SALT LAKE)

This is to certify that the foregoing proceedings in the matter of Docket No. 07-057-13 were taken before me, KELLY L. WILBURN, a Registered Professional Reporter and Notary Public in and for the State of Utah.

That the proceedings were reported by me in stenotype and thereafter caused by me to be transcribed into typewriting. And that a full, true, and correct transcription of said proceedings so taken and transcribed is set forth in the foregoing pages, numbered 1 through 272, inclusive.

I further certify that I am not of kin or otherwise associated with any of the parties to said cause of action, and that I am not interested in the event thereof.

WITNESS MY HAND AND OFFICIAL SEAL AT KEARNS, UTAH THIS 4th DAY OF June, 2008.

Kelly L. Wilburn, CSR, RPR
My Commission Expires:
May 16, 2009

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