BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF QUESTAR GAS COMPANY TO INCREASE DISTRIBUTION NON-GAS RATES AND CHARGES AND MAKE TARIFF MODIFICATIONS	)))))	DOCKET NO. 07-057-13 DPU EXHIBIT 7.0

PRE-FILED DIRECT TESTIMONY OF

GLEN GREGORY

ON BEHALF OF THE
UTAH DIVISION OF PUBLIC UTILITIES

August 18, 2008

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WITNESS IDENTIFICATION AND PURPOSE OF TESTIMONY

Q: Please state your name and business address.

A: My name is Glen E. Gregory and my business address is 120 North Robinson Avenue, Suite 1400 West, Oklahoma City, Oklahoma 73102.

Q: What is your occupation?

A: I am an independent consultant specializing in public utility issues, such as cost of capital, cost of service, and rate design.

Q: On whose behalf are you appearing in these proceedings?

A: I am appearing on behalf of the Utah Division of Public Utilities ("DPU" or "Division").

Q: Please describe your educational and professional qualifications.

A: My educational qualifications consist of a Bachelor of Arts degree from the University of Oklahoma and a Masters of Arts in Economics from the University of Oklahoma. I also hold the professional designation Certified Rate of Return Analyst ("CRRA") as conferred by the Society of Utility and Regulatory Financial Analyst of which I have been a member since 1996. This designation is awarded based upon experience and successful completion of a written examination.

As regards to my professional experience, I was employed by the Oklahoma Corporation Commission for over 20 years in a supervisory position. My employment within the Commission's Public Utilities Division involved me in a variety of tasks dealing with economic and financial analysis and related research. My primary responsibilities included preparation of reports or testimony regarding cost allocation, rate design, cost of equity estimates, competitive bidding processes, and a variety of other energy-related and regulatory issues. I was also very active in the supervision and training of others in the above mentioned areas. My principal areas of concentration were with electric utility and gas utility regulation. Since leaving the Commission in July of 2003, I have worked on various rate and regulatory matters on behalf of utility customers, municipals, and the Attorney General of Oklahoma. A partial list of testimony given before the Oklahoma Corporation Commission is contained in my resume, which is attached to the end of my testimony as Appendix A.

Q: Have you testified previously before the Public Service Commission of Utah ("PSCU") in proceedings concerned with cost-of-service and rate design issues?

A: No. This is my first appearance before the Public Service Commission of Utah.

Purpose of Testimony

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

A: The purpose of this testimony is to address class cost of service ("CCOS") revenue allocation and rate design issues on behalf of the Utah Division of Public Utilities. In this testimony, I discuss Questar Gas Company's ("QGC" or "Company") class cost of service allocations and recommend changes to the cost allocation methods used by the Company. I also review QGC's proposals related to the allocation of QGC's requested increases to the customer classes and make recommendations. Finally, I review and recommend changes to QGC's proposed rate design.

Q: Why are rate design and cost of service issues important to the Division of Public Utilities?

A: Rate design issues are especially important to DPU in this case given the complexity of QGC's proposed rate design changes for the various tariffs. QGC's proposed rate design changes, even with the relatively small revenue increase of approximately $12 million, would result in significant changes in cost recovery from the various customers.

CLASS COST OF SERVICE

Inclusion of All Major Classes into the Class Cost of Service

Q: Should **all of the major rate classes be included in the Class Cost of Service ("CCOS").**

A: Yes. It is a broadly accepted ratemaking principle that rates should be based on costs. The CCOS is a basic tool of ratemaking and gives us the ability to determine the costs

that the utility incurs to serve the various classes of customers and individual customers within the classes.

Q: Does the QGC CCOS include all the major classes of service?

A: No. The QGC CCOS excludes the large FT-1 transportation class.

Q; is the exclusion of these classes appropriate?

A: No. It is not appropriate to exclude any major class from CCOS because doing so limits the Commission's ability to determine the actual contribution each class makes to the recovery of the costs of the utility.

Q: Have you identified other problems with the QGC CCOS?

A: Yes, The QGC CCOS also combines the firm transportation class FT-2 with the interruptible class IT. It is inappropriate to combine the latter two classes for cost-of-service purposes as they represent two distinct forms of service.[1]

Peak-Day Factor

Q: Please discuss the Peak-Day Factor.

A: The Company developed its Peak-Day factor based upon a supposed coldest day. There are fundamental problems with the Company's approach. The first problem is that it creates a material mismatch in the way peak demand is determined for transportation

[1] I support and discuss the concept of the TS tariff as proposed by QGC later in this testimony.

customers as compared with the way peak demand is determined for residential and commercial customers. Contract demand for transportation customers is based upon those customers' actual peak winter daily usage during the most recent three (3) calendar years. Conversely, the peak day of the residential and commercial classes is based upon the coldest day recorded in the last 20 years. The result of this mismatch is that residential and commercial customers are assigned a much greater share of demand than appropriate. Further, on January 15, 2007, the Company's actual historical peak day, the Company delivered a record sendout of 1,091,289 decatherms. Firm transportation customers made up 59,713 decatherms of this sendout and Interruptible transportation customers made up 75,589 decatherms of this sendout. Although the capacity and capability of the system was severely tested on this day, sufficient capacity existed to serve all the customers without interruption. The total peak-day demand supported by QGC for transportation customer allocation is far less than the sendout needed to serve transportation customers on the Company's actual peak day of January 15, 2007. For these reasons the Peak-Day factor for the cost of service study should be set using the Company's actual historical results from this January 15, 2007 day.

Q: Please discuss the Company's peak-day allocation for interruptible service.

A: The Company did not assign any demand component to interruptible customers in its CCOS. According to data request responses concerning the history of these loads, the Company has had adequate capacity for the past several years to meet the required loads of all customers,

including interruptible customers, on peak days[2] This indicates that some demand component assignment is appropriate for these classes. Customer classes that are subject to "interruption" should have a reduced demand allocation (as well as reduced rates) that recognizes the possibility of interruption. However, this does not mean that the demand that they place on the system is costless. I have developed a demand allocation factor for these types of customers based upon their annual volumes divided by the number of days in a year ("365"). This results in a demand component of 46,485, decatherms which is much lower than the peak day demand of 75,689 decatherms observed by the interruptible class on January 15, 2007. This is the method used by FERC[3] and in other state jurisdictions. The result of a lesser cost assignment is a lower effective rate allocation for this class.

Q: What are the results of your revised Peak-Day Factor?

A: The result is to lower the Peak-Day Allocation Factors for the GSR, GSC and FS classes and raises the Peak-Day Allocation Factors for the remaining classes. This change results in a peak-day allocation on 59.40%, 26.07% and 3.42% respectively for these classes. The Company's allocation to these classes was 64.58%, 28.21% and 3.66% respectively.

Distribution Plant Factor Study

Q: Please discuss how you used the Distribution Plant Factor Study.

[2] The Company's response to DPU DR 31.07, reveals that 75,589 Dth was delivered to interruptible customers on January 15, 2007, the day of the system's historic peak.
[3] Goodman, Leonard, 1998. The Process of Ratemaking. Public Utility Reports,Vienna, Virginia. 1099

A: The Distribution Plant Factor Study is used in the CCOS to allocate meters, regulators, service lines and small diameter mains. This type of study has been used historically by the Company and has been modified by the Company with input from the CCOS Task Force. I have basically accepted this study for use in the CCOS allocation process even though I have altered its use for certain allocations such as the allocation of small diameter mains as I will discuss later in this testimony. Also, as I included FT-1 in my CCOS and separated the TS back into their current FT-2 and IT classes, the allocation of meters and regulators was revised to allocate their relative share of these costs.

Allocation of Distribution Mains

Q: Please discuss the importance of the allocation of distribution mains.

A: The costs of serving distribution service to the QGC customers has at its core a single gas plant account, which is the distribution mains, recorded in Account No. 376. This account represents the largest single investment in QGC's distribution system. It accounts for approximately 50% of the QGC rate base. Materials in this account include, for example, pipe, valves and cathodic protection devices. It also contains non-material costs such as the costs of employee labor, labor by contractors, administrative and general costs, income taxes, depreciation, are allocated on the assignment of the mains to the various customer classes. These mains are interconnected to distribution networks. Distribution networks connect the outlet side of the city gates to the inlet side of individual customer service lines. These distribution networks are shared by all customer classes.

The investment is necessary to install facilities that connect all customers to the distribution network and to install facilities with sufficient capacity to meet the demands of all customers. For purposes of classification, QGC divided these investments into (1) small diameter mains of 6 inches in size or less and (2) mains greater than 6 inches in size. QGC considers the former to be those investments needed to serve individual customer laterals or "customer costs" and the latter to be those investments needed to achieve the collective capacity for "capacity costs" requirements of all customers.

Q: Can you please elaborate on some on the distinction between "customer costs" and "capacity costs" as they relate to the distribution mains?

A: Yes. Customer costs are those costs that can be directly related to a specific customer or group of customers. An example of customer costs is individual meters and service lines serving a specific customer. Capacity costs are more related to the ability of the system to supply gas and, thus, are not directly affected by the number of customers.

Allocation of Small Diameter ("SD" Mains)

Q: Please discuss how your recommended allocation of the small diameter ("6 inches or less) distribution mains differs from the Company's allocation.

A: The Company's method assumes that all the costs of the SD Mains are customer related. I agree that the SD Mains are more customer specific than the larger mains. However, the SD Mains have some capacity or demand value. All of the studies that I have seen, or been involved with, have determined that some portion of even 2 inch mains have at least some

capacity component as well as a customer related component. While studies vary, they generally do assign a higher percentage of the costs of mains in the range of 50 - 70% customer and 30 - 50% capacity related. The NARUC Rate Design Manual[4] even points out that some analysts consider mains to be 100% capacity related. The capacity of pipe, of course, is proportionate in size, such that the larger the pipe the more cost assignment slopes to capacity versus customer related. In my CCOS I have accepted and used the QGC method to assign 80% of the allocation of costs of these SD Mains. However, I have allocated a conservative 20% of the remaining costs of SD Mains as capacity related by using a demand allocator consisting of 80% demand and 20% throughput. The resulting allocation basically is a lesser cost assignment to the residential class and a greater share to the commercial class (GSC).

Q: With regard to the allocation of distribution mains, what methods are generally favored to determine the customer component?

A: The two methods often used by regulatory bodies to determine the customer component of the distribution mains are (1) the minimum size method and, (2) the zero intercept method. Both methods are supported in the NARUC Rate Design Manual Under the minimum size method, all distribution mains are priced out at the historic unit cost of the smallest main installed on the system and assigned as customer costs. The remaining book cost of the mains is assigned to capacity. The zero intercept method is similar.

[4]NARUC Gas Distribution Rate Design Manual, National Association of Regulatory Utility Commissioners, (Washington D.C). June, 1989

Q: Is there a reason these two methods cannot be used to allocate the distribution mains to customer and capacity for the QGC system?

A: Unfortunately yes. While, the two methods are fairly simple to construct, both methods require that the utility records the length in feet and costs of the various sizes of pipes on the system. QGC does not keep these types of records. Thus, these distance sensitive methods cannot be used for the QGC system.

Q: Did you find QGC's method to be a reasonable method for allocation of the SD distribution mains?

A: The statistical method used by the Company appears to be well thought out[5]. As I mentioned before, my primary concern was the use of 100% customer specific cost assignment inherent in the analysis. I am reasonably certain that the QGC grid is similar to others in that customers not within the 1,000 feet sample sections of the QGC study use the pipe for capacity purposes as many customers dependent upon the current operating conditions will receive gas from more than one point of delivery. I believe my 20% imputation of a capacity costs component is a reasonable compromise for the allocation of the SD distribution mains.

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Allocation of Feeder Lines and Large Mains

Q: Please discuss how your allocation of the Feeder Lines and Large distribution mains differs from the Company allocation.

A: There are two important factors that drive QGC's distribution mains costs. First, these costs are capital intensive. Second, these large lines and mains must be sized so that they have the capability to deliver natural gas to all customers during extremely cold conditions. This combination of capital requirements and sizing to meet peak demands indicates that the class contributions to the peak day is the appropriate factor to be used in the allocation to customer classes the costs of these large lines and mains. Therefore, I have based my allocation of these costs upon 80% peak day demand and 20% throughput. The 80% peak day demand allocation recognizes that these mains are built to handle the combined peak use by all customers. The 20% throughput allocation recognizes that the utility also provides sustained year-round service to the combined customers.

TS & IS Value of Gas Purchased

[5] although difficult to duplicate.

Q: Why did you find it necessary to delete the Company's value of peaking gas adjustment in the QGC CCOS?

A: I removed this adjustment to reflect the fact that the Company has not purchased gas from interruptible or firm transportation customers for the use of human needs customers for several years. This change has no affect on the QGC revenue requirement. It does have a marginal impact on the class rates of return for the classes affected.

Q: Do you believe that peaking gas taken from transportation customers should be compensated?

A: Yes. If and when peaking gas is taken by QGC for the use of human needs customers, then QGC should compensate the transportation customers for the value of the gas. The price paid could be recovered in the gas-balancing account (Account 191).

Allocation of Meters & Regulators

Q: What changes have you made to the Allocation of Meters & Regulators?

A: Since I included FT-1 and considered FT-2 and IT as separate services in my CCOS, I allocated a portion of the costs of Meters & Regulators to these three classes. The proxy for this cost component was developed from the per-customer assignment made by QGC. The change had only a marginal effect on the costs assignments to the various classes.

Class Cost of Service Summary

Q: Have you prepared a class cost of service study?

A: Yes. I prepared a class cost of service study which reflects the results of the PSCU decision on the revenue requirement. This class cost of service study was prepared using the QGC class cost of service software program. In addition to matching the PSCU decision on the revenue requirement. I also made the adjustments to the cost allocations that I previously discussed in this testimony.

Q: What are the current returns for the different major rate classes as shown by your class cost of service study?

A: The current returns are summarized in Table 1.

Table 1

Rates of Return by Major Class Categories

Customer Class	Current Rate of Return
GSR	7.43%
GSC	8.97%
FS	4.51%
FT-2	7.63%
FT-1	3.88%
IS	-1.46%
IT	-4.71%
Total QGC	7.39%

Q: Have you attached a summary of your proposed class cost of service study?

A: Yes. The rate base, operating income, rate of return and other information regarding the seven major classes are summarized on my DPU Exhibit 7.1.

REVENUE ALLOCATION TO THE CLASSES

Increase of Revenue to the Various Classes

Q: Please discuss your recommendation for allocation of the PSCU's allowed revenue increase.

A: I propose that classes with negative rates of return receive a 25% increase in rates. These classes are the IS class and the new TS class. The FS and FT classes show much lower than the average rates of return and are increased 10% and 12.5% respectively. GSR and GSC classes show solid current returns and are increased 4.66%. My CCOS agrees with the Company's CCOS in that it indicates the transportation and interruptible rates produce revenues that are well short of the cost of providing service. I also note that these customers currently have inexpensive rates. Even with a 25% increase the industrial rates will remain competitive in that the prices (with carefully designed rates) to industrial customers will not reach the point at which they can economically choose to bypass QGC's system. Current Revenues, Proposed Revenues, Dollar increase and Percent Increase for the major classes are shown in Table 2 set forth below.

Table 2

Allocation of Revenue Increase by Major Class Categories)

Class	GSR	GSC	FS	FT-1	IS	New TS
Current Rate Revenue	$175,210,018	$41,426,827	$3,866,562	$1,481,696	$344,872	$4,762,417
Proposed Revenue	$183,374,806	$43,357,318	$4,253,219	$1,666,908	$431,090	$5,953,021
$ Difference	$8,164,788	$1,930,491	$386,657	$185,212	$86,218	$1,190,604
% Difference	4.66%	4.66%	10.00%	12.50%	25.00%	25.00%
Current Average Unit Price	2.774	1.603	0.540	0.179	0.252	0.174
Proposed Average Unit Price	2.904	1.677	0.594	0.202	0.315	0.217
$ Difference Average Unit Price	0.129	0.075	0.054	0.022	0.063	0.043
Dth	63,152,743	25,849,158	7,158,193	8,268,846	1,370,445	27,434,587
Move to Full CCOS	8,953,350	(1,139,552)	844,487	404,200	310,838	2,593,174
Move to One Half the CCOS	4,476,675	(569,776)	422,244	202,100	155,419	1,296,587
Increase required for 1/2 Move	2.56%	-1.38%	10.92%	13.64%	45.07%	27.23%

Q: How did you determine that that the various increases were appropriate for under-earning classes?

A: I looked closely at the current class revenue deficiency in recommending these increases. I first looked at how much it would take to bring these classes to the average rate of return as allowed by the PSCU. As shown in Table 2 the revenue shortfall for these classes is quite large. I determined that a gradualism adjustment would be appropriate for these classes. To determine the appropriate level I looked at what increase it would

take to cut their class deficiency by 1/2. As you can see at the bottom of Table 2 the increases required to cut their deficiency by 1/2 are still significant. The CCOS results indicate that the increases I have proposed are reasonable. The increase required for the IS class is so large, I decided it would be reasonable to cap the increase at 25%.

Q: Do you have any other comments that support the reasonableness of your revenue increases to the classes as proposed?

A: Yes. Percentage increases can be misleading. If one looks at the average unit price given in Table 2 one can see that the current prices to these customers are much lower than that to the GSR and GSC classes. One can also see that the unit price increases to the transportation customers and the IS customers is still less than that which will be imposed on the GSR and GSC classes.

Q: Do you believe that a 4.66% increase to the GSR and GSC is sufficient?

A: Yes. The Conservation Enabling Tariff ("CET") provisions will result in greater long term increases than the 4.66% increase I have proposed. Transportation and interruptible customer rates are not affected by the CET.

RATE DESIGN

Rate Design Proposals

Q: Please discuss your rate design goals in general.

A: One important ratemaking goal is to give customers greater control over their bills and encourage energy efficiency. One way to encourage greater energy efficiency is to lessen the "slope" in declining block rates or move to flat usage rates. Declining block rates with a substantial slope reduce the incentives for customers to conserve natural gas by reducing the payback that can be achieved by making investments in more efficient furnaces, insulation etc. Conversely flat or flatter usage structures increase the relative payback that can be achieved from these types of investments. Some may argue that the distribution usage charges are too small to affect customers and that structural changes are not necessary. I would argue that we do not know the "tipping point" price that each individual will decide to lessen his usage or purchase more efficient equipment. What we have learned from recent experience is that natural gas prices are uncertain and subject to very high upward movements that are primarily related to supply and demand. I believe that anything the PSCU can do to encourage conservation can aide the QGC ratepayers in dealing with these uncertain natural gas prices. Therefore my proposals for all classes will reduce this "slope" or recommend flat usage structures whenever possible.

Q: Can you explain a little better what you mean by "slope" in declining block rates?

A: Below is an illustration from my GSC winter rate proposal:

GSC	Current Rate	Proposed Rate	Difference
First 45 Dth Block	1.95993	2.24611	.146016
Next 155 Dth Block	0.81370	1.12874	.276822
All Over 200 Dth Block	0.81370	0.94000	.155220

Note that the proposed increase to the first block is less than the proposed increases to the second block and the third block. Thus, the slope of the proposed rates is flatter in that more of the cost recovery is placed in the latter usage charges. This is what is meant by reducing the slope. I have not proposed a flatter structure for the GSC rate code in consideration of the diversity of the usage of the commercial customers, as some have usage that stays in the first block yet some have usage well over 200 Dth.

Q: Is it also appropriate to allocate energy cost in rate pricing to reflect how seasonal use of energy affects the cost incurred by QGC?

A: Yes. Cost allocations and corresponding rates that reflect seasonal cost patterns can improve the efficiency of use of QGC's system, thereby lowering the cost of energy for all customers. Carefully designed seasonal rates can result in lower overall system costs if consumption of energy is increased during the lower usage months and consumption is reduced during the higher usage (peak) months. The optimal result would be a more constant demand for energy across the seasons. This outcome should allow customers the opportunity to make better decisions regarding the use of energy in their appliances such as water heating, clothes drying, cooking, etc.

Q: Please discuss how the Basic Service Fee ("BSF") is treated in your rate design proposals.

A: The BSF is addressed by DPU witness Marlin Barrow. In the design of rates I have not increased the BSF for any customer or group of customers. Also, the definition of the BSF is assumed unchanged.

Q: What are the primary changes in the Residential and Commercial rates proposed by QGC?

A: The most significant change is the split of the existing GS-1 into a separate residential rate code GSR and a separate commercial rate code GSC. I recommend that this separation be approved but have proposed substantially different rates for the new classes than that proposed by QGC.

Q: Please discuss your rate design proposal for the new residential code GSR.

A: Since all but a few residential customers do not exceed the current 45 decatherm threshold of the GS-1 rate the transition to flat usage rates are simple to construct. Therefore I have proposed a flat rate structure for the GSR class. The flat volumetric rates I have proposed do contain a summer price of about 64 cents per decatherms less than the winter rate, which is approximately the same as proposed by QGC. Summer/winter differentials are appropriate as appliances added by customers that use energy year-round such as gas water heaters improve the efficiency of the system.

Q: Please discuss your rate design proposal for the new commercial code GSC.

A: The usage patterns of customers that receive service under the GSC rate code are much more diverse than customers of the residential class. As pointed out by QCG witness Gary Robinson, "The commercial customers vary from small retail establishments, which may have only space heating, to large hotels, malls, schools, having significant natural gas requirement for space heating, heating pools or cooking." This makes the rate design for these customers more complex. The current GS-1 has a very steep decline following the first 45 decatherms of usage. QGC has proposed an even steeper relative decline. My proposal begins with the rate blocks as proposed by QGC but decreases the declining block slope to a noticeable degree. Summer winter differentials are designed into my proposed GSC rates for the same reason they were kept in the GSR proposed rates.

Q: Do you have any proposals or comments regarding additional changes to the rate structure of the GSC rate in future rate cases?

A: I recommend that the Company in its next rate filing develop GSC Regular and GSC Large rate classifications. This will enable the development of rates that have a flat or flatter rate structure that can encourage and reward greater conservation by customers while at the same time limit the rate distress on commercial customers that can occur when significant rate design changes are made. The target customers of the GSC Large rate code should be customers that have a peak winter month consumption of 300 decatherms and greater.

Q: What are DPU's recommendations regarding the rate code GSS.

A: DPU witness Marlin Barrow will address this rate code.

Q: What are DPU's recommendations regarding the rate code NGV.

A: DPU witness Marlin Barrow will address this rate code.

Q: Please discuss your rate design proposal for the QGC proposed rate code FS .

A: My proposal begins with the rate blocks proposed by QGC and decreases the declining block slope for these rates. Summer winter differentials are designed into the proposed FS rates for the same reason they were kept in the GSR proposed rates.

Q: Please discuss your rate design proposal for the rate codes F-3 and F-4.

A: These rate codes are eliminated and will be absorbed into the QGC proposed TS rate code.

Q: Please discuss your rate design proposal for the rate code I-4.

A: The I-4 current volumetric block rates are priced at average costs of about 13.5 cents per decatherm. The price differential between the current billing blocks is only about 1.5 cents per decatherms. My proposal is a flat volumetric rate for all usage.

Q: Please discuss your rate design proposal for the rate code IS-4.

A: A: DPU witness Marlin Barrow will address this rate code.

Q: Please discuss your rate design proposal for the rate code FT-1.

A: This rate code has special qualifications for participation. Like QGC, I retained the current block structure for this rate code. The existing volumetric block rates are increased proportional to the existing rates.

Q: Please discuss your rate design proposal for the rate code FT-1L.

A: This rate code is specific to a single customer, the RMP Lakeside Combined Cycle Natural Gas Generation Plant, which came on line in 2007. The rate was negotiated to cover the costs of adding this load to the system. The negotiated rate currently provides a $2,976,000 minimum contribution to the QGC system costs and is contained in a special contract to provide transportation service to the Lakeside Power Plant. Since this special contract was just recently enacted, I do not propose any rate increase for this customer.

Q: Please discuss your rate design proposal for the rate code MT.

A: This special rate code for a single municipal has a one block rate structure. This structure will be retained and the block rate will be increased. The block rate increase for this customer will basically offset with the reduced transportation administrative charges proposed by QGC.

Q: Please discuss your rate design proposal for the rate code TS.

A: The Company has proposed a combination of the transportation rate code FT-2 and the rate code IT into a new single transportation rate code. The QGC proposed rate code TS will

actually be a two in one tariff in that it will contain a pricing structure for two substantially different services (firm transportation and interruptible transportation). The current FT-2 rate code currently provides the firm transportation service and the current IT code provides the interruptible transportation service. The current FT-2 and IT rate codes are also very different in pricing. The IT rate price is substantially less than the FT-2 rate as the service is subject to interruption.

Q: Do you have any concern with the two in one nature of the rate code TS proposal?

A: My major concern is with the embedding of the two distinct types of service into one rate code and class of service. However, after discussions with QGC I now believe the type of structure proposed for the rate code TS can be recommended. The Company's proposal is to impose a demand charge on that portion of the service that is contracted as firm transportation and is the key to making the combined tariff workable. The demand charge will basically take the place of the higher volumetric charges of the current FT-2 rate code versus the lower volumetric charges of the current IT rate code. The demand charge will enable the volumetric charges to be the same for both the firm transportation service and the interruptible transportation service. The demand charge will contain the costs attributed to provision of firm transportation service.

Q: How will your proposed rate structure for the TS rate code differ from that proposed by the Company?

A: The Company has proposed a continued declining block structure for the new TS rate code. I propose a flat rate structure for the volumetric rate This recommendation is supported by the fact that the demand charge was developed to cover the fixed costs that were previously recovered in the volumetric rates. Moreover, the current block structure is essentially flat for the IT rate code. Customers on the IT rate code will see basically the same structure as is currently in place. This should assure that a smooth transition to the new rate structure.

Q: Do you have any recommendations regarding the treatment of the TS rate code in future rate cases?

A: Given the distinct nature of the two services to be provided under the TS rate code, it is appropriate to separate in future rate cases the cost-of-service analysis for the two services. In other words, the firm transportation service revenue contributions would be compared with the firm transportation costs. Likewise, the interruptible transportation service contributions would be compared with the interruptible transportation costs.

Q: Have you prepared an Exhibit presenting proof of your recommended revenue proposals for the various classes?

A: I developed a proof of revenue that will produce DPU's recommended revenue for the various classes. This proof of revenue, along with the recommended rate designs, can be found on Exhibit DPU 7.2. This exhibit also shows the structure and increases to the various rate codes. Page 10 of the proof of revenue contains a summary of the increases and proposed revenues for all the classes.

Q: Have you prepared any analysis representing the financial impact of DPU's residential GSR and commercial GSC rate structures?

A: Yes. I prepared an analysis for residential and commercial rate structures. The residential analysis is DPU Exhibit 7.3 and the commercial analysis is DPU Exhibit 7.4.

Transportation Administrative Charges

Q: Do you have any comments regarding the QGC proposed changes to the current Transportation Administrative Charge?

A: Yes. QGC has proposed a reduction of the current first occurrence annual charge from $6,800 to $4,500. Additionally QGC has proposed a reduction of the second and additional occurrences annual charge from $2,550 to $2,250. This reduction in charges should be supported. All current transportation customers will benefit from the reduction of fees. It will also offset the increases to transportation charges that I have proposed. Some of the larger sales customers may also benefit if the costs of the administrative charges have kept them from moving to the transportation tariffs.

Conversion from Transportation to Sales Service

Q: Do you have any comments regarding QGC's proposal concerning requirements for customers who want to transfer from interruptible sales or transportation service to firm sales service?

A: Yes. The Company's requested changes are understandable. The Company will require customers who transfer to firm sales to remain on firm sales for two years. Given the volatility of the natural gas market, it is quite likely that QGC's system supply prices at times will be below market If so, current transportation customers would have an incentive to ask to switch back to the system supply. If QGC were required to purchase additional supply at higher market prices the system supply unit price would be driven up for existing customers.

Transportation Balancing Charges

Q: What are your comments regarding QGC's proposed changes to transportation balancing charges?

A: QGC's proposed minimal change to definitions for transportation balancing charges. I recommend these wording changes be accepted.

Cash-In, Cash-Out Gains and Losses

Q: What are your comments regarding the QGC proposed changes to cash-in, Cash-out Gains and Losses charges?

A: QGC's proposed changes are designed to reflect more closely the market area of the customers and should have minimal effect on customer charges.

Q: Does this conclude your direct testimony?

A: Yes, it does.

ATTACHMENT I

QUALIFICATIONS OF GLEN GREGORY

EDUCATION:

Masters of Arts, Economics, University, of Oklahoma, 1980
Bachelor of Arts, University of Oklahoma, 1975

CREDENTIALS:

Certified Rate of Return Analyst, 1996

EXPERIENCE

- Independent Utility Regulation Consultant 5 years
- Manager, Senior Analyst (utility regulation),
- Oklahoma Corporation Commission 21 years

Independent Consultant, July 2003 to the present.

Mr. Gregory specializes in public utility issues, such as cost of capital, cost of service, rate design and other public utility issues.

Oklahoma Corporation Commission, November 1982 to July 2003.

Manager, Senior Analyst - **Public Utility Division** - Mr. Gregory specialized in the areas of rate design, cost allocation, and financial analysis for cost of capital and rate of return. Mr. Gregory was also substantially involved in preparation of reports and testimony regarding competitive bidding, utility deregulation, utility merger activities, evaluation of state and Federal restructuring proposals and a variety of other energy-related and regulatory issues. As a Certified Rate of Return Analyst, Mr. Gregory was the primary representative of the Division in the area of cost of capital analysis for both electric and gas utilities. Mr. Gregory was responsible for supervision of all cost of service studies, many rate cases for electric, gas, and water utilities. All positions held at the Commission required that Mr. Gregory provide expert testimony and be able to defend it under cross-examination. Mr. Gregory managed the Division's Economic and Research Unit. Mr. Gregory was also very active in the supervision and training of others in my assigned areas of responsibility. Mr. Gregory worked closely with corporate representatives, exchanged information, methodologies, and negotiated settlements.

Listing of Experience of Glen Gregory Related to Capital Cost, Cost-of-Service, Rate Design, Pricing and Energy-Related Issues

Entergy Gulf States, 2008 (PUC Docket No. 34800, SOAH Docket No. 473-08-0334) – Performed analysis, research regarding various cost of service issues and on the utility's overall revenue requirement concerning this Entergy Gulf States rate case heard before the Public Utility Commission of Texas on behalf of various Texas municipal cities.

Tucson Electric Power Company, 2008 (Docket No. E-01933A-07-402) – Participated as an expert witness on behalf of the residential customers before the Arizona Public Service Commission in this general rate case to address rate design and cost-of-service for the purpose of setting prospective cost-of-service based rates.

Rocky Mountain Power, 2008 (Docket No. 07-035-93) – Performed analysis, research regarding the utility's overall revenue requirement concerning this Rocky Mountain Power rate case heard before the Public Utility Commission of Utah on behalf of the Utah Public Utility Division.

Entergy Arkansas, 2007 (Docket No. 06-101-U) – Participated as an expert witness on behalf of the commercial customers before the Arkansas Public Service Commission in this general rate case to address capital cost, rate design and jurisdictional issues for the purpose of setting prospective cost-of-service based rates.

Public Service Company of Oklahoma , 2006 (PUD 200600285 – Participated as an expert witness on behalf of the industrial consumers before the Oklahoma Corporation Commission in PSO's general rate case application to address rate design and jurisdictional issues for the purpose of setting prospective cost-of-service based rates.

Southwestern Public Service Company, 2006 (PUCT 32766) – Performed analysis, research regarding shared services, jurisdictional allocation, and other revenue requirement matters concerning this SPS rate case to be heard before the Public Utility Commission of Texas on behalf of various Texas municipal cities.

ATMOS Energy - Mid-Tex Gas, 2006 (GUD 9676) – Performed analysis, research regarding shared services, jurisdictional allocation, and other revenue requirement matters concerning this rate case to be heard before the Railroad Commission of Texas on behalf of various Texas municipal cities.

Oklahoma Gas & Electric Co., 2005 (PUD 200500151) – Participated as an expert witness on behalf of the industrial consumers before the Oklahoma Corporation Commission in OG&E's general rate case application to address capital cost, rate design and jurisdictional issues for the purpose of setting prospective cost-of-service based rates. Project completed in December 2005.

Oklahoma Natural Gas Company ("ONG"), 2005 (PUD 200300610) - Participated as an expert witness on behalf of the Attorney General of the State of Oklahoma before the Oklahoma Corporation Commission in this general rate case to address capital cost, rate design and jurisdictional issues for the purpose of setting prospective cost-of-service based rates. Project completed in August 2005.

Public Service Company of Oklahoma ("PSO"), 2004 (PUD 200300076 – Participated as an expert

witness on behalf of the Oklahoma Industrial Energy Consumers of the State of Oklahoma before the Oklahoma Corporation Commission in this general rate case to capital cost, rate design and jurisdictional issues for the purpose of setting prospective cost-of-service based rates. Project completed in July 2004.

CenterPoint Energy Arkla ("Arkla"), 2004 (PUD 200400187 – Participated as an expert witness on behalf of the Attorney General of the State of Oklahoma before the Oklahoma Corporation Commission in this general rate case to address capital cost, rate design and jurisdictional issues for the purpose of setting prospective cost-of-service based rates. Project completed in December 2004.

Oklahoma Gas & Electric Company ("OG&E"), 2004 (PUD 200300226 – Participated as an expert witness on behalf of the Oklahoma Industrial Energy Consumers before the OCC to address capital cost issues.

Oklahoma Natural Gas Company ("ONG"), 2003 (PUD 200300617) - Participated as an expert witness on behalf of the Staff of the State of Oklahoma before the OCC in this application of ONG to recover certain cost related to service lines, uncollectible accounts, etc.. Negotiate tariff and cost-of-service issues in settlement discussion.

Public Service Company of Oklahoma ("PSO"), 2003 (PUD 200200754) – Performed analysis, research and writing assistance to prepare written testimony on behalf of the Oklahoma Industrial Energy Consumers (OIEC) regarding a review of PSO's Fuel Adjustment Clause for the year 2001.

Arkansas Louisiana Gas Company ("Arkla"), 2002 (PUD 200200166) – Participated as an expert witness on behalf of the PUD before the OCC in this general rate case application to address capital cost. Oversaw the work of outside consultants regarding various revenue requirement and rate design issues for the purpose of setting prospective cost-of-service based rates. Negotiated tariff and cost-of-service issues in settlement discussion.

The Empire District Electric Company., 2003 (PUD 200300121) – Supervised the work of OCC staff filing testimony on behalf of the PUD before the OCC in this general rate case application regarding various revenue requirement and rate design issues for the purpose of setting prospective cost-of-service based rates. Negotiated tariff and cost-of-service issues in settlement discussion.

Lawton Cogeneration L.L.C., 2002 (PUD 200200038) - Performed analysis, research and writing assistance to prepare written testimony on behalf of the PUD regarding a review of avoided cost as required by Federal law and the Power Sale Agreement submitted by Lawton for OCC approval.

Arkansas Louisiana Gas Company., 2002 (PUD 200100586) – Participated as an expert witness on behalf of the PUD before the OCC regarding this application for approval of a transfer of Oklahoma assets as part of a corporate restructuring plan..

Enogex, Inc.., 2001 (PUD 200000339) – Participated as an expert witness on behalf of the PUD before the OCC in this cause filed by Enogex seeking a determination from the OCC regarding the evaluation of ONG's competitive bid process.

Oklahoma Gas & Electric Co., 2000 (PUD 200000022) – Participated as an expert witness on behalf of

the PUD before the OCC concerning OG&E's recovery of natural gas transportation cost from its affiliate Enogex, Inc.

Oklahoma Gas & Electric Co., 2002 (PUD 2001000455) – Participated as an expert witness on behalf of the PUD before the OCC in this general rate case application to address capital cost and rate design. Supervised and oversaw the work of PUD staff involved in various revenue requirement and rate design issues for the purpose of setting prospective cost-of-service based rates. Negotiate tariff and cost-of-service issues in settlement discussion.

Oklahoma Gas and Electric Company, 1996 (PUD 960000116) – Participated as an expert witness on behalf of the PUD before the OCC regarding capital cost and capital structure. Oversaw and supervised the work of the PUD witness regarding revenue, rate design, cost of service matters and tariffs. Sponsored testimony on OG&E's proposed Generation Efficiency Performance Rider (GEPR). Recommended modifications to the Company's proposed GEPR to bring it within the boundaries of an acceptable alternative ratemaking formula.

Oklahoma Gas and Electric Company, 1999 (PUD 990000417) – OG&E request for implementation of a performance based incentive plan. Participated as an expert witness and supervised other OCC staff filing testimony on behalf of the PUD before the OCC. Prepared information to inform the Commissioners in OCC Deliberations of matters regarding the application.

Oklahoma Natural Gas Company, 1998 – Participated as an expert witness in ONG's unbundling proceedings before the OCC. Sponsored written and oral testimony on behalf of the PUD to address the cost of ONG's unbundled upstream gas services.

Public Service Company of Oklahoma, 1997 (PUD 960000214 - Sponsored testimony before the OCC on behalf of the PUD regarding cost of capital and capital structure.

Oklahoma Natural Gas /Western Resources Merger, 1997 - Oversaw and supervised the work of the PUD witness assigned on behalf of the PUD before the OCC regarding the appropriateness of OCC approval of the merger and setting certain parameters to safeguard ratepayers from negative effects of the merger.

Oklahoma Gas and Electric Co., 1996 (CN PUD 960000116) - Sponsored testimony on behalf of the PUD for the purpose of determining the Company's cost of capital and capital structure. Oversaw and supervised the work of the PUD witness regarding revenue, rate design, cost of service matters and tariffs.

Arkansas Oklahoma Gas Company, 1997 (CN PUD 960000408) - Sponsored testimony before the OCC on behalf of the PUD regarding cost of capital and capital structure. Oversaw and supervised the work of the PUD witness regarding revenue, rate design, cost of service matters and tariffs.

Empire District Electric Company, 1994 (940000343) - Sponsored testimony before the OCC on behalf of the PUD regarding cost of capital and capital structure. Sponsored testimony before the OCC on behalf of the PUD regarding revenue, rate design, cost of service matters and tariffs.

Arkansas Louisiana Gas Company, 1993 (920001217) - Sponsored testimony before the OCC on

behalf of the PUD regarding cost of capital and capital structure. Supervised the preparation of PUD testimony regarding revenue, rate design, cost of service matters and tariffs.

Oklahoma Natural Gas Company, 1993 - Sponsored and or supervised testimony of PUD staff before the OCC on behalf of the PUD regarding capital cost, revenue, rate design, cost of service matters and tariffs.

Oklahoma Gas and Electric Company, 1992 - Sponsored and or supervised testimony of PUD staff testimony before the OCC on behalf of the PUD regarding capital cost, revenue, rate design, cost of service matters and tariffs.