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. 09-057-16

DIRECT TESTIMONY OF KELLY B. MENDENHALL

FOR QUESTAR GAS COMPANY

December 3, 2009

QGC Exhibit 3.0

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I. INTRODUCTION

Q. Please state your name and business address.

A. Kelly B. Mendenhall, 180 East 100 South, Salt Lake City, Utah 84111.

Q. By whom are you employed and in what capacity?

A. I am employed by Questar Gas Company (Questar Gas, QGC or Company) as the Supervisor of Regulatory Affairs. My qualifications are detailed in QGC Exhibit 3.1.

Q. Were your attached exhibits prepared by you or under your direction?

A. The depreciation study in QGC Exhibit 3.15 was prepared by Gannett & Fleming, a third party consultant. The inflation factors shown in QGC Exhibit 3.12 were prepared by Global Insight. All other exhibits were prepared under my direction.

Q. What general areas will your testimony address?

A. My testimony will calculate the proposed revenue requirement and deficiency resulting from the December 2010 test period. I will also present the depreciation study and lead/lag study.

II. BASE AND TEST PERIODS

Q. What is the base period the Company is proposing in this case?

A. The base period is the 12-month period ending June 30, 2009.

Q. What is the test period the Company is proposing?

A. The test period is the 12-month period that will end on December 31, 2010 with all elements of the test period annualized based on December 31, 2010 forecasts. This coincides with the rate-effective period August 2010 to July 2011 discussed by Mr. McKay.

Q. What factors must be evaluated in order to determine a proper test period?

A. Mr. McKay already discussed Utah Code Ann. § 54-4-4. In addition to this statute, the

Commission in its October 20, 2004 Order in Docket No. 04-035-42 listed some factors that should be considered in selecting a test period. They include: "general level of inflation, changes in the utility's investment, revenues or expenses, changes in utility services, availability and accuracy of data to the parties, ability to synchronize the utility's investment, revenues and expenses, whether the utility is in a cost-increasing or cost-declining status, incentives to efficient management and operation and the length of time the new rates are expected to be in effect."

Q. Did you evaluate these factors as described in the Order when deciding which test period to use?

A. Yes. Mr. McKay already discussed some of these factors in his testimony. As he testified, the Company is in a cost-increasing status and is experiencing a change in investment as a result of the feeder-line replacements necessary on the system. He also discussed the rate-effective period that will begin in August 2010 and continue into 2011. I will discuss general inflation levels, changes in investment, revenues and expenses, availability and accuracy of data and the ability to synchronize investments, revenues and expenses.

Q. Do you think the synchronization of investment, revenues and expenses is an important factor to consider?

A. Yes, synchronization is an essential part of creating an accurate forecast. There is a direct link between number of customers, revenue and investment. As the number of customers rises, so does investment and the corresponding revenue those customers bring. The corresponding depreciation expenses, property taxes and deferred income taxes are also linked to investment. All of these items have been tied together to develop a test period that best reflects the conditions expected to occur during the rate-effective period.

Q. How have you synchronized the rate base, expenses and revenues?

A. I started with the projected rate base as of December 31, 2010. Using that year-end investment amount, I have annualized revenues for 2010 as if the projected customers in

December 2010 had been on the system for the entire year. This synchronizes the revenues from the year-end customers with the investment during the same period. In addition, I have annualized the depreciation expense, property taxes and deferred income taxes to reflect the amount based on year-end 2010.

Q. Were there concerns about test-period forecasts and availability of data in the Company's last rate case?

A. The two main concerns I heard from both the Committee auditor and the Division staff in the last case were that the data was not provided monthly and it was difficult to follow the budget projections and other forecasts because they were not presented at the FERC account level at the onset of the case.

Q. What has the Company done in this case to make the data easier to analyze and more accessible?

A. In this case we began with historical, monthly amounts at the FERC account level and built our forecasts using the same format. In addition, we have chosen a calendar-year test period that ties to our 2010 capital and operating budgets. We have presented a year-end test period in which we have projected December 2010 balances for all plant accounts rather than average test year which would require a forecast of monthly investment amounts from August 2010 to July 2011. In addition, the new filing requirements provide the Commission and the parties to the case more information at the time of filing than they have ever had with historic test periods.

Q. What is the general approach you have taken to develop the 2010 test period and revenue requirement?

A. The foundation for the December 2010 test period is the Company's historical financial information for the 12 months ended June 2009 as filed in the Company's last results of operations report. These amounts can be found on column B of QGC Exhibit 3.2. Adjustments were made to expenses, rate base and revenues to reflect the amounts anticipated to be in effect on December 31, 2010 (sections A through G below). From these 2010 forecasted numbers, regulatory adjustments required in past cases were made

(section III below). The total of these forecasting and regulatory adjustments is summarized on column C of QGC Exhibit 3.2. Column D presents the imputed tax adjustment. Columns B, C and D are added together to calculate the adjusted system total in column E. Finally, the numbers are allocated to the Utah and Wyoming jurisdictions. The Utah jurisdictional numbers are shown in column F.

Q. Please explain the adjustments you have made to revenue, expense, and rate base accounts that you expect to occur and have included in the December 2010 test-period values.

A. QGC Exhibit 3.2, column C, provides the total of all material changes in the test period from June 2009. Pages 1-3 of QGC Exhibit 3.3 provide a summary of the changes in revenue, expenses and rate base by adjustment and show how these adjustments add up to the total shown on column C of QGC Exhibit 3.2. QGC Exhibits 3.4 through 3.35 provide a detailed calculation of each adjustment. In the narration that follows I will provide a reference of where each adjustment can be found in the summary QGC Exhibit 3.3 and I will discuss the detail of each adjustment.

A. Rate Base

QGC Exhibit 3.3, page 1, column A and QGC Exhibit 3.4, pages 1 – 3.

Q. Please explain how rate base was projected for the test period.

A. I calculated the projected Gas Plant in Service (101/106) balances by starting with actual September 2009 balances (QGC Exhibit 3.4, page 1, column A), as this was the most recently available historical data. I then took the remaining net 2009 capital additions (column B) to calculate the projected December 2009 balance (column C). The 2010 net additions (column D) were then added to the December 2009 balance to calculate the December 2010 balance (column E). QGC Exhibit 3.4 page 2 shows the calculation of the net additions for each year. I took the capital budget by FERC account for 2009 (QGC Exhibit 3.4, page 2, column A) and subtracted the budget amounts that had already been spent during 2009 (column B). Next, I removed the vintage retirements expected to occur during October, November and December of 2009 (column C). Last, I added the

amounts currently in the Construction Work in Progress (column D) and removed the amount expected to be Construction Work in Progress at the end of the year (column E). These net 2009 additions in column F were then added to the September 2009 plant balances by FERC account to arrive at a December 2009 balance. This step was completed in the "09-057-16 model.xls" model in the RB Forecast tab. The same steps were taken in QGC Exhibit 3.4, page 3, columns G through K to arrive at December 31, 2010, Gas Plant in Service balances.

As explained by Mr. McKay in his Direct Testimony, the main driver for this case is feeder-line replacements. The capital budget includes about $40 million for feeder-line replacements in 2010; that's about one-third of the capital budget. While these replacements are necessary for the integrity and safety of the system, they do not directly add any additional revenue.

Questar Gas has also projected the Accumulated Depreciation/Amortization (Account 108/111) will increase by $33.5 million from December 2009 to December 2010 resulting in an ending balance of $724.2 million for the test year (QGC Exhibit 3.5, column E, line 11).

The Miscellaneous Customer Credits (Account 252) was calculated by taking the historical balances and projecting customer refunds and amounts moved to capital projects. (QGC Exhibit 3.6, column E, line 6).

The deferred income taxes account balances (Account 282) for 2009 and 2010 were calculated by taking projected investment, depreciation and tax amounts and projecting their impact on deferred income taxes. (QGC Exhibit 3.7, line 13).

The deferred income tax credits (Account 255) is a straight-line amortization that can be easily forecasted. (QGC Exhibit 3.7, line 14).

The remaining rate-base accounts of Materials and Supplies (Account 154), Prepayments (Account 165), Customer Deposits (Account 235), and Unclaimed Customer Deposits

(Account 253.1) were calculated by taking the 13-month average for September 2009. No significant change is expected in these accounts; therefore, these average amounts were used for December 2009 and 2010. Additionally, these accounts are seasonal in nature, thus the 13-month average rather than a year end balance is reflective of conditions that will occur during the rate effective period.

Q. You stated that the Capital Budget was used to forecast the plant for the year ended 2010. How accurate have your capital budget forecasts been in the past?

A. QGC Exhibit 3.8 shows the capital budget for the last five years compared to actual expenditures. As shown on line 6 of the exhibit, the Company spends about 96.5% of budget amounts on average.

Q. Mr. McKay stated that feeder lines are the major driver in this case as they were in Docket No. 07-057-13. How accurate have the capital budgets been with respect to feeder lines?

A. The table below shows the capital budget for 2007 and 2008, as well as the percentage and amounts spent. These amounts include new construction and replacement of old feeder lines.

	Budget	Expenditures	Percent of Budget
2007	$36,770,000	$55,526,039	151%
2008	$53,430,000	$57,355,164	107%

As the table shows, the Company has exceeded its budgeted amount for feeder lines for the last two years. Additionally, a trend can be seen that since the Company began replacing its feeder lines in 2007 it has been spending more than its budget.

B. Forecasted Expenses

QGC Exhibit 3.3, page 1, column B and QGC Exhibit 3.9.

Q. What is the Company projecting for test period operating and maintenance (O&M) expense?

A. A summary of base period expenses, 2009 expenses and test period expenses are shown in QGC Exhibit 3.9. As page 1, column C, line 52, shows, the Company is projecting O&M expenses of $144.0 million, a 4.8% increase over the base period amount of $137.4 million.

Q. What approach was used to adjust historical O&M expenses to reflect the forecasted test period O&M expenses?

A. The two major components that make up operating and maintenance expenses, labor and non labor, were forecasted using different methods. It was necessary to identify the historical labor and non labor expenses by FERC account and split them out. QGC Exhibit 3.9, page 2 shows test period expenses separated by FERC account and cost component. Labor and labor overhead makes up about $81 million of the total O&M expense (QGC Exhibit 3.9, page 2, column A line 52). All other O&M expenses were included in the non labor category (column B).

Q. How were the labor and labor overhead O&M expenses forecasted?

A. This calculation is shown in QGC Exhibit 3.10. Historical labor and labor overhead amounts were used through October 2009 (columns A through J). Budgeted amounts were then added for November and December (columns K through L). The 2009 monthly amounts are shown on QGC Exhibit 3.10, page 1. In 2010, budgeted amounts were used by month. These amounts are shown in QGC Exhibit 3.10 page 2, columns A through L. It was then necessary to annualize this expense to reflect the amount of labor and labor overhead in effect at year end. The annualized expenses for 2010 were calculated by taking the 4th quarter expense and multiplying them by 4. QGC Exhibit 3.10 shows the amounts by the different components of labor and labor overhead. The monthly amounts by FERC account are shown in the "expenses X" tab of the "09-057-16 Model.xls".

Q. How were the non labor O&M expenses forecasted?

A. The detailed calculation is shown in QGC Exhibit 3.11. The basis for the forecasted non-labor O&M expenses were the historical O&M expenses for the 12 months ended June 2009. The base period contains expenses for the period ended June 2009 but rather than forecast July, August and September of 2009, actual amounts were included. The historical monthly non-labor costs were increased or decreased using the October 2009 Global Insight Power Planner report. The pages from this report used in the forecast are included in QGC Exhibit 3.12. The 2009 expenses were calculated by taking the actual expenses from January through September of 2009 (column B), and adding the 4th quarter 2008 expenses (column A), adjusted by the global insight inflation factors for 2009 (column F). The result is shown in column C. The 2010 expenses were forecasted by taking the total 2009 expenses (column D) and multiplying them by the global insight inflation factors for 2010 (column G).

Q. How has the Company addressed areas where non-labor expense increases were different than the Global Insight inflation numbers?

A. The Global Insight forecast was compared with the Company's budgets. There were four areas where the budgets were materially different from the historical inflation adjusted amounts: DSM expense, Computer Software, Bad Debts and third party claims. These four areas are all accounted for in separate adjustments.

Q. How accurate have O&M budgets been in the past?

A. QGC Exhibit 3.8 shows a comparison of historical O&M expenses compared to actual expenses. Line 12 of the exhibit shows that on average over the last 5 years, the Company incurred 99.7% of its projected budget amounts.

C. Revenue

QGC Exhibit 3.3, page 1, column C and QGC Exhibit 3.14, pages 1-2.

Q. How have you estimated usage per customer for the test period?

A. The long term trend of usage per customer has been declining over the last few decades. QGC Exhibit 3.13 shows the historical and forecasted use per customer for the GS class in Utah. As shown on the graph, the GS class experienced a decline in 2009 and this decline is expected to continue through 2010. The table below shows the projected usage per customer for 2009 and 2010.

	Usage Per Customer	Change From Prior Year
12 Months Ended December 2009	108.14	-1.83
12 Months Ended December 2010	106.41	-1.73

As shown in the table, it is expected that the December 2009 usage per customer will be at 108.14 Dth. The 2010 usage per customer was calculated using a linear regression of the 12-month moving totals from January 2004 through September 2009. This regression analysis yielded a 2010 usage per customer of 106.41 Dth, a 1.73 Dth decline from 2009. While the effects of the Demand-Side-Management programs and the addition of new, more energy-efficient homes are expected to reduce usage per customer, natural gas prices are projected to remain significantly lower relative to income during 2010. This is expected to partially offset the effects of energy efficiency, resulting in a slightly smaller decline in 2010 than 2009. Industrial consumption is forecasted to decrease initially as the effects of the recession on manufacturing continue to be realized.

Q. How have you estimated customers for the test period?

A. The estimated customers used in this case for the remainder of 2009 and 2010 are based on the Company's most recent Integrated Resource Plan filed May 4, 2009. Economic conditions that form the basis for the forecast have shifted dramatically over the last couple of years leading to slower growth in 2008 and a slower growth forecast for 2009 and 2010. The housing and credit crises and resulting economic recession in 2008 resulted in 12,848 Utah Residential GS additions, a drop of 7,532 from total additions in 2007. Economic conditions driving the slowdown in housing and residential

construction are expected to continue through 2009 and 2010, resulting in a forecast of about 10,000 Utah residential additions in 2009 and about the same in 2010. Utah GS commercial customer additions are expected to change in direct proportion to the change in Utah GS residential customer additions. Historically, the relationship of commercial customers to residential customers has remained stable. As the Company adds residential customers, commercial customers are added to provide services to them. It is anticipated that approximately 900 commercial customers will be added in 2009 and about the same number in 2010.

Q. How were revenues calculated for the test period?

A. Revenues for the GS class were based on projected year-end customers and allowed CET revenues. Revenues for the other rate classes were based on projected year-end customers and their expected annual usage. QGC Exhibit 3.14, pages 1 and 2, show the revenue calculations for 2009 and 2010, respectively. As mentioned earlier, we are annualizing year-end customers, so instead of projecting customers by month for the test period, we are using the customers projected in December 2010 and calculating their revenues as if those customers were on the system for the entire year. This matches revenues with the amount of investment projected to be in service on December 31, 2010.

D. Depreciation Study

QGC Exhibit 3.3, page 1, column D and QGC Exhibit 3.17.

Q. Are you proposing new depreciation rates in this case?

A. Yes. This adjustment was calculated using new rates based on a recent depreciation study.

Q. Please provide some background about these new depreciation rates.

A. In Docket No. 05-057-T01, Questar Gas filed for the approval of new depreciation rates that reduced the annual depreciation expenses of the Company. In that docket, the Commission issued an accounting order that approved the new depreciation rates for the Utah jurisdiction based on the 2004 depreciation study. They also approved new gas

rates that reflected the depreciation rates.

The Company was also ordered to do another depreciation study based on 2007 plant. Questar Gas again hired the third-party consultant, Gannett Fleming, to conduct the study. A copy of the 2007 study is included in QGC Exhibit 3.15.

Q. Please summarize the findings and recommendations of this study.

A. Any given asset has a depreciation rate, an accumulated reserve, or the amount that has been depreciated to date, an amount left to be depreciated and a remaining life over which the remaining balance should be depreciated. Gannett Fleming reviewed the depreciation rates of all asset classes and determined appropriate depreciation rates as well as appropriate reserve and remaining life amounts for each asset class. The 2007 study updates certain depreciation rates and in cases where the actual depreciable reserve and the estimated depreciable reserve differ, the study recommends amortizing the difference over the remaining life of the asset.

Q. Were there any major differences between the 2004 study and the 2007 study?

A. QGC Exhibit 3.16 shows a comparison of the old and new rates based on June 30, 2009 plant amounts. The 2004 study reserve variance was being amortized over a 10-year life; the 2007 study is proposed to be amortized over the remaining life. This has the effect of reducing the reserve variance (line 29) related to distribution plant because the distribution plant has a remaining life longer than 10 years; Conversely, the reserve variance related to general plant (line 54) will increase because the general plant has a remaining life less than 10 years.

Q. What effect do these new rates have on the overall depreciation expense?

A. The study proposes longer depreciable lives for mains, services and some meters. These longer depreciable lives result in a lower depreciation expense. Conversely, the total reserve variance will be lower because it is being amortized over a longer period of time. The combination of the longer depreciable lives and the lower reserve variance results in an overall reduction to June 30, 2009 system wide depreciation expense of $316,884 (QGC Exhibit 3.16, column J, line 57).

Q. Please explain the depreciation adjustment.

A. This calculation is shown in QGC Exhibit 3.17. The projected 2010 investment amounts shown in column B were multiplied by the proposed depreciation rates in column A to calculate the proposed annual depreciation expense in column C. The amounts related to the reserve variance and clearing have been removed from expense in lines 75, 141 and 142. The overall result is a proposed depreciation expense of $48.6 million as shown on column C, line 149.

Q. Will there be depreciation studies in the future?

A. Yes. In the Revenue Requirement Stipulation in Docket No. 07-057-13, the Company agreed to perform a new depreciation study every five years on a going-forward basis.

E. Taxes Other than Income Taxes

QGC Exhibit 3.3, page 1, column B and QGC Exhibit 3.18.

Q. How did the Company forecast taxes other than Income Taxes?

A. The detail is shown in QGC Exhibit 3.18. Total other taxes for 2010 are expected to be about $1.7 million higher than the base period amounts due to an increase in property taxes (line 1). Mill levies have increased dramatically over the last year. In addition, Questar Gas's assessed property valuation remained high as it was based on book value rather than fair market value. The result of having higher mill levies and high assessed property value results in a much higher property tax for the Company. This adjustment is included as part of the forecasted expense adjustment and can be seen on QGC Exhibit 3.3, column B, line 26.

F. Software Adjustment

QGC Exhibit 3.3, page 1, column E and QGC Exhibit 3.19

Q. Please explain the software adjustment.

A. In 2009, Questar incurred $2.8 million in expenses mostly related to software maintenance. The addition of a couple of new software systems will increase this amount by about $342,000 in 2010.

G. NGV Adjustment

QGC Exhibit 3.3, page 1, column F and QGC Exhibit 3.20

Q. Please explain the proposal you are making in regard to NGV expenses.

A. As explained by Mr. McKay, the 2010 capital budget includes $5.1 million for upgrades to existing NGV compressor stations and installation of new stations. QGC Exhibit 3.20 shows the effect that this incremental investment will have on the revenue requirement. Line 4 shows that the net investment, including accumulated depreciation and deferred income taxes will be $4.4 million. This amounts to about $530,000 for return and taxes (line 6). In addition, depreciation expense (line 7) taxes other than income taxes (line 8) and operation of compressor station equipment (line 9) will add another $946,000 for a total revenue requirement of about $1.5 million (line 11). The investment and related changes to depreciation expense, property taxes and accumulated depreciation have already been included in the forecasted expense and rate base adjustments discussed previously. The additional operating expense shown on line 9 of this exhibit has not been included in prior adjustments and can be seen separately in QGC Exhibit 3.3, column F line 19.

III. REGULATORY ADJUSTMENTS

A. Underground Storage

QGC Exhibit 3.3, page 1, column G and QGC Exhibit 3.21.

Q. Please explain the adjustment for Gas Stored Underground.

A. Pursuant to the final order in Docket No. 93-057-01, Account 164, Gas Stored Underground - Current, is to be accounted for in the Company's pass-through cases and excluded from test-year rate base. This is accomplished in the pass-through cases by

allowing a return on the actual average balance in this account to be entered as a gas cost in the 191 Account. This adjustment removes the total balance of Account 164 from the rate-base calculation.

B. Wexpro Adjustment to Production Plant

QGC Exhibit 3.3, page 2, column H and QGC Exhibit 3.22.

Q. Please explain the adjustment for Wexpro investment.

A. In accordance with the Wexpro Agreement, Wexpro adds 6.3% of Questar Gas's production plant to the Wexpro investment as a general plant allowance when calculating the Wexpro service fee charged to Questar Gas. The Wexpro Agreement also provides that the production plant component in each Questar Gas rate base plant account be reduced by 6.3%.

C. Oak City Revenue

QGC Exhibit 3.3, page 2, column I and QGC Exhibit 3.23.

Q. Please explain the adjustment for Oak City revenue.

A. This adjustment imputes Extension Area Charge (EAC) revenues for the Oak City area. The adjustment is necessary to correct for the miscalculation that occurred during the canvas of Oak City. The canvas was conducted with an EAC $10 less per month than was appropriate. In its original application in Docket No. 98-057-04, the Company agreed to run the system at the EAC used during the canvas and impute additional revenues in future rate proceedings.

D. Minimum Bills

Q. Please explain whether an adjustment was made for minimum bills.

A. In prior cases, the revenue-run program did not include minimum bill revenue for all of the Utah FT-1 and FT-2 service customers. A separate adjustment was used to include this revenue. Since the conclusion of Docket No. 07-057-13, only one large FT-1 customer has been charged a minimum bill. This minimum bill has been built into the revenue run. With the exception of this customer there are no anticipated minimum bills

during the test period. Therefore, this adjustment is no longer necessary and was not made in this case.

E. Bad Debt Expense

QGC Exhibit 3.3, page 2, column J and QGC Exhibit 3.24.

Q. What is the adjustment for bad-debt expense?

A. Bad debt expense is broken out into three components: bad debt related to distribution non-gas revenue, bad debt related to supplier non-gas revenue and bad debt related to commodity revenue. This adjustment first removes the bad debt related to supplier non-gas and commodity revenue as they are accounted for in the pass through. The removal of these expenses is shown in QGC Exhibit 3.24, lines 5 and 6. Next, the adjustment annualizes the DNG portion of bad-debt expense forecasted to occur for the 12 months ended December 2010 to the 3-year average level of bad-debt expense. This methodology was originally proposed by the DPU in the 1995 general rate case and has been used in Docket Nos. 99-057-20, 02-057-02 and 07-057-13. The calculation of this adjustment is shown on QGC Exhibit 3.24, lines 14 through 19. Net charge-offs for each year (line 16) are divided by booked system revenues (line 18) to calculate a bad-debt ratio (line 21). The ratios of 0.40%, 0.45% and 0.88% have been calculated for 2008, 2009 and 2010, respectively, and the three-year average of 0.56% has been calculated in column I, line 21. The allowed DNG related bad debt is calculated in column H, lines 26-38, Test-Period Utah Distribution Non-Gas revenue of $254,566,175 (line 26) is multiplied by the adjusted three-year average of 0.56% (line 28) to calculate an allowed Utah DNG bad debt of $1,422,084 (line 29). The test-period system Utah DNG bad-debt expense is $2,062,350 (line 32). The resulting adjustment to the test period is a reduction to Utah expenses of $640,267 (line 36).

F. Allowed Time

Q. Please explain the Allowed Time adjustment.

A. This adjustment was previously called the banked vacation adjustment. In 2006, sick leave and banked vacation were combined and called banked paid time off (PTO) for

human resources purposes and allowed time for accounting purposes. This adjustment was proposed by the Committee of Consumer Services in Docket No. 93-057-01. In the Docket, the Committee's witness stated, "When the Company records the provision for banked vacation, it debits Account 185, a payroll overhead clearing account, and credits Account 232.1, Miscellaneous Payables. Thus the banked vacation earned during the test year is included in test-year payroll costs – an amount which is funded by ratepayers. Since the amount of banked vacations earned during the test year is encompassed within payroll costs, the excess of banked vacations earned over banked vacations taken, as reflected in the net Account 232.1 balance, necessarily represents costs that have been provided by ratepayers in the past. This non investor-supplied capital should be removed from rate base."[1] The Company agreed to make this adjustment and has made it since the 1993 docket.

Q. Has the Company included this adjustment in this case?

A. No.

Q. Why is the Company proposing to eliminate this adjustment?

A. The answer to this question can be found in the same testimony referenced earlier. The Committee's witness stated that an alternative to removing the net balance from rate base would be to incorporate the banked vacation as part of the payroll lag in the lead lag study. The testimony states, "The incorporation of compensated absences, such as banked vacation, in the payroll lag is an acceptable method of handling compensated absences for ratemaking purposes."[2] The Company has included these banked amounts in the 2006 Lead/Lag study that is being used in this case to calculate cash working capital. Including these costs in the Lead/Lag study and making the adjustment to rate base would result in double counting of this adjustment. For this reason, the Company has not included the adjustment to rate base.

[1] Direct Testimony of Hugh Larkin in Docket No. 93-057-01, p. 14, lines 3-12.

[2] Ibid., lines 16-18.

Q. Where can these allowed time amounts be found in the 2006 Lead/Lag Study?

A. Allowed time is included in column A, line 2 of the payroll overhead lag portion (page 5.4.1) of the 2006 Lead Lag Study. This $34.8 million of total payroll overhead is included in the summary of payroll and payroll overhead lag in column A, line 2 of page 5.1.1 of the Lead Lag Study. This page shows that the Company properly and adequately accounts for allowed time as described in the alternative proposal by the Committee's witness. This page can be found as part of the Lead/Lag study in QGC Exhibit 3.36.

G. Incentive Compensation

QGC Exhibit 3.3, page 2, column K and QGC Exhibit 3.25, pages 1–4.

Q. Please explain the incentive-compensation adjustment.

A. In accordance with previous Commission orders in Docket Nos. 93-057-01, 95-057-02, 99-057-20 and 02-057-02, Questar Gas has removed, for ratemaking purposes, incentive-compensation expenses related to net-income, earnings-per-share and return-on-equity goals either paid directly by Questar Gas or allocated from Questar Corporation for incentive payouts. In these dockets, the Commission allowed incentives paid based on Questar Gas operating goals. These operating goals include reducing O&M per customer, increasing customer satisfaction and reducing accidents. This adjustment involves two steps. First, a weighted three-year average from 2006 to 2008 is calculated for the percentage of incentive payouts related to Questar Gas operating goals. As can be seen on page 4 of QGC Exhibit 3.25, the average payout related to Questar Gas operating goals was 10.56% for Questar Corporation's management plan (Column D, Line 6), 8.26% for Questar Corporation's Employee Plan (Column D, Line 14), 63.12% for Questar Gas' management plan (Column D, Line 22) and 62.90% for Questar Gas' employee plan (Column D, Line 30). These percentages are then multiplied by the incentive amounts forecasted to be paid out during the test period (QGC Exhibit 3.25, pages 2 and 3) In addition to the management- and employee-incentive plans, Questar Corporation has a long-term incentive plan that it pays to corporate officers. The $25,535 related to this incentive plan has been removed on QGC Exhibit 3.25, page 2,

column D, line 5. The end result of these calculations is a removal of $2.4 million (QGC Exhibit 3.25, page 1, column A, line 3).

H. Stock Incentive Adjustment

QGC Exhibit 3.3, page 2, column L and QGC Exhibit 3.26

Q. Please explain the stock-incentive adjustment.

A. Certain deferred compensation is accounted for by using a stock-based incentive. The stock-incentive expense is adjusted up or down based on the price of Questar Corporation's stock. Consistent with the Commission order in Docket No. 93-057-01, an adjustment has been made to decrease expenses for the test period by removing all projected expenses related to phantom stock and mark-to-market stock directly charged to Questar Gas and indirectly allocated from Questar Corporation. For the base period, this adjustment added $753,316 of expenses. This amount has been updated through September 2009, adjusted for inflation and removed from the December 2010 results. For the test period, an amount of $97,585 has been added. This expense fluctuates with the Company's stock price. In the last half of 2008, there was a dramatic drop in the stock price of the Company. This drop caused the value of the stock incentives to drop and expenses to be reduced accordingly. In 2009 the stock price movements have been much less dramatic, and as a result the expenses recorded have been much smaller. This explains the large difference between the adjustment in the based period and the test period.

I. Sporting Events

QGC Exhibit 3.3, page 2, column M and QGC Exhibit 3.27.

Q. Please explain the adjustment for sporting events.

A. During the 2008 – 2009 athletic season, Questar Gas received allocated expenses from Questar Corporation for tickets to sporting events at the Energy Solutions Arena, Spring Mobile Field and the E Center. During this period, 46.93% of the tickets were used in a Questar Gas employee-recognition plan. That is, those employees who had performed in an exemplary manner were awarded tickets to the games. The remaining tickets were

used for marketing or other purposes. Pursuant to Commission orders in Docket Nos. 99-057-20 and 02-057-02, the portion of these expenses related to employee recognition is allowed in rates and the expenses related to marketing or other purposes are removed from rates. The base period amounts have been updated through September 2009, adjusted for inflation and $14,995 has been removed from the December 2010 results in QGC Exhibit 3.27, page 1 line 26.

J. Advertising

QGC Exhibit 3.3, page 2, column N and QGC Exhibit 3.28.

Q. Please explain the adjustment for advertising.

A. Consistent with the Commission order in Docket No. 93-057-01, an adjustment has been made to decrease expenses in the test period by removing the advertising expenses related to promotional and institutional advertising and the Parade of Homes. Included in this adjustment, is a portion of the American Gas Association (AGA) dues that have been determined to be related to promotional advertising or lobbying. The base year amounts have been updated through September 2009, adjusted for inflation and $48,805 has been removed from the December 2010 results in QGC Exhibit 3.28, page 1, line 15. By settlement in Docket 07-057-13 the Company agreed to track costs in this account that were related to energy-efficiency. The Company notes that the majority of these expenses in lines two and three are related to the fall-prep campaign that for the last three years has used the Therm character to encourage safety and appliance preparation for winter. Although the Therm brand does represent conservation and energy efficiency the Company feels these are costs that are best left in general rates and should not be accounted for on a deferral basis in the 182.4 account.

K. Donations and Memberships

QGC Exhibit 3.3, page 2, column O and QGC Exhibit 3.29.

Q. Please explain the adjustment for donations and memberships.

A. In the order in Docket No. 93-057-01, the Commission prescribed which types of donations and memberships are recoverable in rates. This adjustment identifies and

removes similar entries that are included in the test period, and the same types of expenses allocated from Questar Corporation. There were three types of costs removed in this adjustment: donations, lobbying, labor and overhead from Questar Corporation and expenses paid to consultants related to lobbying. QGC Exhibit 3.29, page 2, lines 2 - 4, were donations paid by Questar Corporation during the base period. Government relations labor, overhead and A&G expense are shown on line 5 and 6. Page 3 of QGC Exhibit 3.29 shows the projected donations. Line 1 shows a payment to Junior Achievement that has been updated for inflation and removed from expenses. QGC Exhibit 3.29, page 1, line 5 shows that $60,325 has been removed from the test period.

L. Reserve Accrual

QGC Exhibit 3.3, page 2, column P and QGC Exhibit 3.30.

Q. Please explain the reserve accrual.

A. The reserve accrual includes legal liabilities associated with the Company's self-insurance program. In Docket No. 07-057-13, the parties stipulated that the allowed reserve accrual amount would be based on the five-year average of actual payments made by the Company. Line 7 shows the five-year average and line 8 shows the actual accruals made, adjusted for inflation. The adjustment on line 9 removes $1,083,851 of expense from the 2010 results.

M. Pipeline Integrity Expense

QGC Exhibit 3.3, page 2, column Q and QGC Exhibit 3.31.

Q. Please provide the background on the pipeline-integrity expense.

A. On April 21, 2004, in Docket No. 04-057-03, Questar Gas filed with the Commission an application for a deferred accounting order authorizing it to establish an account for costs the Company will incur in order to remain in compliance with the new federal requirements of the Pipeline Safety Improvement Act of 2002, and the Final Rule regarding "Pipeline Integrity Management in High Consequence Areas." On June 24, 2004, the Commission approved the application and authorized Questar Gas to defer the incremental gas-transmission-line-safety-compliance costs incurred on or after January 1,

2004. Two years later, on June 1, 2006 in Docket No. 05-057-T01, the Commission approved the Settlement Stipulation that allowed Questar Gas to begin expensing $2 million per year to cover pipeline-integrity costs. Then, on August 15, 2009, in Docket No. 07-057-13, the Commission approved a stipulation allowing Questar Gas to begin expensing $5.1 million per year. Of the $5.1 million, $3.5 million is related to ongoing pipeline-integrity expenses and $1.6 million is related to expenses incurred prior to August 15, 2007. The order also required the Company to continue recording costs incurred above the $3.5 million level in the 182.3 account.

Q. What has happened in this account since the last case?

A. The higher allowed expense amounts have allowed the Company to reduce the balance in this account. The monthly activity is shown in QGC Exhibit 3.31 page 2.

Q. What is the Company proposing to do on a going-forward basis?

A. Questar Gas is proposing to leave the current expense level at $3.5 million per year and to reduce the amortization of prior expenses from $1.6 million to $870,000. The net result will be a reduction in the allowed expense from $5.1 million to $4.4 million. QGC Exhibit 3.31 page 1 shows the calculation. The total expenses of $5.1 million were adjusted for inflation in the forecasted expense calculation. This is adjusted amount is shown on line 5. It is necessary to adjust this amount down to the proposed $4.4 million. The resulting reduction to expense of $764,577 is calculated in column B line 10.

Q. How did you calculate the $870,000 amortization amount for prior expenses?

A. The projected balance in the 182.3 account is shown in QGC Exhibit 3.31, page 2, column D. The projected balance in June of 2010 is expected to be $4.4 million. The Company proposes that the $4.4 million be amortized over five years. This is consistent with the length of time approved in Docket No. 07-057-13. When amortized over five years, the annual amortization would be $870,000.

Q. What will be the accounting treatment if the Company does not incur the full amount of ongoing expenses in a given year?

A. To the extent that actual ongoing expenses are less than $3.5 million per year, the difference will continue to be credited to the deferred account. To the extent that actual ongoing expenses are greater than $3.5 million, the difference will continue to be debited to the deferred account.

Q. Do you have any other proposals related to the pipeline-integrity deferral account?

A. Yes. Currently, the Pipeline and Hazardous Materials Safety Administration and the Department of Transportation have published a proposed rule that would establish integrity-management requirements for gas-distribution-pipeline systems. Like the Federal Pipeline Safety Regulations, this proposed rule will require operators of gas-distribution pipelines to develop and implement integrity-management programs. The purpose of these programs is to enhance safety by identifying and reducing pipeline-integrity risks. The integrity-management programs required by the proposal would be similar to those currently required for gas-transmission pipelines, but tailored to reflect the differences in and among distribution systems. It is anticipated that this proposed rule will be final before the end of this year and will go into effect some time during 2011. Like the 2002 Pipeline Safety Act, the distribution integrity management program will be federally mandated and will result in incremental costs. The exact amount of these costs is not known at this time. Therefore, the Company proposes that they account for these costs in the 182-3 account.

N. Aircraft

QGC Exhibit 3.3, page 3, column R and QGC Exhibit 3.32

Q. Please explain the aircraft adjustment.

A. Questar Gas pays an annual charge related to its use of the company airplane. These charges, adjusted for inflation, are shown on line 1. Most of the flights taken are related to business outside of Utah and as a result this adjustment removes 67.7%, or $67,616 (line 3) not associated with the Utah jurisdiction.

O. Accounting Adjustment

QGC Exhibit 3.3, page 3, column S and QGC Exhibit 3.33.

Q. Please explain the accounting adjustment.

A. The federal government currently offers a tax credit for those who use natural gas as a fuel in their vehicles. The Company reduces the price at the pump by 24 cents for the customer, then files with the federal government to receive the credit for all gallons sold. In 2008, these credits were collected and booked as a reduction to expense when in fact the credits should have been booked to revenue. QGC Exhibit 3.33, shows an adjustment that removes the $181,507 credit from expense. If historical revenues were used, this adjustment would need to be made to revenue. The projected revenue run for 2010 calculates the correct amount of revenue for the Dth used, thus, no adjustment to revenue is necessary.

P. DSM Removal Expense

QGC Exhibit 3.3, page 3, column T and QGC Exhibit 3.34

Q. Please explain why the DSM expenses need to be removed.

A. The demand-side management revenues are collected from customers through the demand-side-management-amortization rate. When revenues are collected, an offsetting expense is made to the 908007 expense account. These revenues are not collected through distribution non-gas rates and are not included in the 2010 revrun calculation. Therefore, the DSM expenses must also be removed. QGC Exhibit 3.34 shows the monthly entries and the removal of these expenses.

Q. State Tax

QGC Exhibit 3.3, page 3, column U and QGC Exhibit 3.35.

Q. Please explain the adjustment for state tax.

A. Pursuant to Commission order in Docket No. 99-057-20, an adjustment has been made to remove all entries related to state income taxes passed from Questar Corporation to Questar Gas. Questar Corporation pays its state income taxes on a consolidated basis.

Questar Gas incurs its state income tax expense as if it were a stand-alone entity. At the end of each year, Questar Gas either owes additional tax or receives a refund from Questar Corporation based on how any additional state taxes are allocated. For rate purposes, Questar Gas imputes its income taxes. Thus, all booked expenses related to income taxes need to be removed from the revenue requirement calculation. This adjustment removes the state income tax allocation received from Questar Corporation. The base period amounts have been adjusted for inflation and $310,155 has been added to the December 2010 results in QGC Exhibit 3.35.

R. Lead-Lag Study

Q. In Docket No. 07-057-13, the Company updated the lead lag study. Have you made a similar update in this case?

A. No. In Docket No. 07-057-13, the Company updated the lead lag study through 2006 for calculating the required cash working capital allowance. In the same docket, the parties stipulated that when Questar Gas files a general rate case, it will use a lead lag study in which the end date of the period used for the study is not more than three years old at the time of the filing. The end date of the 2006 study will be less than three years old at the time of this filing. The same 2006 study used in the last case will be used in this case. The result of the study provides a net lead of about 2.7 days. The use of the study results in a test-year cash working capital requirement of $5,061,862 (QGC Exhibit 3.2, page 1, column F, line 47). A copy of the study has been included in QGC Exhibit 3.36.

Q. Please explain how the lead lag study affects cash working capital.

A. The cash working capital is defined as the amount of cash needed on hand by a utility to pay its daily operating expenses for the period between the time it provides services to its customers and the time it receives payment for those services. If, on average, the time to collect revenues for services exceeds the time to pay the expenses for those services, the utility is experiencing a "net revenue lag" which requires cash on hand. If, on the other hand, the lag to pay expenses is longer than the lag to collect revenues, it is experiencing a negative "net revenue lag."

S. Distrigas Allocation

Q. Please explain the Distrigas Allocation.

A. Many Questar Corporation expenses are charged directly to the affiliates where there is a direct connection between the affiliate and the expense. The Distrigas formula has been adopted by the Commission as a reasonable method for allocating Questar Corporation common costs to subsidiaries. The Distrigas formula is a three factor formula, based on gross plant, gross revenues and gross payroll. QGC Exhibit 3.37 shows the Distrigas percentages for the last five years. The exhibit shows that the amount allocated to Questar Gas has been steadily declining. As Questar Gas plant and revenue become a smaller portion of the total corporate amounts, the corporate expenses allocated to Questar Gas also decrease.

IV. PROJECTED DEFICIENCY AND REVENUE REQUIREMENT

Q. Have you calculated a total revenue requirement for this case?

A. Yes, based on the projected capital structure and a 10.6% return on equity as proposed by Mr. Curtis incorporated together with the forecasted data and regulatory adjustments, I have calculated the total Utah revenue requirement to be $277.3 million.

Q. Using the current allowed GS revenues and volumetric revenues for all other classes, what is the projected revenue deficiency for the test period?

A. QGC Exhibit 3.2, page 1, presents the result of this calculation. The exhibit shows that for the test period, the Utah operations of the Company would be expected to earn 8.21%. This results in a revenue deficiency of $17,201,936 (column G, line 3).

Q. Have you made a similar calculation of the revenue deficiency using volumetric revenues for the GS class instead of the Commission-allowed revenue ?

A. Yes. QGC Exhibit 3.38 presents this calculation. The exhibit shows that for the test year, the Utah operations of the Company would be expected to earn 8.56% on common equity during the rate-effective period absent rate relief in this docket. This amounts to a

revenue deficiency of $14.7 million.

Q. Does the difference cause the total revenue requirement to change?

A. No. The allowed revenue requirement does not change. A summary of the two calculations is shown in the table below:

	Current Revenue	Deficiency	Revenue Requirement
Volumetric Revenue	$262.6 Million	$14.7 Million	$277.3 Million
CET Allowed Revenue	$260.1 Million	$17.2 Million	$277.3 Million

Rates will be set on the total revenue requirement, not the deficiency, thus, the end result will be the same regardless of what revenue deficiency amount is used.

Q. Does that conclude your testimony?

A. Yes.

State of Utah)
) ss.
County of Salt Lake)

I, Kelly B. Mendenhall, being first duly sworn on oath, state that the answers in the foregoing written testimony are true and correct to the best of my knowledge, information and belief. Except as stated in the testimony, the exhibits attached to the testimony were prepared by me or under my direction and supervision, and they are true and correct to the best of my knowledge, information and belief. Any exhibits not prepared by me or under my direction and supervision are true and correct copies of the documents they purport to be.

_____
Kelly B. Mendenhall

SUBSCRIBED AND SWORN TO this ___ day of December 2009.

_____
Notary Public