BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF QUESTAR GAS COMPANY TO INCREASE DISTRIBUTION RATES AND CHARGES AND MAKE TARIFF MODIFICATIONS	Docket No. 13-057-05

DIRECT TESTIMONY OF KELLY B. MENDENHALL

FOR QUESTAR GAS COMPANY

July 1, 2013

QGC Exhibit 3.0

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I. INTRODUCTION

Q. Please state your name and business address.

A. Kelly B. Mendenhall, 333 South State Street, 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 Director 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 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 explain why the proposed test period of 12 months ending December 2014 best reflects the condition that will occur during the rate-effective period. I will also calculate the proposed revenue requirement and deficiency resulting from the December 2014 test period. Additionally, I will discuss the proposed changes to the Transportation Service (TS) and Interruptible Service (IS) rate schedules.

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 December 31, 2012.

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, 2014 with all elements of the test period based on 2014 forecasts. As I will discuss later, this test period coincides with and best reflects the conditions that will occur during the rate-effective period of March 2014 to February 2015.

Q. Is the proposed test period consistent with the Commission's test period requirements found in Section 54-4-4 (3)(a) of the Utah Public Utility Code?

A. Yes. Section 54-4-4(3)(a) provides that, "the Commission shall select a test period that, on the basis of evidence, the Commission finds best reflects conditions that a public utility will encounter during the period when the rates determined by the Commission will be in effect." The Commission may use a future test period that is determined on the basis of projected data not exceeding 20 months from the date a proposed rate increase or decrease is filed. In this case, the Company is proposing to use a future test period that is based on 18 months of projected data from the July 1st filing date.

Q. How does the 2014 test period compare with the rate effective-period?

A. The rate-effective period will begin March 1, 2014. Our proposed future test period, using average-year data, best reflects the conditions Questar Gas will encounter during the period when rates will go into effect. This test period reflects expenses and investment projected from March 2014 through February 2015. The average 2014 test period best reflects the conditions that will occur during that time.

Q. Are there any other factors that must be evaluated in order to determine a proper test period?

A. Yes. In its October 20, 2004 Order Approving Test Period Stipulation in a Rocky Mountain Power general rate case, the Commission listed additional factors for consideration in establishing 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."[1]

Q. Did you evaluate these additional factors in determining which test period to use?

A. Yes. As Mr. McKay explained, the major driver of this case is the Company's significant increase in capital investment. In 2013 and 2014 the Company will be spending just under $200 million per year for customer growth, aging infrastructure replacement and

[1] Docket No. 04-035-42, Commission order dated October 20, 2004.

system expansion. This investment will have a significant effect on rate base and on the Company's revenue requirement. This significant increase in investment makes it more important than ever to correctly match the test period with the rate effective period.

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 the number of customers, revenue and investment. As the number of customers rises, so does investment and the corresponding revenue from those customers. Depreciation expense, 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. Investment and other rate base accounts have been projected for 2013 and 2014. The depreciation expense, property taxes and deferred income taxes have been adjusted to match the investment. The capital expenditures related to new customer growth are included in the 2013 and 2014 investment amounts. Incremental revenue and volumes from new customer growth have also been included in the revenue forecasts for 2013 and 2014.

Q. What is the general approach you have taken to develop the 2014 test period and revenue requirement?

A. The foundation for the December 2014 test period is the Company's historical financial information for the 12 months ended December 2012 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, 2014 (section II). From these 2014 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 2014 test-period values.

A. QGC Exhibit 3.2, column C, provides the total of all material changes in the test period from December 2012. 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 3.28 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 December 2012 balances (QGC Exhibit 3.4, page 1, column A), as this was the most recently available historical data. I then took the net 2013 capital additions (column B) to calculate the projected December 2013 balance (column C). The 2014 net additions (column D) were then added to the December 2013 balance to calculate the December 2014 balance (column E). QGC Exhibit 3.4 page 2 shows the calculation of the net additions for each year. I took the $195 million capital budget by FERC account for 2013 (QGC Exhibit 3.4, page 2, column B) and removed the vintage retirements expected to occur during 2013 (column C). Last, I added the amounts in the Construction Work in Progress at the end of 2012 that will be closed in 2013 (column D) and removed the amount expected to be Construction Work in Progress at the end of the year (column E). The net 2013 additions in column F were then added to the 2012 plant

balances by FERC account to arrive at a December 2013 balance. This step was completed in the rate case 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, 2014, Gas Plant in Service balances.

As I explained earlier, the main driver for this case is capital investment. The capital budget includes $195 million and $189 million in 2013 and 2014. The Company is proposing to include $65 million in the tracker for high pressure feeder lines and intermediate high pressure pipeline replacements which represents over 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 $73 million from December 2012 to December 2014 resulting in an ending balance of $835 million for the test year (QGC Exhibit 3.5, column E, line 11).

The Miscellaneous Customer Credits (Account 252) were calculated by taking the historical balances and projecting contributions received, customer refunds and cancellations of expired agreements. (QGC Exhibit 3.6, column E, line 7).

The deferred income taxes account balances (Account 282) for 2013 and 2014 were calculated by taking projected investment, depreciation and tax amounts and projecting their impact on deferred income taxes. (QGC Exhibit 3.7, line 4).

The deferred income tax credits (Account 255) is a straight-line amortization that can be easily forecasted. (QGC Exhibit 3.7, line 5).

The Materials and Supplies balances (Account 154), Prepayments (Account 165), Customer Deposits (Account 235), and Unclaimed Customer Deposits (Account 253.1) are seasonal in nature. Actual balances were used through March 2013. Starting with these March amounts, the seasonal fluctuations were forecasted using the historical trends from 2012.

Q. You stated that the Capital Budget was used to forecast the plant for the year ended December 2014. 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 95.4% of budget amounts on average. In 2012, actual spending was within 0.2% of the capital budget. In 2008 and 2010 slower customer growth due to the recession was the main cause for spending less than the capital 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 2012 base period expenses, as well as forecasted 2013 and 2014 expenses are shown in QGC Exhibit 3.9. As page 1, column C, line 52, shows, the Company is projecting 2014 O&M expenses of $169 million, a 1% decrease over the base period amount of $170.1 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 $84.6 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 March 2013 (Page 1, columns B through D). Amounts taken

from the 2013 forecast were then used for the remainder of 2013. 2014 annual expenses were calculated by taking the December 2013 amounts and inflating them by 3% (QGC Exhibit 3.10, page 2), except for pension expense. An anticipated decrease in pension expense will offset wage inflation, keeping labor and overhead expense flat for 2014. The 2013 and 2014 monthly amounts are shown on QGC Exhibit 3.10.

Q. What labor adjustments were included in the 2013 labor forecast?

A. There are two large reductions to labor expense that have been included in the 2013 and 2014 projections. The first reduction relates to the retirement incentive program that was recently offered. In late October of 2012 Questar Corporation offered a retirement incentive program to eligible employees of Questar Gas and Questar Corporation. The Company offered six months of pay to those employees who were eligible to retire and gave notice prior to the end of 2012 of their intention to retire by the end of 2013. The majority of eligible employees were required to retire on or before March 1, 2013. Over 55 Questar Gas employees and over 20 corporate employees accepted the retirement incentive. The retirement incentive amount was accrued as a 2012 expense and totaled about $2.4 million. This incentive payment is not included in the 2013 or 2014 test period calculations. In some cases, departments were reorganized and were able to eliminate positions, the rest were able to replace positions with employees at lower salaries. As a result, on a going forward basis, the retirement incentive is expected to save about $2 million in expense in 2013 and $2.3 million in 2014.

The second reduction in O&M expense is caused by a reduction in projected pension expense in 2014. In early May, Questar received an updated 2014 pension expense forecast from its actuary. Due to higher asset returns in 2013 and higher projected asset returns in 2014, Questar Gas' pension expense is expected to decrease by about $2 million. While this change will impact pension expenses and O&M in 2014, the 2013 actual and projected expenses are not impacted.

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 O&M expenses from April 2012 through March 2013, as this was the most current historical data that was available. As column C of the exhibit shows, the historical expenses from April through December of 2012 were increased or decreased using the 2013 inflation factors from the Global Insight Power Planner report. The pages from this report used in the forecast are included in QGC Exhibit 3.12. The historical expenses from January through March of 2013 (Column B) and the projected expenses from April through December of 2013 (Column C) are summed together in column D to calculate the total 2013 expenses. These 2013 expenses were then increased or decreased using the Global Insight inflation factors for 2014 to calculate the total 2014 expenses (Column E).

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

A. QGC Exhibit 3.8 shows a comparison of historical actual O&M expenses compared to budget expenses. Line 12 of the exhibit shows that on average over the last 5 years, the Company incurred 100.4% of its projected budget amounts.

C. Revenue

QGC Exhibit 3.3, page 1, column D and QGC Exhibit 3.14

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 2012 and this decline is expected to continue through 2014. The table below shows the projected usage per customer for 2013 and 2014.

	Usage Per Customer	Change From Prior Year
Historical 12 Months Ended December 2012	108.95	
Projected 12 Months Ended December 2013	107.24	-1.71
Projected 12 Months Ended December 2014	106.02	-1.22

The projected usage per customer is 107.2 Dth in 2013 and 106 in 2014. The forecast was developed using statistical time series methods on the monthly historical usage through the year 2012.

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

A. The estimated customer totals used in this case for the remainder of 2013 and all of 2014 are based on the Company's most recent Integrated Resource Plan filed May 31, 2013. In 2011 the rate of customer growth reached its lowest level since the beginning of the recession in 2008. But a substantial improvement in the growth rate in 2012 yielded the highest number of customer additions since 2008, the result of improving conditions in the housing market. Expectation of continued improvement in both the residential and commercial construction sectors leads to a projected increase in the rate of customer growth during 2013 and 2014. Approximately 14,000 customers will be added in 2013 and 16,300 added in 2014. Mr. McKay shows the historical and forecasted customer additions in QGC Exhibit 1.2.

Q. How were revenues calculated for the test period?

A. Revenues for all rate classes were based on projected customer numbers and expected volumetric annual usage. QGC Exhibit 3.14, shows the revenue calculations for 2014. Revenues through December 2014 were projected using anticipated customers and usage.

D. Depreciation Expense

QGC Exhibit 3.3, page 1, column B and QGC Exhibit 3.15.

Q. Please explain the depreciation adjustment.

A. This calculation is shown in QGC Exhibit 3.15. The projected 2014 investment amounts shown in column C were multiplied by the current depreciation rates in column A to calculate the proposed annual depreciation expense in column D. 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 $55.2 million as shown on column E, line 149.

Q. Are you proposing any changes to depreciation rates in this case?

A. The Company has hired Gannett Fleming to conduct a depreciation study on its 2012 investment. The study is currently not complete but we anticipate that the study will be completed sometime in the 4th quarter of 2013. At that time I will supplement my testimony with the new depreciation rates.

Q. How many depreciation studies has the Company performed?

A. This will be the third study for the Company. In Docket No. 05-057-T01, Questar Gas filed for the approval of new depreciation rates that were calculated based on its first depreciation study. In Docket 09-057-16 the Company introduced the results of its second depreciation study that were based on 2007 investment balances.

Q. Why has the Company chosen to update depreciation rates in this case?

A. 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. Since the last depreciation study was based on 2007 data, another study is required to be performed on the 2012 investment.

E. Taxes Other than Income Taxes

QGC Exhibit 3.3, page 1, column B and QGC Exhibit 3.16.

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

A. The detail is shown in QGC Exhibit 3.16. Total other taxes for 2014 are expected to be about $3 million higher than the 2012 period amounts due to an increase in property taxes (line 1). Questar Gas' assessed property valuation has increased dramatically due to a lower yield capitalization rate and increased capital additions. Tax rates also increased over the last year. The result of having a higher assessed property valuation and higher tax rates 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. Telecom Adjustment

QGC Exhibit 3.3, page 1, column C and QGC Exhibit 3.17

Q. Please explain the Telecom Adjustment.

A. Questar owns a microwave and specialized mobile radio system that it uses for its telecommunications needs. This communications equipment is used by Questar Gas, Questar Pipeline and Wexpro. Before December 2012, the return on investment, depreciation expense and O&M expenses were incurred by Questar Gas, and then Questar Gas would bill its affiliates for their use of the assets. The money received from the affiliates would be used to reduce O&M expense for the Company. Column A line 10 shows what the 2012 expenses to Questar Gas customers would have been if Questar Gas owned the telecom assets. In December of 2012 these assets were transferred to Questar Pipeline. The assets and expenses now reside on the books of Questar Pipeline and Questar Gas is billed for its usage. The overall result of this transfer is a reduction in return on rate base, a reduction in depreciation expense and an increase in O&M expense. QGC Exhibit 3.17 Column B shows the expenses going forward. As the column shows, the return on rate base and depreciation expense have been reduced on lines 7 and 8. The overall O&M expense increases on line 10.

Q. What effect does this telecom asset transfer have on Questar Gas rate customers?

A. Overall, there isn't much of an effect. The costs for 2012 were $3.8 million. The projected expenses for 2014 are about $3.8 million. As Questar Gas continued to add telecom assets in 2014, it is likely that the costs would have been higher than the $3.8 million projection being shown on column B.

Q. How is the adjustment being calculated?

A. The return on rate base and depreciation expense has been removed from the 2014 numbers, but the O&M expense has not been increased to compensate for the higher bills. Column B shows the projected expense of $3.8 million. Column C shows the actual 12 months ended March 2013 expenses, adjusted for inflation. A $1.4 million adjustment is necessary to collect the appropriate amount of telecom expenses.

III. REGULATORY ADJUSTMENTS

A. Underground Storage

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

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 1, column F and QGC Exhibit 3.19.

Q. Please explain the adjustment for Wexpro investment.

A. In accordance with the Wexpro Agreement, Wexpro adds 6.3% of Questar Gas' 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. Bad Debt Expense

QGC Exhibit 3.3, page 2, column H and QGC Exhibit 3.20.

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. Next, the adjustment annualizes the DNG portion of bad-debt expense forecasted to occur for the 12 months ended December 2014 to the 3-year average level of bad-debt expense. This methodology was originally proposed by the Division of Public Utilities (DPU) in the

1995 general rate case and has been used in Docket Nos. 99-057-20, 02-057-02, 07-057-13 and 09-057-16. The calculation of this adjustment is shown on QGC Exhibit 3.20, 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 0.30%, 0.25% and 0.14% have been calculated for 2010, 2011 and 2012, respectively, and the three-year average of 0.23% 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 $294,396,591 (line 26) is multiplied by the adjusted three-year average of 0.23% (line 28) to calculate an allowed Utah DNG bad debt of $682,160 (line 29). The test-period system Utah DNG bad-debt expense is $388,500 (line 32). The test-period bad debt expense is based on 2012 bad debt. The 2012 bad debt was lower than normal due to the pass through rebate that was paid to customers in May of 2012. Because the three year bad debt average is higher than the 2012 percentage, the resulting adjustment is an increase to Utah expenses of $293,660 (line 36).

D. Incentive Compensation

QGC Exhibit 3.3, page 2, column I and QGC Exhibit 3.21, 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, 07-057-13, 09-057-16, 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 2010 to 2012 is calculated for the percentage of incentive payouts related to Questar Gas operating goals. As can be seen on page 4 of QGC Exhibit 3.21, the average payout related to Questar Gas operating goals was 16.96% for Questar Corporation's management plan (Column D, Line 6), 18.87% for Questar Corporation's employee plan

(Column D, Line 14), 54.74% for Questar Gas' management plan (Column D, Line 22) and 62.61% 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 3.21, 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 $1.1 million related to this incentive plan has been removed on QGC Exhibit 3.21, page 2, column D, line 5. The end result of these adjustments is a removal of $4.5 million (QGC Exhibit 3.21, page 1, column A, line 3).

E. Stock Incentives

QGC Exhibit 3.3, page 2, column J and QGC Exhibit 3.22

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, and in all general rate cases since, 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 reduced about $882 of expenses. This amount has been adjusted for inflation and removed from the December 2014 results. For the test period, an amount of $882 has been removed. This expense fluctuates with the Company's stock price. In 2012, the stock price was relatively flat. This caused the value of the stock incentives to be unchanged and resulted in minimal adjustments to expenses.

F. Sporting Events

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

Q. Please explain the adjustment for sporting events.

A. During the 2012 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, 45% 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. In the base period, $22,561 was removed. This amount has been adjusted for inflation and $23,288 has been removed from the December 2014 results in QGC Exhibit 3.23, page 1 line 19.

G. Advertising

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

Q. Please explain the adjustment for advertising.

A. Consistent with the Commission order in Docket No. 93-057-01, and in general rate cases since 1993, 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. The base year amounts have been updated through March 2013, adjusted for inflation and $29,158 has been removed from the December 2014 results in QGC Exhibit 3.24, page 1, line 11.

H. Donations and Memberships

QGC Exhibit 3.3, page 2, column M and QGC Exhibit 3.25.

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 four 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 3.25, 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 3.25 shows the projected donations. These donations have been updated for inflation and removed from expenses. Included in this adjustment, on line 7, is a portion of the American Gas Association (AGA) dues that have been determined to be related to promotional advertising or lobbying. QGC Exhibit 3.25, page 1, line 5 shows that $242,949 has been removed from the test period.

I. Reserve Accrual

QGC Exhibit 3.3, page 2, column N and QGC Exhibit 3.26.

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 Commission approved a stipulation of the parties 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 adds $442,350 of expense to the 2014 results.

J. Pipeline Integrity Expense

QGC Exhibit 3.3, page 3, column O and QGC Exhibit 3.27.

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 would 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. In Docket Nos. 07-057-13 and 09-057-

16, the Commission approved continued recovery of transmission integrity management costs. A summary of the Commission allowed expenses are shown in the table below:

	Current Expense	Prior Period Expense	Total Expense
05-057-T01	$2,000,000	$0	$2,000,000
07-057-13	$3,500,000	$1,600,000	$5,100,000
09-057-16	$3,500,000	$870,481	$4,370,481

Q. Please explain what the distribution integrity management program (DIMP) costs are and how they are treated?

A. In Docket No. 09-057-16 the Commission-approved stipulation allowed for the deferral of the Company's distribution integrity management costs.

The Pipeline and Hazardous Materials Safety Administration and the Department of Transportation have published a rule establishing integrity-management requirements for gas-distribution-pipeline systems. Like the Federal Pipeline Safety Regulations, this proposed rule requires 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 are similar to those currently required for gas-transmission pipelines, but tailored to reflect the differences in and among distribution systems. The final DIMP rule was published December 4, 2009 and became effective February 12, 2010. Like the 2002 Pipeline Safety Act, the distribution integrity management program was federally mandated and will result in incremental costs. The costs incurred from 2010 through 2012 are shown in the table below:

	2010	2011	2012
Costs incurred	$126,279	$380,411	$411,885

Some of the costs are reimbursable from third parties. The amounts above show Questar's share of the costs after reimbursement.

Q. What is the Company proposing to do with the transmission and distribution integrity management program expenses on a going-forward basis?

A. Questar Gas is proposing to raise the expense level to $5 million per year to cover the current level of spending in the TIMP and DIMP programs and to increase the amortization of prior expenses from $1.6 million to $2.7 million. The net result will be an increase in the allowed expense from $5.1 million to $7.7 million. QGC Exhibit 3.27 page 1 shows the calculation. The total expenses of $5.1 million were adjusted for inflation in the forecasted expense calculation. This adjusted amount is shown on line 15 of column B. The resulting increase to expense is calculated in column C line 15.

Q. How did you calculate the $2,700,000 amortization amount for prior expenses?

A. The balance in the 182.3 account at the end of March 2013 is $7.5 million in the Pipeline Integrity account and $700,000 in the DIMP account. The Company is proposing to amortize the total $8.2 million balance over 3 years because it is consistent with the current rate case filing cycle.

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 $7.7 million per year, the difference will continue to be credited to the deferred account. To the extent that actual ongoing expenses are greater than $7.7 million, the difference will continue to be debited to the deferred account.

K. Energy Efficiency Removal

QGC Exhibit 3.3, page 2, column G and QGC Exhibit 3.28

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

A. The energy efficiency program 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 2014 revrun calculation. Therefore, the energy efficiency expenses must also be removed. QGC Exhibit 3.28, line 13, shows the monthly entries and the removal of these expenses.

L. Discontinued Adjustments

Q. Are there any adjustments the Company has made in the past that aren't being made in this case?

A. Yes. There are three adjustments made in prior cases that aren't being made in this case. The Oak City adjustment, the aircraft adjustment, and the state tax adjustment.

Q. Please explain the adjustment for Oak City revenue.

A. In prior cases, the Company made an adjustment related to the Extension Area Charge (EAC) revenues for the Oak City area. The adjustment was 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. On November 1, 2011, Oak City met its obligation and its extension area charge has been eliminated. Going forward, this adjustment is no longer necessary.

Q. Please explain the aircraft adjustment.

A. Questar Corporation previously owned an airplane. When the Company spun off its unregulated exploration and production subsidiary in 2010, the airplane went with QEP. Questar Gas used to pay an annual charge related to its use of the company airplane. The amount of this annual charge related to business in other jurisdictions was removed. This adjustment is no longer necessary because Questar Corporation no longer owns an airplane.

Q. Please explain the adjustment for state tax.

A. Pursuant to Commission order in Docket No. 99-057-20, an adjustment was made in

prior cases 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. In the revenue requirement calculation Questar Gas calculates its state income tax expense as if it were a stand-alone entity. In 2012, no expense was allocated to Questar Gas from Questar Corporation. Thus no adjustment is necessary.

M. Lead-Lag Study

Q. In Docket No. 09-057-16, the Company used a Lead-Lag study based on 2006 data. Have you updated your Lead-Lag study in this case?

A. Yes. I have attached the updated study as QGC Exhibit 3.29. The Company is using an updated Lead-Lag study based on 2010 data. The Commission approved- stipulation in Docket No. 07-057-13, requires the Company to 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 2010 study will be less than three years old at the time of this filing. The result of the study provides a net lead of 1.02 days, or a reduction of about 1.6 days. The use of the study results in a test-year cash working capital requirement of $2.1 million (QGC Exhibit 3.2, page 1, column F, line 47).

Q. What caused the decrease in lag days?

A. The decrease is mainly caused by the decrease in the revenue lag. There are three components to the revenue lag; the service lag, the billing lag and the collection lag. The service lag calculates the amount of time between when the gas is used and the meter is read. The bill completion lag calculates the amount of time between when the meter is read and the bill is completed. Finally, the collection lag takes into account the time between when the bill is sent out and the Company receives payment. In the 2006 study, the service, billing and collection lags together took 39 days. In the 2010 study, the lag shortened to 36 days.

Q. What has the Company done to decrease its revenue lag?

A. This decrease in revenue lag was caused by two changes in the collection lag. On the credit/collections side of the business the Company has tightened the collection process

for customers who are delinquent and have had a history of delinquent payments. The Company now begins collecting from these customers 30 days sooner than it did in the past. The other change is an increase in the number of customers who pay their bills electronically.

Q. Please explain how the Lead-Lag study affects cash working capital.

A. 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."

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 10.35% return on equity incorporated together with the forecasted data and regulatory adjustments, I have calculated the total Utah revenue requirement to be approximately $313 million. (QGC Exhibit 3.2, Column H, line 3).

Q. Using the projected volumetric revenue, what is the projected revenue deficiency for the test period?

A. QGC Exhibit 3.2, page 1, presents the result of this calculation. This exhibit shows that for the proposed test period, the Utah operations of the Company would be expected to earn 8.12%. This results in a revenue deficiency of $19 million (column G, line 3).

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

A. Yes. QGC Exhibit 3.30 presents this calculation. The exhibit shows that for the test year, the Utah operations of the Company would be expected to earn 8.4% return on

common equity during the rate-effective period absent rate relief in this docket. This amounts to a revenue deficiency of $16.5 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	$294.40 Million	$18.96 Million	$313.36 Million
CET Allowed Revenue	$296.82 Million	$16.54 Million	$313.36 Million

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

V. RATE DESIGN

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Q. Were you involved in the COS task force that came out of Docket No. 07-057-13?

A. Yes. I participated in all of the technical conferences related to the task force. Among the issues discussed were the FT-1 qualification criteria, the calculation of the basic service fees and the merits of eliminating inter-class subsidy and going to full cost of service for the classes.

Q. Please explain the changes to the Transportation Service (TS) class that have occurred since the last case.

A. The number of TS customers has doubled while the average usage of those customers has decreased substantially. The table below shows the statistics for the TS class since the last rate case.

	2010	2011	2012	Projected 2013	Projected 2014
Number of Customers	151	176	240	346	346
Customers using under 2400/Year	1	5	14	17	17
Customers using under 24,000/Year	30	50	110	199	199
Customers using over 24,000/Year	121	126	130	147	147
Average Dth per customer	228,600 Dth	188,748 Dth	128,257 Dth	103,176 Dth	104,577 Dth

As the table shows, the TS class was once dominated by large customers using over 24,000 Dths. Now more than half of the class uses less than 24,000 Dths per year. This change in the makeup of the TS class requires a change in the blocks so that customers are accurately charged for the service they are receiving from the system.

Q. Please explain in more detail the changes you are proposing to the TS block break points.

A. The table below shows the proposed changes to each of the blocks break points:

	Block 1 Usage/Month	Block 2 Usage/Month	Block 3 Usage/Month	Block 4 Usage/Month
Current	20,000	Next 80,000	Next 400,000	Over 500,000
Proposed	200	Next 1,800	Next 98,000	Over 100,000

As the table shows, the blocks have been reduced dramatically. This is necessary to account for the changes that have occurred in the TS class since the last case.

Q. How were the rates designed for this class?

A. Mr. Summers has calculated a cost of service for all of the classes. He has also functionalized the class cost of service into customer costs, demand costs and throughput costs. The table below shows the functionalized costs for the TS class cost of service.

Cost Type	Amount
Throughput Costs	$10,851,795
Demand Costs	$2,313,730
Customer Costs	$3,438,485
Total TS Cost of Service	$16,604,010

I used the functionalized costs to calculate a cost of service for each customer in the TS class.

Q. How was the individual cost of service calculated for each customer?

A. The functionalized demand, throughput and customer costs were allocated to each customer based on its share of the demand, throughput and plant costs as a proportion of the total class. The calculated cost for each customer is shown in column H of QGC Exhibit 3.31. Once the cost for each customer was identified, the cost per decatherm for each customer was calculated by dividing each customer's individual cost by decatherms used. Then the cost per decatherm was regressed on decatherms used to obtain estimates for a cost curve. (This data was transformed on a logarithmic scale.) This cost curve is shown as the green line on QGC Exhibit 3.32 page 1. Once the cost curve was created, a corresponding revenue curve was calculated.

Q. How was the revenue curve calculated?

A. The revenue per decatherm for each customer was calculated by dividing each customer's revenue by decatherms used. The revenue per decatherm was then regressed on decatherms used to obtain estimates for the revenue curve. (This data was transformed on a logarithmic scale.) This curve is shown as the red line on QGC Exhibit 3.32 page 1. The goal is to create a revenue curve that closely fits the cost curve. A closely fitted cost and revenue curve means that on average each level of usage the customer is being accurately charged for the services they are receiving.

Q. What are the TS rates you are proposing?

A. I have set the first and second blocks of the TS class to mirror the first two blocks of the Firm Sales rate schedule. On a cost basis there really is no difference between a TS

customer using 2,000 Dths per year and an FS or GS customer using 2,000 Dths per year. The majority of the new customers in the TS class came from the General Service and Firm Sales classes. Either the GS or FS rate would create a good fit between the cost and rate curves. However, to be more conservative, for purposes of this case and this analysis I have chosen the FS rate. I have set the fourth block at $0.10. There are only four customers whose usage makes it to the fourth block and changing this block has little effect on the overall rate design. The third block rate has been calculated to collect the remaining volumetric revenue that was not collected in blocks 1, 2, and 4. The rates are summarized below:

	Block 1	**Block 2**	**Block 3**	**Block 4**
Current	$0.21409	$0.16056	$0.12845	$0.02803
Proposed	$1.01070	$0.66070	$0.27020	$0.10000

Q. Are you concerned that the customers whose usage falls only into the first two blocks will experience rate shock?

A. There are a few important points I would like to make about these customers. First, these customers were all general service and firm sales customers two years ago. Second, on a per customer basis, the majority of these customers still are not paying enough to cover their expenses. The table below shows the profitable and unprofitable customers by rate block.

	First 200	**Next 1,800**	**Next 98,000**	**Over 100,000**	
Revenues greater than cost	4	65	109	30	208
Revenues less than cost	13	96	0	29	138

Finally, most TS customers will see a nominal increase in their overall bill.

Q. What effect does your proposed rate change have on customers in the TS class?

A. QGC 3.33 shows a comparison of the overall bill for users at different usage levels. For

comparison purposes, I have broken the class into four different usage groups. On average the total class will experience a 4% increase in their annual gas bill. If approved by the Commission, this class cost-of-service and rate design will allow the TS to pay their full cost of service thus eliminating the inter-class subsidy and it will remove any intra-class subsidy.

Q. What evidence do you have that the intra-class subsidy has been removed?

A. QGC 3.32 page 2 shows what the cost and revenue curves would look like if I had made no changes to the blocks and had left the relationship between rates constant. As the orange line in the graph shows, the low-usage customers in the class would have been under charged and the large customers in the class would have been over charged.

Q. Have you calculated a new demand charge for the TS class?

A. Yes. I divided the total demand costs for this class of $2,315,179 by the TS contract demand of 80,336. The result was an annual demand charge of $28.82/Dth.

Q. Have you performed a similar cost-of-service study for each customer in the Interruptible Sales (IS) class?

A. Yes. I calculated an individual cost of service for each IS customer using the same methodology that I used for the TS class. The results of this study are shown in QGC Exhibit 3.34.

Q. Did you use this analysis to create a cost curve similar to the curve for the TS class?

A. Yes. The cost and revenue curves for the IS class are shown in QGC Exhibit 3.35. As the graph shows, the two curves are well fitted, indicating a rate design which accurately reflects the cost/Dth of that class.

Q. Based on the cost and revenue regressions what rates are you proposing for the IS class?

A. The rates are shown below:

	First 2,000	Next 18,000	All Over 20,000
Current	$0.25120	$0.23110	$0.21262
Proposed	$0.56740	$0.10330	$0.04150

Q. What impact does this rate change have on the IS customers?

A. QGC Exhibit 3.36 shows a comparison of the overall bill for users at different usage levels. For comparison purposes, I have broken the class into 4 different usage groups. On average the total class will experience a 3% increase in their total annual gas bill.

VI. TARIFF CHANGES

Q. Are you sponsoring an exhibit for all of the tariff changes that the Company is proposing?

A. Yes, attached as QGC Exhibit 3.37 is a summary in red line strikeout and final format of all tariff changes being proposed by the Company. The first page of this exhibit is a table referencing the section that is being changed and an explanation of the reason for the change. Additionally, I have associated each change in one of four categories: 1) required change to clarify the tariff consistent with current Company practices 2) movement or deletion of sections 3) clean-up changes such as rewording, referencing, punctuation, formatting and grammatical corrections that do not affect the meaning or applicability of the Tariff; and 4) a substantive change explained in testimony.

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.

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Kelly B. Mendenhall

SUBSCRIBED AND SWORN TO this ___ day of July 1st, 2013.

_____

Notary Public