Witness OCS – 3D

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** **Michael L. Arndt** **On behalf of the** **Office of Consumer Services**

October 30, 2013

Redacted Version

PRE-FILED DIRECT TESTIMONY AND EXHIBITS OF MICHAEL L. ARNDT

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, OCCUPATION AND ADDRESS.

A. My name is Michael L. Arndt. I am a public utility rate consultant and my address is 3602 S.W. Zona Circle, Ankeny, Iowa 50023.

Q. HAVE YOU PROVIDED AN ATTACHMENT WHICH DETAILS YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE?

A. Yes. Attached Appendix A is a statement of my education and experience.

II. PURPOSE AND SUMMARY OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony on behalf of the Office of Consumer Services ("OCS") is to address the application before the Public Service Commission of Utah ("Commission") of Questar Gas Company ("QGC" or "Company") for authority to increase its existing distribution natural gas rates and charges and make tariff modifications. My testimony will address certain rate base, revenue and net operating income issues and present OCS's overall revenue requirement recommendation.

Q. HAVE YOU RELIED ON THE TESTIMONY OF OTHER OCS WITNESSES IN DEVELOPING THE OVERALL REVENUE REQUIREMENT RECOMMENDATION?

A. Yes. I have relied on testimony filed by OCS witness Daniel J. Lawton. Mr. Lawton addresses the capital structure and cost of equity issues. In addition, OCS witness Danny A.C. Martinez addresses class cost of service and rate design issues.

Q. PLEASE SUMMARIZE OCS'S OVERALL REVENUE REQUIREMENT RECOMMENDATION.

A. The Company computed two Utah jurisdictional distribution non-gas ("DNG") revenue deficiency calculations based on a 2014 forecasted test year and alleges Utah jurisdictional revenue deficiencies of $18,962,150 based on volumetric revenues and $16,541,439 based on Commission-allowed revenues under Conservation Enabling Tariff ("CET") rates for the General Service ("GS") customers.[1] The Company's alleged revenue deficiency is significantly overstated for reasons addressed by OCS witnesses.

OCS overall revenue requirement recommendations are shown on Exhibit OCS 3.1. As shown in my Exhibit OCS 3.1, Schedule A, pages 1 and 2, line 7, existing Utah jurisdictional DNG rates are excessive by $5.7 million based on current volumetric rates and $8.1 million based on current CET rates.

III. RATE CASE REVIEW

Q. PLEASE DESCRIBE QUESTAR GAS COMPANY'S LAST GENERAL RATE CASE BEFORE THE UTAH COMMISSION.

A. On October 6, 2009, QGC filed an application for a general rate increase which was designated Docket No. 09-057-16. QGC proposed a $17.2 million increase in Utah jurisdictional DNG rates. The Company's filing was based on a test year ending December 31, 2010.

[1] Company witness Kelly B. Mendenhall, Direct Testimony ("DT"), page 21, QGC Exhibit 3.2 and QGC Exhibit 3.30.

On June 3, 2010, the Commission issued its Report and Order granting $2.6 million of the Company's proposed $17.2 million rate increase (i.e., 15.12% of Company's requested increase). The Commission's Report and Order approved a settlement stipulation addressing revenue requirement, rate spread and rate design.

Q. HAVE QUESTAR GAS COMPANY'S NON-GAS RATES CHANGED SINCE ITS LAST UTAH GENERAL RATE CASE?

A. Yes. The Commission's Report and Order in Docket No. 09-057-16 allowed the implementation of an infrastructure tracker pilot program. Since the last rate case, the infrastructure replacement revenues have increased Utah DNG rates by $19,498,585.[2]

Q. PLEASE DESCRIBE QGC'S CURRENT UTAH RATE APPLICATION.

A. On July 1, 2013, QGC filed its current application designated Docket No. 13-057-05 for a general rate increase based on a projected test year ending December 31, 2014. The Company computed two Utah jurisdictional distribution non-gas revenue deficiency calculations based on a 2014 forecasted test year. The first is based on 2014 projected volumetric revenues and alleges an $18,962,150 revenue deficiency in Utah jurisdictional DNG rates.[3] The second uses Commission-allowed revenues under the Conservation Enabling Tariff rates for the General

[2] August 2011 filing, Docket No. 11-057-11, was for infrastructure placed in service from July 2010 to August 2011 and rates became effective October 2011. December 2011 filing, Docket No. 11-057-16, was for infrastructure placed in service from September 2011 to December 2011 and rates became effective February 2012. August 2012 filing, Docket No. 12-057-12, was for infrastructure placed in service from January 2012 to August 2012 and rates became effective September 2012. November 2012 filing, Docket No. 12-057-15, was for infrastructure placed in service from September 2012 to November 2012 and rates became effective December 2012. Per Company response to OCS 3.05. August 2013 filing was Docket No. 13-057-11.

[3] Company witness Kelly B. Mendenhall, DT, page 21, and QGC Exhibit 3.2.

Service class and alleges a $16,541,439 revenue deficiency.[4] In my Exhibit OCS 3.1 I have presented the Office's revenue requirement adjustments and recommendations using (1) the volumetric revenue basis; and (2) the CET revenue basis. Throughout my testimony when I present one value for each adjustment it is based on the volumetric revenue basis.

Q. PLEASE COMMENT ON QGC'S REQUESTED UTAH RATE INCREASE.

A. The Company's proposed $18.962 million and $16.541 million rate increase calculations are based on a requested return on common equity of 10.35%.[5]

Q. OCS WITNESS LAWTON RECOMMENDS A 9.30% RETURN ON COMMON EQUITY. WHAT IS THE REVENUE REQUIREMENT IMPACT IN THIS CASE OF USING A 9.30% RETURN ON COMMON EQUITY RATHER THAN THE COMPANY'S PROPOSED 10.35% RETURN ON COMMON EQUITY?

A. Using a 9.30% rather than the Company's proposed 10.35% return on common equity reduces QGC's alleged revenue deficiency calculations by $8.901 million, representing a 47% reduction in the Company's requested volumetric based increase.

IV. RATE BASE

A. GAS PLANT IN SERVICE

Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED RATE BASE.

[4] Ibid., pages 21-22, and QGC Exhibit 3.30

[5] Company Exhibit QGC Exhibit 2.11

A. The Company's 2012 historical test year rate base was $955,947,199. The Company proposes a $1,045,912,064 rate base (i.e., $1,008,377,277 Utah jurisdictional) for the projected 2014 test year.[6]

Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED INCREASES IN GAS PLANT IN SERVICE.

A. For the base year ended December 31, 2012, the Company's actual increase in total system gas plant in service was $104.615 million. For the projected test year ended December 31, 2014, the Company projects increases in total system gas plant in service of $157.975 million for 2013 and $175.967 million for 2014, representing increases of 51.01% in 2013 and 68.20% in 2014 over actual 2012 levels.

Q. WHAT ACCOUNTS FOR THE SIGNIFICANT INCREASES IN FORECASTED PLANT ADDITIONS?

A. The Company forecasts increases in Account 376, Mains, of $87.332 million in 2013 and $110.386 million in 2014. In addition, QGC forecasts increases in Account 378, Measuring and Regulation Station Equipment, of $29.957 million in 2013 and $15.168 million in 2014. Also, the Company forecasts increases in Account 380, Services, of $8.483 million in 2013 and $14.896 million in 2014, and increases in Account 381.2, Meters and Meter Installations, of $8.492 million in 2013 and $16.055 million in 2014.

Q. PLEASE COMMENT ON THE COMPANY'S FORECASTS OF PLANT ADDITIONS FOR MAINS.

[6] Company QGC Exhibit 3.2, line 49

A. Mains, Account 376, includes costs of distribution system mains. Mains account for the majority of QGC's plant in service. As of December 31, 2012, QGC's balance for mains was $1,012,195,238, representing 51.35% of the total plant in service balance of $1,971,070,110. The following provides a comparison of QGC's Utah jurisdictional main balances and actual and forecasted main net plant additions for 2012 to 2014.

	Beginning Balance	Net Plant Additions
Mains		
2012	$930,403,338	$81,791,900
2013	1.012.195.238	87,331.603
2014	1,099,526.841	110,385,572

Note: Beginning balances for 2012 and 2013 and net plant additions for 2012 are actual amounts. Remaining amounts represent Company forecasts.

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED $110.386 MILLION INCREASE IN MAIN ADDITIONS IN 2014?

A. No. QGC's proposed $110.386 million increase in 2014 main additions is $28.594 million or 34.96% greater than actual 2012 main additions and $23.054 million or 26.40% greater than projected 2013 main additions.

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S 2014 FORECASTED MAIN ADDITIONS?

A. As detailed on Exhibit OCS 3.1, Schedule F, page 1, my recommendation is that the 2014 forecasted main additions for the Utah jurisdiction be capped at $85 million. A forecast of $85 million for 2014 main additions is comparable to actual 2012 main additions and forecasted 2013 main additions.

Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF YOUR RECOMMENDED ADJUSTMENT TO FORECASTED MAINS?

A. As shown in Exhibit OCS 3.1, Schedule D, pages 1 and 2, Column B, my recommended adjustment to mains reduces the Utah jurisdictional rate base by $8.205 million and reduces revenue requirements by approximately $0.847 million using OCS's cost of capital recommendation.

Q. PLEASE COMMENT ON THE COMPANY'S FORECASTS OF PLANT ADDITIONS FOR ACCOUNT 378, MEASURING AND REGULATION STATION EQUIPMENT.

A. Account 378 includes the costs of meters, gauges and other equipment used in measuring and regulating gas in connection with distribution system operations other than the measurement of gas deliveries to customers.[7] The following provides a comparison of QGC's total system balances and actual and forecasted net plant additions for 2012 to 2014 for Account 378, Measuring and Regulation Station Equipment.

Meas. & Regulation Station Equipment	Beginning Balance	Net Plant Additions
2012	$48,005,508	$4,811,369
2013	52,816,877	29,957,399
2014	82,774,276	15,167,827

Note: Beginning balances for 2012 and 2013 and net plant additions for 2012 are actual amounts. Remaining amounts represent Company forecasts.

[7] Federal Energy Regulatory Commission ("FERC"), Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act.

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED ADDITIONS FOR MEASURING AND REGULATION STATION EQUIPMENT IN 2013 AND 2014?

A. No. The Company's forecasts of 2013 and 2014 increases in Measuring and Regulation Station Equipment are not comparable to the actual increase in 2012 and have not been shown by the Company to be reasonable.

Q. HAVE YOU COMPARED THE MOST RECENT ACTUAL PLANT BALANCES FOR ACCOUNT 378 WITH THE COMPANY'S FORECASTED BALANCES?

A. Yes. The Company's response to OCS 20.01 provided actual plant balances through September 2013. As shown in Exhibit OCS 3.1, Schedule F, page 2, lines 22 and 32, the actual plant balance for Utah for Account 378 as of September 2013 was $53,061,002 compared to the Company's forecast of $68,397,943.

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S 2013 AND 2014 FORECASTED ADDITIONS FOR ACCOUNT 378, MEASURING AND REGULATION STATION EQUIPMENT?

A. Based on actual information through September 2013, my recommendation is that the 2013 forecasted additions for Account 387 be set at $8.000 million. This forecast is more comparable to actual 2012 additions and 2013 to date for Account 387.

Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF YOUR RECOMMENDED ADJUSTMENT TO THE FORECASTED MEASURING AND REGULATION STATION EQUIPMENT?

A. As shown in Exhibit OCS 3.1, Schedule D, pages 1 and 2, Column C, my recommended adjustment to measuring and regulation station equipment reduces the Utah jurisdictional rate base by $19.455 million and reduces revenue requirements by approximately $2.008 million using OCS's cost of capital recommendation.

B. ACCUMULATED DEFERRED INCOME TAXES

Q. PLEASE DESCRIBE ACCUMULATED DEFERRED INCOME TAXES.

A. Accumulated deferred income taxes ("ADIT") represent customer-contributed capital which is accumulated through deferred income tax expense charges to ratepayers.

Q. PLEASE COMMENT ON THE COMPANY'S 2013 AND 2014 FORECASTS OF ACCUMULATED DEFERRED INCOME TAXES.

A. The following provides a comparison of QGC's total system balances and actual and forecasted ADIT additions for 2012 to 2014 for Account 282, Accumulated Deferred Income Taxes – Federal and State.

Accum. Deferred Income Taxes	Beginning Balance	Net Change
2012	$250,294,224	$46,921,361
2013	297,218,585	45,273,140
2014	342,491,725	2,499,920

Note: Beginning balances for 2012 and 2013 and net additions for 2012 are actual amounts. Remaining amounts represent Company forecasts.

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S 2014 FORECASTED ADIT BALANCE?

A. My recommendation is that the increase in the ADIT balance in 2014 be comparable to the actual increase in 2012 and the projected increase in 2013. As shown in Exhibit OCS 3.1, Schedule F, page 3, lines 50-52, my recommended increase of $45.0 million in 2014 is comparable to the actual increase of $46.921 million in 2012 and the Company's forecasted increase of $45.273 million in 2013.

Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF YOUR RECOMMENDED ADJUSTMENT TO FORECASTED ADIT?

A. As shown in Exhibit OCS 3.1, Schedule D, pages 1 and 2, Column D, my recommended adjustment to ADIT reduces the Utah jurisdictional rate base by $12.198 million and reduces revenue requirements by approximately $1.259 million using OCS's cost of capital recommendation.

C. <u>CASH WORKING CAPITAL</u>

Q. WHAT IS THE COMPANY'S REQUEST FOR CASH WORKING CAPITAL IN THIS CASE?

A. QGC proposes to include $2,148,374 ($2,072,693 Utah portion) in rate base for cash working capital.

Q. PLEASE DEFINE CASH WORKING CAPITAL.

A. Cash working capital is the investment required to meet current cash expenses. Cash working capital is measured by comparing the timing difference between the utility's payment of current expenses incurred in providing service and its receipt of payment for service by its customers.

Q. ARE YOU PROPOSING ANY CHANGES TO THE COMPANY'S PROPOSED CASH WORKING CAPITAL ALLOWANCE?

A. Yes. The cash working capital allowance should include current federal and state income tax expense and long-term debt interest expense.

Q. WHY DID THE COMPANY FAIL TO INCLUDE CURRENT INCOME TAXES IN ITS CASH WORKING CAPITAL STUDY?

A. At the time the Company prepared its cash working capital study, it was uncertain what level of income taxes would be paid in the 2014 test year. QGC has now determined that there will be current income taxes in 2014 and income tax expense should be included in the cash working capital determination.

Q. EXPLAIN WHY INTEREST EXPENSE ON LONG TERM DEBT SHOULD BE INCLUDED IN THE CASH WORKING CAPITAL CALCULATION.

A. Interest expense on long term debt is paid on a semi-annual basis. The cost of interest expense on long term debt is collected from customers on a monthly basis. Between when the interest expense is collected from ratepayers to when it is paid, funds are available to the Company for use in its operations. The expense lag for the semi-annual interest payments is 91.25 days. The 91.25 day expense lag is longer than the Company's revenue lag of 37.029 days which results in a 54.221 net lag in which these funds are available for cash working capital purposes.

Q. PLEASE DESCRIBE YOUR RECOMMENDED CHANGES TO THE CASH WORKING CAPITAL CALCULATION.

A. As detailed on Exhibit OCS 3.1, Schedule F, page 4, lines 4 and 14, I have reflected current federal and state income taxes at the Company's forecasted level for 2014 test year. In addition, on lines 5 and 15 of Exhibit OCS 3.1, Schedule F, page 4, I have added interest on long term debt using the 91.25 day expense lag explained above.

Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF REFLECTING INCOME TAX EXPENSE AND LONG TERM DEBT INTEREST EXPENSE IN THE CASH WORKING CAPITAL DETERMINATION?

A. As shown in Exhibit OCS 3.1, Schedule D, pages 1 and 2, Column E, my recommended adjustment to cash working capital reduces the Utah jurisdictional rate base by $2.479 million and reduces revenue requirements by approximately $0.256 million using OCS's cost of capital recommendation.

VI. <u>NET OPERATING INCOME</u>

A. <u>OPERATING REVENUES</u>

Q. PLEASE DESCRIBE QGC'S SERVICE TERRITORY.

A. Questar Gas Company provides natural gas distribution service in Utah, southwestern Wyoming and southeastern Idaho. QGC's Utah service territory is generally growing. Questar Corporation's 2012 Annual Report to Stockholders, page 7, states:

> For several years in a row, Utah has been recognized in national publications as a best state for business – ranked in

the top 10 in growth prospects, business costs and regulatory environment.

Q. PLEASE DESCRIBE QGC'S REGULATED CUSTOMERS.

A. As of December 30, 2012, QGC had 930,760 total customers of which 903,548 or 97.08% of total customers were located in Utah.[8] QGC is the only non-municipal gas-distribution utility in Utah.

During 2012, on average QGC had 897,175 Utah customers of which the General Service rate class accounted for 896,242 or 99.90% of total Utah customers. QGC's Utah normalized dekatherm ("dth") usage totaled 168,156,099 dth of which GS accounted for 97,355,749 dth or 57.90% of total Utah usage.

Rate Class	2012 Average Number of Utah Customers	2012 Normalized Usage of Utah Customers Dth	2012 Average Usage of Utah Customers By Class Dth
General Service (GS)	896,242	97,355,749	109
Firm Sales Service (FS)	643	6,389,322	9,937
Firm Transportation (FT-1)	17	30,261,807	1,780,106
Transportation Service (TS)	190	30,956,670	162,930
Interruptible Service (IS)	81	2,543,969	31,407
Municipal Transportation (MT)	1	32,859	32,859
Natural Gas Vehicle (NGV)	1	615,723	615,723
Total Utah	897,175	168,156,099	

[8] Questar Corporation's 2012 Securities and Exchange Commission ("SEC") Form 10-K, page 27, and Company Information Requested by R746-700-22, D.45

Q. PLEASE DESCRIBE HOW THE COMPANY FORECASTED REVENUES FOR THE 2014 TEST YEAR.

A. QGC has forecasted 2013 and 2014 Utah customers, usage and revenues based on a Company software application called REVRUN.

Q. HAVE YOU REVIEWED THE COMPANY'S FORECASTS FOR GENERAL SERVICE CUSTOMERS, USAGE AND REVENUES?

A. Yes. The Company's forecasts for GS customers projected that the number of GS customers will increase by 13,809 customers (i.e., a 1.53% increase) in 2013 and 15,943 customers (i.e., a 1.74% increase) in 2014.

Q. HAVE YOU REVIEWED THE ACTUAL GROWTH IN THE NUMBER OF GENERAL SERVICE CUSTOMERS IN 2013?

A. Yes. Company response to OCS 20.01 provides QGC's actual number of customers through September 2013. As shown in Exhibit OCS 3.1, Schedule G, page 1, lines 21 and 30, the actual number of General Service customers as of September 2013 was 910,355. The Company's forecasts projected 907,355 General Service customers as of September 2013 (i.e., 3,000 below the current actual level of GS customers).

Q. ARE YOU RECOMMENDING ANY ADJUSTMENT TO THE COMPANY'S FORECAST OF GENERAL SERVICE REVENUES?

A. Yes. My recommendation is to adjust the 2013 forecast to recognize the actual growth in GS customers through August 2013. This increases the estimated 2013 growth in the number of GS customers to 15,909 customers which is comparable to the Company's forecasted growth of 15,943 GS customers in 2014. Details of my recommended revenue adjustments are provided in Exhibit OCS 3.1, Schedule G, page 6.

Q. WHAT IS THE REVENUE IMPACT OF YOUR RECOMMENDED REVENUE ADJUSTMENTS BASED ON ACTUAL INFORMATION THROUGH AUGUST 2013?

A. As shown in Exhibit OCS 3.1, Schedule G, page 6, lines 40 and 53, my recommended revenue adjustments increase QGC's Utah jurisdictional volumetric revenues by $0.616 million.

B. LABOR ADJUSTMENTS

Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED LABOR ADJUSTMENTS.

A. The Company has forecasted 2013 and 2014 labor costs for Questar Gas Company employees based on 921 employees.

In addition, the Company has forecasted 2013 and 2014 labor costs for Questar Corporation employees based on 358 employees.

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED LABOR ADJUSTMENTS?

A. No. The Company's calculations are based on employee levels which are not indicative of actual employee levels.

As shown on Exhibit OCS 3.1, Schedule H, page 1, lines 21 and 36, Questar Gas Company's actual number of employees as of September 2013 was 868 employees compared to the Company's projection of 921 budgeted QGC employees as of September 2013.

As shown on Exhibit OCS 3.1, Schedule H, page 2, Questar Corporation's actual number of employees as of September 2013 was 344 employees compared to the Company's projection of 357 budgeted Questar Corporation employees.

Q. ARE THE COMPANY'S EMPLOYEE LEVELS DECLINING?

A. Yes. In December 2012, the Company implemented an early retirement program which has reduced employee levels. The early retirement program is ongoing with payments in 2013 and 2014.[9]

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE LABOR ADJUSTMENTS?

A. The labor adjustments should be based on recent employee levels rather than budgeted employee levels. As noted above, the Company budgeted number of employees is not indicative of actual employee levels.

Q. WHAT IS THE IMPACT OF YOUR RECOMMENDED LABOR ADJUSTMENTS?

A. As shown in Exhibit OCS 3.1, Schedule H, page 3, adjusting QGC employee levels reduces the Company's forecasted 2014 O&M expenses by $1.667 million.

As shown in Exhibit OCS 3.1, Schedule H, page 4, adjusting QGC costs for reductions in Questar Corporation employee levels reduces the Company's forecasted 2014 O&M expenses by $0.604 million.

C. <u>PENSION AND OTHER POST-RETIREMENT BENEFITS EXPENSE</u>

[9] Company response to OCS 3.13

Q. PLEASE DESCRIBE THE PENSION AND OTHER POST-RETIREMENT BENEFITS ("OPEB") ISSUE.

A. The Company forecasted 2014 pension and other post-retirement employee benefits expense based on various assumptions including the expected return on plan assets, the discount rate, life expectancy and many other factors.

The Company's 2014 forecasts included an assumed 4.20% discount rate for pension expense and a 4.00% discount rate for OPEB expense. In addition, the Company's forecasts included an assumed 7.25% long-term return on plan assets for both pension and OPEB expenses. The assumed healthcare cost trend rate was 8.5% for 2013 decreasing 0.5% per year to 4.5% beginning in 2021.[10]

Q. WHAT IS THE IMPACT OF CHANGES IN THE ASSUMPTIONS IN THE PENSION AND OPEB FORECASTS?

A. I will use the examples of a 0.25% increase in the assumed discount rate and a 0.25% increase in the expected long-term return on plan assets to demonstrate the impact that changes in such assumptions would have on overall pension expense.

A 0.25% increase in the assumed discount rate lowers the pension expense by $2.5 million for total Questar Corporation (which results in lowering QGC's share of these costs by $1.3 million). Thus, such a change would lower Utah's share of QGC's costs by $1.216 million.[11]

A 0.25% increase in the expected long-term return on plan assets lowers the pension expense by $1.3 million for total Questar Corporation (which results

[10] Company responses to OCS 10.02 and OCS 10.04

[11] Company response to OCS 14.18

in lowering QGC's share of these costs by $$0.7 million). Thus, such a change would lower Utah's share of QGC's cost by $0.655 million.[12]

Q. HAS THE COMPANY RECENTLY CHANGED ITS ASSUMPTIONS IN THE PENSION AND OPEB EXPENSE CALCULATIONS?

A. Yes. **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]**

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE PENSION AND OPEB ISSUES?

A. The updated assumptions noted above should be used for 2014 pension and OPEB expenses. **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]** The pension and OPEB expense adjustment is shown in Exhibit OCS 3.1, Schedule E, pages 1 and 2, Column E.

D. <u>BONUS PROGRAMS</u>

Q. PLEASE DESCRIBE THE COMPANY'S BONUS PROGRAMS.

A. The Company has numerous bonus and incentive programs including: (1) Short Term Incentive Plan ("STIP"); (2) Long Term Incentive Plan ("LTIP"); (3) Supplemental Executive Retirement Plan ("SERP"); (4) Annual Employee Incentive Plan ("PIPE"); and (5) Annual Management Incentive Plan ("AMIP").

Q. ARE THE BONUS PROGRAMS SIGNIFICANT?

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[12] Ibid.

A. Yes, particularly to the top executives. For example, Ronald W. Jibson is Chairman, President and CEO of Questar Corporation and Chairman, President and CEO of Questar Gas Company. In 2012, Mr. Jibson's annual compensation was $7,086,005 as reported in Questar Corporation's 2012 Proxy Statement.[13] The $7,086,005 includes $3,548,143 related to nonqualified deferred compensation earnings.

Q. WHAT IS THE UTAH COMMISSION'S POLICY REGARDING BONUSES AND INCENTIVE COMPENSATION?

A. In Docket No. 93-057-01, the Commission stated its policy regarding incentive compensation. The Commission stated, "Our policy has been to disallow recovery of expenses associated with financial goals where no credible link to ratepayer benefit is established."[14]

Q. HAS THE COMPANY PROPOSED ANY ADJUSTMENTS TO DISALLOW BONUSES AND INCENTIVE COMPENSATION?

A. Yes. As detailed in Company QGC Exhibit 3.21, QGC has proposed to remove $4,508,379 in bonuses and incentive compensation from the 2014 test year expenses. For Questar Corporation employees, this includes an 83.04% disallowance of AMIP bonuses and an 81.13% disallowance of PIPE bonuses. For Questar Gas Company employees, this includes a 45.26% disallowance of AMIP bonuses and a 35.26% disallowance of PIPE bonuses.

Q. ARE YOU PROPOSING ANY ADDITIONAL ADJUSTMENTS RELATED TO BONUSES AND INCENTIVE COMPENSATION?

[13] Questar Corporation's 2012 Proxy Statement, Summary Compensation Table.

[14] Commission Report and Order, Docket No. 93-057-01, issued January 10, 1994, page 45

A. Yes. I am proposing additional adjustments related to the LTIP and SERP programs. Each of these adjustments is addressed below.

Q. PLEASE DESCRIBE THE COMPANY'S LTIP PROGRAM.

A. The LTIP awards are provided to top executives and include restricted stock grants and performance share grants. The Company indicates in response to data request OCS 9.11, "There are also no individual performance goals for grants of performance shares under the long-term incentive plan. The performance goal is tied to total shareholder return."

Q. DO YOU AGREE WITH CHARGING RATEPAYERS FOR LTIP AWARDS?

A. No. The Company itself indicated that the LTIP has no individual performance goals and the performance goal is tied to total shareholder return. Therefore, this cost should not be borne by ratepayers.

Q. WHAT IS YOUR RECOMMENDED ADJUSTMENT REGARDING THE LTIP AWARDS?

A. As shown in Exhibit OCS 3.1, Schedule H, page 5, my recommendation is to remove LTIP from test year expense which reduces O&M expenses by **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]**

Q. PLEASE DESCRIBE THE SERP PROGRAM.

A. SERP is a retirement plan that compensates top executives over and above the utility's qualified pension plan. There are no individual performance goals associated with the SERP.[15]

[15] Company response to OCS 9.11

Q. ARE THERE SPECIAL RULES FOR THE SERP PROGRAM?

A. Yes. The SERP program is highly restrictive and available to only top executives. The Internal Revenue Service ("IRS") treats the SERP as a non-qualified retirement plan expense in which the costs are only deductible in future years when actual payments from the plan are disbursed.

Q. DO YOU AGREE WITH CHARGING RATEPAYERS FOR SERP AWARDS?

A. No. There are no individual performance goals included in the SERP plan. As noted above, the Commission's policy is to disallow recovery of expenses associated with financial goals where no credible link to ratepayer benefit is established.

Q. WHAT IS YOUR RECOMMENDED ADJUSTMENT REGARDING THE SERP AWARDS?

A. As shown in Exhibit OCS 3.1, Schedule E, pages 1 and 2, Column G, my recommendation is to remove SERP from test year expense which reduces O&M expenses by $1.108 million.

E. LOBBYING EXPENSES

Q. PLEASE DESCRIBE THE OUTSIDE LEGAL EXPENSE ISSUE.

A. The 2014 test year outside legal expenses include costs for lobbying. **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]** [16]

[16] Company responses to OCS 17.38 and OCS 7.12

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE LOBBYNG EXPENSES?

A. Lobbying costs are not legitimate costs and should be removed for ratemaking purposes.

F. <u>FINES AND PENALTIES</u>

Q. PLEASE DESCRIBE THE FINES AND PENALTIES ISSUE.

A. **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]**[17]

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE FINES AND PENALTIES ISSUE?

A. Fines and penalties costs are extraordinary and non-recurring costs. These costs should be removed from the test year for ratemaking purposes.

K. <u>DISTRIGAS ALLOCATIONS</u>

Q. PLEASE DESCRIBE THE DISTRIGAS ALLOCATION ISSUE.

A. The Distrigas allocation is used by Questar to allocate common Questar Corporation costs to Questar Gas Company and Questar Corporation's other subsidiaries. The following is the Distrigas allocation factors used for 2012 and 2013.

Distrigas

Allocation

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[17] Company response to OCS 3.54

	Factors
Questar Gas Company	40.04%
Wexpro	23.45%
Questar Pipeline Company	24.05%
Questar InfoComm, Inc.	1.38%
Questar Ovethrust Pipeline	0.00%
Questar Energy Services	0.00%
Questar Southern Trails Pipeline	1.51%
Questar Field Services	0.65%
Questar Project Employee Company	0.00%
Questar Fueling Company	0.00%
Total	100.00%

Source: Company response to OCS 7.29

Q. IN ITS FILING, DID THE COMPANY UPDATE ITS DISTRIGAS ALLOCATION FACTORS FOR THE 2014 TEST YEAR?

A. No. The Company used the 2013 Distrigas allocation factors for 2014.[18]

Q. DO YOU AGREE WITH THE COMPANY USING THE 2012 AND 2013 ALLOCATION FACTORS FOR 2014?

A. No. There have been major changes including the addition of Questar Fueling Company as a separate Questar Corporation subsidiary in 2012. As shown above, the Company has allocated no costs to Questar Fueling Company during the 2014 test year.

Q. HAS THE COMPANY PROVIDED A CALCULATION OF THE CHANGE IN THE DISTRIGAS ALLOCATION FACTOR WITH QUESTAR FUELING ADDED?

[18] Company response to OCS 11.17

A. Yes. The Company provided a calculation in response to OCS 19.14. The calculation shown below:

Allocable Distrigas Costs from OCS 17.04	$	31,496,260
Change in Distrigas from OCS 17.22		-0.34%
Total impact from change in Distrigas	$	(107,087)

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE DISTRIGAS ALLOCATION FACTORS?

A. I recommend that the updated distrigas allocation factors be used in this case. As shown in Exhibit OCS 3.1, Schedule E, pages 1 and 2, Column L, my recommendation reduces test year O&M expenses by $0.107 million.

H. INTER-COMPANY PROFITS

Q. PLEASE DESCRIBE THE INTER-COMPANY PROFITS ISSUE.

A. The Company's costs for affiliate transactions such as the charges from Questar Corporation for the new Questar Center include a return on common equity allowance. The Company has forecasted these charges using the Company's proposed 10.35% return on common equity.

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE INTER-COMPANY PROFITS ISSUE?

A. Costs for affiliate transactions which include a return on common equity allowance should reflect the Commission's final determination on the ROE issue. As shown in Exhibit OCS 3.1, Schedule E, pages 1 and 2, Column M, my recommendation to reflect OCS Lawton's recommended 9.30% ROE regarding inter-company profits reduces O&M expenses by $0.027 million.

J. <u>DEPRECIATION EXPENSE</u>

Q. PLEASE DESCRIBE YOUR RECOMMENDED DEPRECIATION ADJUSTMENTS.

A. As noted in the Rate Base section of this testimony, I have recommended adjustments to reduce certain gas plant in service balances for the 2014 test year. As shown in Exhibit OCS 3.1, Schedule E, pages 1 and 2, Column N, my recommended reductions to gas plant reduce depreciation expense by $0.855 million.

Q. DOES THIS COMPLETE YOUR TESTIMONY AT THIS TIME?

A. Yes, it does.