Docket No. 13-057-05
DPU Exhibit 3.0 DIR
Carolyn G. Roll
October 30, 2013

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Questar Gas Company for Authority to Increase Distribution Rates and Charges and Make Tariff Modifications	:	Docket No. 13-057-05 DPU Exhibit 3.0 DIR

DIRECT TESTIMONY

OF

CAROLYN G. ROLL
STATE OF UTAH
DIVISION OF PUBLIC UTILITIES

OCTOBER 30, 2013

Q. Please state your name and business address for the record.

A. Carolyn G Roll. My business address is Heber M. Wells Building 4th Floor, 160 East 300 South, Salt Lake City, Utah 84114-6751.

Q. For which party will you be offering testimony in this case?

A. I will be offering testimony on behalf of the Utah Division of Public Utilities ("Division").

Q. Please describe your position and duties with the Division of Public Utilities?

A. I am a Utility Analyst. Among other things, I review issues concerning the terms, conditions and prices of utility service; industry and utility trends and issues; and regulatory form, compliance and practice relating to public utilities. I examine public utility financial data for determination of rates; review applications for rate increases; conduct research; examine, analyze, organize, document and establish regulatory positions on a variety of regulatory matters; review operations reports and ensure compliance with laws and regulations, etc.; testify in hearings before the Utah Public Service Commission ("Commission"); and assist in analysis of testimony and case preparation.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to respond to Questar Gas Company's (Company) proposal to include the infrastructure replacement costs in base rates as set forth in the testimony of Barrie L McKay.[1] Division witness Mr. Eric Orton will discuss the merits of the tracker and the Company's request to include the intermediate high pressure or belt-loop lines in the tracker going forward.

Q. As part of the stipulation in Docket No. 09-057-16 what was the purpose of the Infrastructure Tracker Program?

A. The Infrastructure Tracker was designed to allow the Company to track and recover costs that are directly associated with replacement of aging infrastructure through an incremental surcharge to the GS, FS, IS, TS, MT, FT-1 and NGV rate schedules. The surcharge is designed to track and collect costs of replacement infrastructure between general rate cases and may be adjusted semi-annually.

Q. Was there a budget for the Infrastructure Tracker included in the Docket No. 09-057-16 stipulation?

A. Yes. The infrastructure replacement budget shall not exceed $55 million (adjusted annually for inflation using the global Insight Distribution Steel Main Inflation Index). This index is included in the Company's infrastructure replacement plan and budget that the Company files with the Commission each year.

[1] Docket No. 13-057-05, McKay Direct Testimony, QGC Exhibit 1.0. page 13.

Q. Did the Commission order in Docket No. 09-057-16 specify a review process for the investment related to the Infrastructure Tracker?

A. Yes. All investment related to the Infrastructure Tracker, will be recorded separately in the new 376004 sub-account. All items included in the Infrastructure Tracker are subject to regulatory audit consistent with the audit procedures in the “Gas Balancing Account,” Tariff Section 2.07. The order further stated that at the next general rate case, all prudently incurred investment and costs associated with the Infrastructure Tracker would be included in general rates.

Q. Briefly, what are the audit procedures as stated in “Gas Balancing Account,” Tariff Section 2.07?

A. The audit procedures indicate that all items recorded by the Company are subject to regulatory audit. Adjustments to the account may be proposed on a retroactive basis for items that are not in compliance with account standards and procedures, not in compliance with prior orders of the Commission, or imprudently incurred. Proposed adjustments shall be designated no later than one year after the end of the fiscal year being audited and may be adopted by the Company without Commission review. If a proposed adjustment is not adopted by the Company, the proponent may seek Commission resolution.

Q. Did the Division develop a plan to audit the Infrastructure Tracker?

A. Yes. The Division's financial audit(s) will include: 1) an examination of the actual costs compared to the budgeted amounts and a review of any reasons or explanation for deviations from the budget; 2) a review of the recorded transactions for mathematical accuracy; and 3) a review of the costs for each feeder line project to see that the charges have been correctly allocated to the specified projects.

Q. Are there other financial issues that the Division will review?

A. Yes. The Commission ordered that there be a review and discussion of the impact of the Infrastructure Tracker on the Company's rate of return.

Q. There are annual infrastructure replacement budgets and quarterly progress reports that the Company files, as well as publicly-noticed meetings that have explained replacement budget projects, actual costs, variances and plans for the coming year. Has the Division met with the Company to discuss accounting procedures for the Infrastructure Tracker?

A. Yes. The Division meets with the Company annually to review the accounting procedures for the Tracker and concluded that the procedures are reasonable and Questar staff is complying with those procedures.

Q. How has the Company accounted for the replacement infrastructure costs that are included in the Infrastructure Rate-Adjustment Mechanism that was approved as a pilot program in Docket No. 09-057-16?

A. The Company identified the separate sub-accounts that would be used to track replacement infrastructure. The Company identified reports that it believed would help to provide clarity and understanding of all costs associated with the replacement of infrastructure. Even after this plant is included in general rates, the Company has designed its accounting system to identify this replacement infrastructure separately. For as long as the tracker is in place the Company plans to separately identify this plant.

Q. Has the Division completed an audit of the Infrastructure Tracker?

A. Yes. The Division performed an audit of Questar’s actual Infrastructure Tracker expenditures for the period August 2010 through October 2012. A copy of the Division’s audit report is attached to this testimony as Exhibit 3.1Dir.

Q. Were there any issues with the audit?

A. No. Questar provided the Division with a report detailing all expenses for each feederline project. The Division reviewed this report, and a sampling of invoices and/or supporting documentation was requested for review. It should be noted that the invoice sample utilized for review purposes was partly judgmental and partly sampled. The Infrastructure Replacement Tracker projects are large capital projects, but over 90% of the costs are for the contractor, NPL Construction Company, and the cost of the pipe. The majority of the invoices reviewed were for these costs.

Q. During your review for the general rate case were there other reports that you reviewed?

A. Yes. One of note was the confidential Internal Audit Report of the NPL Feederline Contract (NPL is the construction company that replaces the feederlines). The audit was to verify billing charges from NPL from the period January 1, 2010 through March 31, 2012. The audit was completed in July 2012.

Q. Can you summarize the findings of the Internal Audit?

A. Yes. The contract is for time and material, with an agreed upon rate for labor, equipment and material; fees for project inspection; and a percentage for all other items provided for projects. In general Questar has been properly billed, there were a few de minimis items that needed to be corrected (under $500.00) and additional procedures have been adopted to minimize future errors.

Q. The Commission ordered a review of the impact of the Infrastructure Tracker on the Company's rate of return, what were your findings?

A. Since the pilot program became effective as of June 2010, the Company has provided information for the 12 month periods ending June 2011, December

2011, June 2012 and December 2012. These results were verified as part of the Infrastructure Tracker audit. Please see the table below:

Tracker impact on QGC's rate of return during the pilot period:

	12 Months Ended Jun 2011	12 Months Ended Dec 2011	12 Months Ended Jun 2012	12 Months Ended Dec 2012
Feederline Tracker Revenue	$1.8 million	$4.3 million	$7.3 million	$10.2 million
Return on Equity with Tracker	10.0%	9.84%	9.24%	8.62%
Return on Equity w/out Tracker	9.73%	9.22%	8.25%	7.35%
Difference in Equity	0.27%	0.62%	0.99%	1.27%

Based on the information provided by the Company, the tracker has worked by allowing the Company to recover capital expenditures without filing a general rate case. By delaying the filing of a general rate case, other portions of the rate structure have not been reexamined and the Company has been allowed to retain the approved Return on Equity (ROE) of 10.35%.[2] Customer's rates have increased slightly as the result of the Tracker; overall rates have not changed substantially since the Tracker was implemented.

Q. The Company is proposing to include the infrastructure replacement costs, which are in the current surcharge, in base rates. Does the Division have a position on this proposal?

A. The Division supports including all of the plant, accumulated depreciation, accumulated deferred taxes, depreciation expense and taxes other than income that were separately identified in the tracker filings and that have been separately

[2] Docket No. 09-057-16, Settlement Stipulation, page 5.

tracked since the last rate case as part of the total revenue requirement that the Company is requesting.

Q. The Company then states that the surcharge will be reset to zero. Does the Division agree that this is correct?

A. Yes, with one caveat. Since all of the actual costs for the infrastructure replacement tracker have been included in the requested revenue requirement, they are included in the DNG portion of each rate schedule. The surcharge should then be reset to zero. Assuming continuation of the Infrastructure Tracker the surcharge will remain zero until the Company files an application to adjust the surcharge for new investment in replacement infrastructure. Since expenses in the tracker have been audited through October, 2012, the 2013 expenses are yet to be audited. The Division proposes that the 2013 expenses are subject to adjustment upon completion of the 2013 audit. If the Commission approves that any investment above $22 million that is put into service on or after January 1, 2014, should be included in the tracker, the Division would adjust that amount if there were 2013 expenses that the Division proposed should be disallowed. For example, if the Division found $100,000 of 2013 expenses that would be disallowed, the Company would then have to expend $22,100,000 in 2014 before filing for a tracker adjustment.

Q. Is there an alternative to this proposal?

A. Yes. The Division would recommend that the Commission order that the 2013 expenses for infrastructure replacement remain in the tracker surcharge and not be included in base rates. The Division would then audit the 2013 expenses and those expenses would be included in base rates at the time of the next general rate case.

Q. Does the Division have a preference of which method is ordered?

A. Yes. The Division would prefer to reset the tracker surcharge to zero, with the 2013 expenses subject to adjustment upon completion of the audit. This would be a less complicated approach; the Company includes all infrastructure expenses in a separate sub-account where the 2013 expenses can be segregated for review and audit. If there are regulatory or legal reasons that this recommendation is not possible, the Division would recommend the second option.

Q. Does this conclude your Testimony?

A. Yes.