Division Questions

Issue 1; "Book" depreciation reserve amounts used in the QGC Depreciation Study compared to the QGC books.

Overview:

The General Plant "book" depreciation reserve amount used in the QGC Depreciation Study appears to be approximately $28 million less than the General Plant book depreciation reserve amount on the QGC books, for the same time period.

On the other hand the Distribution Plant "book" depreciation reserve amount used in the QGC Depreciation Study appears to be approximately $28 million more than the Distribution Plant book depreciation reserve amount on the QGC books, for the same time period

Discussion

Attachment 1 attached hereto contains pages 1 and 2 from the Financial Report "DPU 1.37 Attach Dec 2012" which Questar provided in response to DPU 1.37. This shows certain financial data for Questar Gas Company as of the end of 2012.

Page 2 line 108 of Financial Report "DPU 1.37 Attach Dec 2012" shows the Accumulated Provision For Depreciation of Gas Plant in Service (Accumulated Depreciation) by category as of the end of the year 2012.

Shown below is a comparison of the QGC book Accumulated Depreciation data to the "Book" Accumulated Depreciation reserve used in the Questar Depreciation Study (column (4) of pages III-7 and III-8)

Book Accumulated Depreciation Reserve

(12-31-2012)

		General Plant Reserve (A)	Distribution Plant Reserve (B)
1	**QGC Financial Report 2012** (Line 108, page 2, DPU 1.37 Attachment Dec 2012)	$ 127,493,694	$ 560,857,060
2	**Questar Depreciation Study** (Pages III-7, 8 in QGC Exh. 1.2)	$ 99,494,237	$ 588,874,849
3	**Difference** (line (2) - Line (1))	**$ (27,999,457)**	**$ 28,017,789**

This table is also attached as Attachment 2.

For General Plant the "book" accumulated depreciation reserve used in the Questar Depreciation Study appears to be approximately $28 million less than the book accumulated depreciation reserve shown on the Questar books (column (A)).

However for Distribution Plant the "book" accumulated depreciation reserve used in the Questar Depreciation Study appears to be approximately $28 million more than the book accumulated depreciation reserve shown on the Questar books (column (B)).

Questions on Issue 1

Q.1-1

Was approximately $28 million that was General Plant accumulated depreciation reserve on the Questar books effectively treated as if it were Distribution Plant accumulated depreciation reserve in the Questar Depreciation Study (QGC Exhibit 1.2)?

Q.1-2

Please explain the reasons that Questar had for using a General Plant "book" accumulated depreciation reserve in the Questar Depreciation Study that appears to be approximately $28 million less than the book accumulated depreciation reserve shown on the Questar books.

Please explain the reasons that Questar had for using a for Distribution Plant a "book" accumulated depreciation reserve in the Questar Depreciation Study that appears to be approximately $28 million more than the book accumulated depreciation reserve shown on the Questar books.

Q1-3

Provide a revised version of pages III-4 through III-10 of the QGC Depreciation Study (QGC Exhibit 1.2) except in the "Book Accumulated Reserve" column (4) on pages III-7 and III-8 use the Book Accumulated Reserve amounts as shown on the QGC regulatory books as of 12-31-2012.

Q 1-4

For General Plant please reconcile the approximately $28 million difference (as shown in column (A) above) between the book accumulated depreciation reserve shown in Financial Report "DPU 1.37 Attach Dec 2012" and the book accumulated depreciation reserve shown in the Questar Depreciation Study (QGC Exhibit 1.2). Provide the workpapers that support the reconciliation provided.

Q 1-5 For Distribution Plant please reconcile the approximately $28 million difference (as shown in column (B) above) between the book accumulated depreciation reserve shown in Financial Report "DPU 1.37 Attach Dec 2012" and the book accumulated depreciation reserve shown in the Questar Depreciation Study (QGC Exhibit 1.2). Provide the workpapers that support the reconciliation provided.

Issue 2: QGC Net Salvage data error.

Overview

In the one account we asked about, Questar acknowledged there were errors in the salvage and removal costs data. We are interested in knowing if there are also errors in other accounts.

Discussion

The response to DPU 1.19 states that

> "The gross salvage for Account 380 Service Lines was incorrectly classified as removal costs from May 2010 to Dec. 2013."

Questions on Issue 2

Q.2-1

In what accounts, other than Account 380 Service Lines, was the gross salvage incorrectly classified as removal costs?

Q.2-2

Were there any other errors in the Removal Cost or Gross Salvage data or Retirement data for any account in the years 2008 through 2012? If yes, identify these additional errors and accounts.

Q.2-3

Provided a corrected version of the Summary of Book Salvage (Appendix B of the Depreciation Study (QGC Exhibit 1.2)) for all accounts that have an error.

Q.2-4

Is Questar revising it recommended Net Salvage percent for any account(s) as the result of discovering this error in the net salvage data? If yes, what are the new recommendations? If no, why not?

Issue 3; The change in Removal Cost and Salvage data after 2007 .

Discussion

The prior QGC depreciation study included Removal Cost and Salvage data through 2007. The QGC depreciation study in this proceeding also includes Removal Cost and Salvage data after 2007. The Removal Cost and Salvage figures that Questar is providing are very different after 2007 than the prior data. We are interested in knowing what changed around the end of 2007.

Questar provided "Attachment DPU 1.02-9 Net Salvage Data". The data on the following table is the sum of that data by year for all accounts.

(A)	Transaction Year (B)	Retirement Amount (C)	Removal Cost (D)	Salvage Final (E)	Removal Cost % (G)=D/C	Salvage Final % (H)=E/C
1	2012	$ (30,448,416)	$ 2,252,578	$ (390,951)	-7%	1%
2	2011	$ (18,224,045)	$ 2,823,782	$ (230,381)	-15%	1%
3	2010	$ (15,243,874)	$ 1,487,907	$ (493,768)	-10%	3%
4	2009	$ (10,701,480)	$1,593,203	$ (248,973)	-15%	2%
5	2008	$ (14,321,468)	$ 3,366,261	$ (324,620)	-24%	2%
6	2007	$ (8,454,053)	$ 622,117	$ (1,435,762)	-7%	17%
7	2006	$ (62,464,106)	$ 588,460	$ (1,154,677)	-1%	2%
8	2005	$ (16,776,163)	$ 305,904	$ (1,168,205)	-2%	7%
9	2004	$ (21,166,503)	$ 402,526	$ (1,033,532)	-2%	5%
10	2003	$ (23,731,787)	$ 1,382,692	$ (1,319,215)	-6%	6%
11						
12	Average					
13	2008-2012	$ (17,787,857)	$ 2,304,746	$ (337,739)	-13%	2%
14	2003-2007	$ (26,518,523)	$ 660,340	$ (1,222,278)	-2%	5%

This table is also attached as DPU Discovery Attachment 3.

From the data on this table it appears that a significant change in the stated amount of Salvage occurred between 2007 and 2008. As can be seen on this table in the years 2003 through 2007 the gross salvage (Salvage Final) averaged $1.22 million per year. However after that, in the years 2008 through 2012, the gross salvage (Salvage Final) averaged $337,739 per year.

A lower Salvage produces higher depreciation rates, everything else equal.

From the data on above table it appears that a significant change in the stated amount of Removal Cost occurred between 2007 and 2008. As can be seen on the above table in the years 2003 through 2007 the Removal Cost averaged $660,000 per year. However after that, in the years 2008 through 2012, the Removal Cost averaged $2.3 million per year.

A higher Removal Cost produces higher depreciation rates, everything else equal.

Questions on Issue 3

Q. 3-1

What happened in this current Depreciation Study as compared to the prior Questar Depreciation Study, or a change in Questar accounting practices, which resulted in the stated amount of gross salvage noticeable decreasing in the years 2008 through 2012 as compared to the years 2003 through 2007?

Q. 3-2

What happened in this current Depreciation Study as compared to the prior Questar Depreciation Study, or a change in Questar accounting practices, which resulted in the stated amount of Removal Cost noticeable increasing in the years 2008 through 2012 as compared to the years 2003 through 2007?

Q.3-3

Did the Public Service Commission of Utah specifically approve the changes discussed in response to Q 3-1 and Q 3-2?

Q. 3-4

Is it Questar's position that it is just coincidence that the amount of stated gross salvage decreased noticeable after 2007, and the amount of stated Removal Cost increased noticeable after 2007, which is also the dividing line between the current and prior Questar depreciation studies?

Issue 4: Understanding how QGC generated the "experience" data on page A-14, 15 and 16.

Overview

The QGC study indicates that the "experience" data was generated using Iowa curves. We are interested in understanding how that "experience" data was generated using Iowa curves.

Discussion

> On page II-24 0f the QGC Depreciation Study (QGC Exhibit 1.2) it is stated:
>
> In this procedure, an aged plant balance is developed for the year prior to and for each test year during the given term of comparison. Each given balance is aged by a simulation procedure which applies a series of successive survivor curve trials using a specified Iowa type curve. The Iowa type survivor curve specified for each account is based on judgment incorporating the results of the simulated plant record analyses, a knowledge of the property, and the type curves estimated for the account in other electric companies. Each trial consists of constructing a specific survivor curve at one-year intervals

beginning with age ½. From this curve, survivor ratios are computed and applied. (Emphasis added)

Questions on Issue 4

Q. 4-1
What is the specific "specified Iowa type curve" (for example R2, or L1, etc) that was used as an input to produce the Original Life Table for Account 380-Services as shown on pages A-15 and A-16 of QGC Exhibit 1.2?

Q. 4-2

What is the specific average service/projection life (for example 50 R2, or 65 L1, etc) that was used as an input to produce the Original Life Table for Account 380-Services as shown on pages A-15 and A-16 of QGC Exhibit 1.2?

Q. 4-3

Using Account 380 Services as an example, explain in detail how amounts on the 1.5 Age line on page A-15 of the Depreciation Study were developed "using a specified Iowa type curve."

Q. 4-4

What specific service (projection) life and Iowa curve type was used to produced the amounts shown on the 1.5 Age line of page A-15 of the Depreciation Study?

Issue 5: Double Counting of ARC

Overview.

In response to discovery QGC acknowledged it had double counted ARC costs. The QGC recommended correction is to remove a "Communications Equipment" and "Other Equipment" account, which do not appear to be closely related to the ARC.

Discussion

In response to DPU 130, Questar stated

> The Net Salvage Percent recommended includes costs that are also shown in the Asset Retirement Costs, Distribution. To avoid double counting these costs, accounts 388 and 399 should not be included in the depreciation calculation shown in exhibit 1.3, but were included when the application was filed. Excluding these accounts results in a decrease in annual depreciation expense of $22,766.

On QGC Exhibit 1.3Account 399 is labeled “Communications Equipment” and Account 388 is labeled “Other Equipment”.

Questions on Issue 5.

Q.5-1

Please explain how Account 399-Communications Equipment and Account 388-Other Equipment are directly related to the asset retirement costs.

Q.5-2

Does the investment in Account 399-Communications Equipment consist entirely of asset retirement costs?

Q.5-3

Is there a more accurate adjustment that would more accurately eliminate the double count of asset retirement costs?

Issue 6: Production Plant depreciation or depletion is not in the Study.

Overview.

Production Plant depreciation or depletion is not in the QGC Depreciation Study.

Questions on Issue 6.

Q.6-1

Explain why the Production Plant depreciation or depletion is not in the QGC Depreciation Study.

Q.6-2

In a general rate case what percent of the Production Plant depreciation or depletion expense is allocated to the Utah regulated services?

Q.6-3

If the Production Plant depreciation or depletion rates are not addressed in this proceeding, in what proceeding have they, or will they be, presented to the Public Service Commission of Utah for approval?