Exhibit QGC 4.0

BEFORE THE
PUBLIC SERVICE COMMISSION OF UTAH

Questar Gas Company) Docket No. 02-057-02

PREPARED DIRECT TESTIMONY OF
GARY L. ROBINSON
FOR QUESTAR GAS COMPANY

Q. Please state your name and business address.

A. Gary L. Robinson, 180 East 100 South, Salt Lake City, Utah 84111.

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

A. I am employed by Questar Gas Company (QGC or the Company) as a Regulatory Affairs Specialist. My qualifications are detailed in Exhibit QGC 4.1.

Q. Attached to your written testimony are also Exhibits QGC 4.2 through 4.7. Were these prepared by you or under your direction?

A. Yes.

Q. What general areas will your testimony address?

A. My testimony and exhibits will address (1) the 2001 year-end Results of Operations Report (2001 Results) and (2) the calculation of the revenue deficiency for the test year in this proceeding.

Q. What test year is the Company using in this case?

A. As explained in the Prepared Direct Testimony of Mr. Alan K. Allred (Exhibit QGC 1.0), the test year is the 12-month period that will end on January 1, 2003. Thus, the test year ends on the effective date when new rates established in this case are most likely to become effective, if the case runs the maximum 240 days under Utah law. Also, this test year is consistent with the section of the Utah Public Utility Code that permits the Commission to consider "an appropriate future test period, not exceeding twelve months from the date of the filing." We have adopted a future test year that looks ahead from the filing date less than eight months.

Q. What general approach have you taken to determine the test-year revenue requirement and revenue deficiency?

A. The foundation for the 2002 test year is the Company's actual financial results for the calendar year 2001. This is the information that is regularly provided the Commission, the Division of Public Utilities ("Division") and the Committee of Consumer Services ("Committee") in the Results of Operations Report at the end of each year, that can be readily audited and analyzed. This gives the Commission and the parties to the case a full calendar year's actual information from which to compare to the projected 2002 information which forms the test year necessary to establish rates beginning in 2003 (the "rate-effective period").

Beginning with the year 2001 recorded results, we first make adjustments to reflect various regulatory treatments that have been required in past cases. This is the information that is provided in the Results of Operations Report. From that adjusted 2001 information, we consider the "changes reasonably expected, but not speculative in the utility's revenues, expenses or investments," as permitted under Utah Code Ann. § 54-4-4(3). In general, we have done this by analyzing all of the elements that determine the Company's revenue requirement and identifying all the major changes that are known or reasonably expected to occur through January 1, 2003.

Except for annual usage per customer, for which we have reliable data through March 2002 and which I will discuss in more detail later, all other changes expected to occur are measured relative to the actual 2001 data that forms the basis for the 2001 Results. This includes changes to rate base, depreciation, O&M expenses and revenues, as well as the effects of other changes through the end of 2002, such as known postage increases and tax-law changes.

Finally, I will discuss proposed changes to the treatment of several matters that are the subject of prior Commission orders, but which QGC would like the Commission to reconsider in light of today's regulatory and operational environments.

Q. What is your approach to rate base and the number of customers for the 2002 test year?

A. To reflect the conditions that will be in place during the rate-effective period, I have used a test-year-end 2002 rate base as well as the number of customers that are reasonably expected to be on the system at the end of 2002.

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Q. In previous rate cases and Results of Operations Reports, the Company used average rate base and average customers for the test year. Why have you changed the approach?

A. Because QGC's rate base is generally increasing due to the increasing number of customers, the Company's investors should be permitted to earn a return on their investment base as measured no later than the start of the rate-effective period, January 1, 2003. To use average rate base for 2002 would effectively deny the Company an opportunity to earn a return on a portion of its investment that will have already been made by the time new rates become effective.

Similarly, because the steadily increasing number of customers produces other increasing costs, the only fair way to reflect this effect is to identify the costs associated with the number of customers at the end of the test year, not a number that is six months out of date.

Q. It has been suggested that average rate base is more appropriate because rate base varies throughout the year. Do you agree?

A. No. While I can agree that rate base varies somewhat seasonally throughout the year, the important point is that it is constantly increasing when compared on a year-earlier basis for any month throughout the year. Thus, rate base on January 1, 2003, will be significantly higher than on January 1, 2002, and the same is true for February, March, and so on. Another way to look at it is that the 12-month moving average of rate base is always increasing for QGC. Using an average rate base for 2002 would essentially put the Company's investors "behind the curve" by denying them a return on incremental investment at the end of the test year.

Q. Have you prepared a summary of the Company's 2001 Results and rate case deficiency?

A. Yes. Exhibit QGC 4.2 is such a summary. The top line of the exhibit presents the annual revenue deficiency based on the fully adjusted Results of Operations as of the end of 2001. As can be seen, after all the regulatory adjustments have been made, the Company earned 9.81% on equity during 2001. This equates to a deficiency of $5,563,000, based on the currently authorized return on equity of 11%. Items 1-13 of the exhibit present the comparative changes to the 2001 Results which are reflected in the 2002 test-year results. Column B of the exhibit presents the revenue requirement impact of each major change. For example, the impact on the test-year deficiency of merging the former Utah Gas Service rate schedules into the GS-1 and F-1 schedules (see item 1) is a decrease in distribution non-gas ("DNG") revenues that contributes $397,000 to the test year revenue deficiency. The total test-year deficiency of **$23,017,000** at the proposed return on equity of 12.6% is shown at line 16 of the exhibit.

RESULTS OF OPERATIONS

Q. Has the Company filed a semi-annual Results of Operations report through the end of 2001?

A. No separate filing of 2001 Results has been made prior to the filing of this rate case. Instead, the required end-of-year 2001 Results are included in this rate-case filing. Exhibits QGC 4.3 and 4.4 constitute what would have been filed had this case not been prepared at the same time.

Q. Please identify and explain Exhibit QGC 4.3.

A. Exhibit QGC 4.3 is the standard form of financial data for the report for the 12 months ended December 31, 2001. This includes the actual year-end information taken from the books and records of the Company in column B and the adjustments in column C that reflect the treatment to the 2001 data required under previous Commission orders and Commission-approved stipulations in Docket Nos. 93-057-01, 95-057-02 and 99-057-20—the "regulatory adjustments." With appropriate tax-related adjustments, this produces the fully adjusted results for 2001 shown in columns E and F of Exhibit QGC 4.3, page 1. Each of the adjustments will be explained later in my testimony.

Lines 51-52 indicate the various returns on rate base and on equity. As I mentioned, QGC's return on equity for the year 2001 already completed was 9.81%. This is 119 basis points below the 11.0% authorized by the Commission. As Mr. Allred explains in more detail in his testimony, the constantly increasing customer base will cause this return on equity to erode even further through this year and will continue through the rate-effective period.

Q. Please explain lines 1 through 7 of page 1, Exhibit QGC 4.3, "Utility Operating Revenue."

A. The revenues received by the Company are separated by category. The DNG revenues (line 2) and the general related other revenues (line 6) are the revenue components reviewed in a general rate case. The supplier non-gas ("SNG"), commodity and pass-through-related other revenues are related to gas costs and are reviewed in the Company's semiannual pass-through rate cases. Utah DNG revenues as adjusted for the 2001 Results total $215,662,000, as shown on line 7, column F.

Q. In Docket No. 99-057-20, the test-year revenues were based on updated degree-day normals through 1999. Have you made a similar update in this case?

A. Yes. All revenues in the 2001 Results and the test year have been based on 30-year normals that have been updated through the end of 2001.

Q. Have you changed the methodology used to recognize bad debt in this case?

A. Yes. In previous rate cases and reports, bad debt has been recognized as an O&M expense, and the Commission has required the use of an average of the past three years in calculating the allowed bad-debt expense. In this case bad debt is being recognized as a reduction to expected revenues and the ratio of bad debt to total revenues during 2001 is used to calculate the expenses for the 2001 Results and the rate case.

Treating bad debt as a reduction to revenues is more consistent with accepted accounting practice for recording and reporting it. During 2001, bad-debt expense totaled 0.9% of total revenues billed for the year. In this case, whenever a revenue calculation or adjustment is made, a corresponding adjustment to bad debt amounting to 0.9% of the revenue change is included in the customer accounts area (line 19 of Exhibit QGC 4.3). An adjustment to the 2001 Results is then required to remove bad-debt expense from O&M expenses (Exhibit QGC 4.3, page 3, column 9).

In addition, in Docket No. 01-057-14, the Company proposed to account for bad-debt expense related to SNG and commodity revenues in the 191 Account. This was adopted on an interim basis by the Commission, subject to its final review. To reflect this change, only the DNG portion of bad debt has been included in the calculations of the 2001 Results and the test year. It should be noted that the test year assumes continued collection of pass-through related bad-debt costs. Absent this, the

2001 Results and rate-case deficiencies would increase by $3,046,000 to $8,609,000 and $26,063,000, respectively.

Q. Why have you used the 2001 actual bad-debt amount rather than a three-year average?

A. Bad-debt expense has steadily and materially increased during the past three years, and this trend is not expected to reverse itself. Utah experienced a record number of individual bankruptcy filings in 2001, and that level is being exceeded so far in 2002. Using a three-year average ignores these clear trends.

Q. Have you calculated an amount of utility non-gas expenses and net income for the Company for the year ended December 2001?

A. Yes. System-wide adjusted utility non-gas expenses for the test year total $167,057,000. Lines 8 through 30 of page 1 of Exhibit QGC 4.3 is a summary that shows the components making up the 2001 expenses. The net operating income of $48,700,000 on line 31, column F, is the calculated difference between the utility operating revenues and the utility operating expenses

Q. Please explain lines 32 through 40 of page 1 of Exhibit QGC 4.3, "Additions to Rate Base."

A. Utility plant in service and plant held for future use (Accounts 101, 105, & 106) make up the gross plant in service for rate base purposes. Other items added to rate base include Company investment in materials and supplies (Account 154), gas stored underground (Account 164-1), prepayments (Account 165) and cash working capital.

Q. In Docket No. 99-057-20, the Company updated the lead-lag study through 1999 for use in calculating the required cash working capital allowance. Have you

made a similar update in this case?

A. Yes. The lead-lag study was updated with 2001 actual data. The result of the study provides a net lead of about 2.2 days, which is about 2.1 days more than the days calculated in the stipulated lead-lag study provided in Docket No. 99-057-20. The use of the updated study results in a test-year cash working capital requirement of $2,872,000 (line 39, column F).

Q. Please explain lines 41 through 48 of page 1 of Exhibit QGC 4.3, "Deductions From Rate Base."

A. The reserves for depreciation, depletion and amortization (Accounts 108 & 111) serve to reduce the gross utility plant balance. Other items that are normally deductions from rate base are accounts that provide working capital such as customer deposits and unclaimed customer deposits (Accounts 235-1 and 253-1), deferred investment tax credits (Account 255) and accumulated deferred income taxes (Account 282).

Q. What is the rate base for year-end 2001?

A. The system total year-end rate base for 2001 is $568,559,000, as shown on page 1 of Exhibit QGC 4.3, line 49, column E. The amount allocated to the Utah jurisdiction is $546,368,000, as shown in column F.

Q. Please explain the imputed tax adjustment shown in Column D.

A. As in the past, QGC has used the "Return Method" of calculating income taxes for the test year. This method uses the Utah rate base shown on line 49, the fully adjusted rate of return on rate base, the annualized weighted cost of debt at the end of December 2001, and the combined state and federal corporate income tax rate of 38.02%.

Q. Have the methods used by the Company to calculate taxes or allocate expenses and rate base to the Utah jurisdiction changed from previously filed rate cases or Results of Operations Reports?

A. No. Other than using year-end instead of average, the methodologies used in this case have been approved by the Commission in several previous QGC cases.

Q. Please explain the adjustments you made to the booked revenues, expenses and rate base to arrive at your 2001 Results amounts.

A. Column C of page 1 of Exhibit QGC 4.3 provides the total of all adjustments made in the 2001 Results. Pages 2-5 of Exhibit QGC 4.3 provide individual adjustment summaries and show how they equal the total shown in column C of page 1. Exhibit QGC 4.4 provides the detail for each adjustment. The following narrative describes the rationale and methodology for each adjustment.

2001 Temperature Adjusted Revenue
Exhibit QGC 4.3, page 2, column 1, and Exhibit QGC 4.4, page 1.

The volumes for the 12 months ended December 31, 2001, have been temperature-adjusted and annualized at year-end levels. The annualization was done for the residential and commercial classes by using the year-end number of customers for the entire year and the temperature-adjusted usage per customer. The industrial volumes were annualized by moving customers to the rate class they were on during December and then taking into account known major changes to individual industrial customers, such as the shutdown of the Geneva steel plant and the changing operating plans for the UP&L Gadsby plant. The resulting adjusted volumes were then billed at the rates effective January 1, 2002, in Utah and Wyoming to arrive at the adjusted tariff revenues in the 2001 Results. The temperature adjusting and billing followed the formulas and models used for several years and which have been approved by the Commission in the past several rate cases.

Revenue – Oak City and Rate Schedules FT-1 and FT-2
Exhibit QGC 4.3, page 2, column 2, and Exhibit QGC 4.4, pages 2A to 2B.

The Oak City adjustment of $19,560, shown on column D of page 2A, is an annualization of imputed revenue for Oak City. It is calculated by taking the latest number of customers in the Oak City area (163) during December 2001 and multiplying that amount by $120. This is to correct for a miscommunication that occurred during the pre-service canvass of this area. The canvass was conducted with an extension area charge (EAC) of $10 less per month than was appropriate. The Company agreed to run the system at the EAC communicated during the canvass and impute the difference in revenues for recovery in future rate proceedings. This treatment was approved in Docket No. 98-057-04.

The Utah Rate Schedules FT-1 and FT-2 minimum-bill adjustments, shown in column B of page 2B, recognizes $238,000 of minimum bills paid by Utah transportation customers during 2001 that are not included in the calculated revenues (see line 3).

Average Rate Base
Exhibit QGC 4.3, page 2, column 3, and Exhibit QGC 4.4, page 3.

The year-end amounts for Accounts 154, 165, 235 and 253 have been adjusted to 13-month averages for purposes of the 2001 Results. These accounts are calculated as averages because they are seasonal in nature, and the year-end amounts are not reflective of the on-going balances in those accounts.

Wexpro Plant
Exhibit QGC 4.3, page 2, column 4, and Exhibit QGC 4.4, page 4.

This reduction to rate base of $1,307,000 arises from the October 14, 1981 Wexpro Agreement, approved by the Utah and Wyoming Public Service Commissions. The Wexpro Agreement describes the approved methods for operating and determining costs and rates related to certain oil- and gas-producing properties owned by QGC, but operated by Wexpro Company, a production affiliate of the Company for over 20 years.

Section 5(b) of Exhibit E of the Wexpro Agreement requires that the production plant component in each QGC rate base plant account be reduced by 6.3%. As required by the Wexpro Agreement, the amount reduced is added to Wexpro's rate base when calculating the Wexpro service fee charged to QGC.

Underground Storage
Exhibit QGC 4.3, page 2, column 5, and Exhibit QGC 4.4, page 5.

The order in Docket No. 93-057-01, prescribed that Account 164.1, Gas Stored Underground - Current, was to be accounted for in QGC's pass-through cases and excluded in calculating test-year rate base. This is accomplished by allowing a return on the actual average balance in this account to be entered as a gas cost. The adjustment of $22,810,000 is to remove the year-end balance of Account 164 from the rate base calculation in this case.

Banked Vacation
Exhibit QGC 4.3, page 2, column 6, and Exhibit QGC 4.4, page 6.

QGC's employees are allowed to accrue up to one year's worth of allowed vacation and carry it forward until it is used. Because the allowed vacation in each year is included in the labor overhead of that year, the carried-over or "banked" vacation represents a benefit that has been earned by employees but which has not yet been paid to them. The order in Docket No. 93-057-01 included an adjustment that reduced the rate base amount by the average banked vacation balance. The adjustment of $779,000 in this case is to remove the year-end banked vacation balance for the period ended December 31, 2001, from rate base.

Sale of property
Exhibit QGC 4.3, page 2, column 7, and Exhibit QGC 4.4, page 7.

During 2001 the Company sold two pieces of property that had been included in the Utah portion of Account 105, property held for future use. As of the end of 2001, the sale of this property had not been reflected in the balance of Account 105. This adjustment removes $372,000 from the year-end Account 105 balance.

Labor Annualization
Exhibit QGC 4.3, page 3, column 8, and Exhibit QGC 4.4, page 8.

The QGC compensation plan specifies that merit increases for employees will be effective on September 1 of each year. Consistent with the methodology approved by the Commission in several previous rate cases, this increased labor cost has been annualized to reflect the increase over a full year. In this case, the number of employees and the average wage cost per employee as of December 2001 are annualized.

Included in the labor annualization calculation is a capitalization ratio, which is a measure of the portion of labor and overhead costs that are capitalized and not currently expensed. Consistent with the order in Docket No. 93-057-01, the Company uses a five-year average of this ratio for ratemaking and for stating 2001 Results. For the five years ending December 2001, an average of 82.72% of labor expenses has been charged to O&M expenses.

The total adjustment to the 2001 system labor and overhead costs is an increase of $3,505,000.

Bad Debt
Exhibit QGC 4.3, page 3, column 9, and Exhibit QGC 4.4, page 9.

As explained earlier, the accrual for bad debt is reflected as a reduction to the revenue adjustments rather than as an O&M expense. This adjustment removes the total bad-debt expense recorded during 2001 related to gas costs. This is done by applying the average bad-debt ratio during 2001 of 0.9% to the system DNG revenues for the year, which equals $1,922,000. The difference between this and the total accrued 2001 bad-debt expense of $6,464,000 is the SNG and commodity-related bad debt of $4,541,000 that is removed in this adjustment.

Questar Energy Services ("QES")
Exhibit QGC 4.3, page 3, column 10, and Exhibit QGC 4.4, page 10.

The 2001 *Distrigas* allocation used to allocate Questar Regulated Services ("QRS") expenses among the subsidiaries of QRS did not include an allocation to QES. This adjustment reflects that $339,000 of QRS expenses should have been allocated to QES during 2001. Of this total, $219,000 is moved from QGC.

Gas Technology Institute (GTI)
Exhibit QGC 4.3, page 3, column 11 and Exhibit QGC 4.4, page 11.

Traditionally, QGC has supported industry-wide research and development (R&D) efforts through payment of a FERC-approved charge included in interstate pipeline rates. This charge is used to fund the industry-wide R&D. In Docket No. 99-057-20, the Commission approved the transfer of the GTI funding from the SNG portion of rates to the DNG portion through a series of annual adjustments made in the pass-through rate cases. The total amount that had been transferred through 2001 was $892,000. In the rates that became effective January 1, 2002, an additional $298,000 was transferred to the DNG portion of rates. This adjustment is necessary to match the GTI related expenses with the temperature adjusted revenues.

Y2K Costs
Exhibit QGC 4.3, page 3, column 12, and Exhibit QGC 4.4 page 12.

During 1999 and 2000, QGC incurred charges from Questar InfoComm (QIC) for projects related to Y2K preparation and program modifications. As a part of the stipulation approved in Docket No. 99-057-20, the Company agreed to amortize these Y2K expenses over a three-year period. The amount incurred during 1999 was $1,450,000. The three-year amortization of this amount is $483,000 per year. The amount incurred during 2000 was $190,000. The three-year amortization of this amount is $63,000 per year. The combined annual amortization amount for Y2K expenses for 2001 is $546,000. There were no new Y2K expenses charged during 2001.

Affiliate Rate of Return
Exhibit QGC 4.3, page 3, column 13, and Exhibit QGC 4.4, pages 13A to 13D.

A reduction to O&M expenses is necessary because Questar Corporation, QIC and QRS calculate the charges to affiliates on a higher return on equity than is allowed for QGC. These charges are reflected in the actual QGC expenses included in the unadjusted 2001 amounts, but a portion is excluded from test-year data. This adjustment reduces O&M expenses by $2,629,000 and is based on QGC's currently allowed 11.0% return on equity.

CO_2 Processing Costs
Exhibit QGC 4.3, page 3, column 14, and Exhibit QGC 4.4, page 14.

In a Commission-approved stipulation in Docket No. 99-057-20, QGC was allowed to include up to $5,000,000 of CO_2 processing costs in results of operations and rate cases for five years. This adjustment removes $2,862,000, which is the incremental difference between the actual costs incurred during 2001 of $7,862,000 and the $5,000,000 allowed under the stipulation.

Phantom Stock
Exhibit QGC 4.3, page 4, column 15, and Exhibit QGC 4.4, pages 15A to 15C.

Consistent with the Commission order in Docket 93-057-01, an adjustment has been made to remove the effects of mark-to-market entries related to stock options that have yet to be exercised. In accordance with Generally Accepted Accounting Principles (GAAP), the Company is required to make these non-cash expense entries on a quarterly basis. For the 12 months ending December 2001, the total of the entries was a reduction to expenses of $591,000, which is removed by the adjustment.

Advertising
Exhibit QGC 4.3, page 4, col. 16, and Exhibit QGC 4.4, pages 16A and 16B.

In Docket 93-057-01, the Commission prescribed the types of advertising costs that are recoverable in rates. In that case, advertising expenses were divided into four categories: institutional, financial, promotional and informational. On pages 56-65 of the Commission's Report and Order, the various types of advertising were discussed. It was ordered that institutional advertising should not be recovered, but that financial advertising, if modest in amount, would be allowed. It was also determined that promotional advertising that attempts to increase sales of natural gas through co-op advertising, lobby displays, Parade of Homes displays or economic development programs are not in the public interest and should not be recovered. An exception was made with regard to public-interest advertising, and an inclusion of $100,000 per year of advertising in this area was approved. Finally, the Commission ruled that costs of informational advertising, such as the Blue Stakes, Equal Payment Plan and the Fall Furnace Preparation campaigns, are fully recoverable.

In addition to regular advertising expenses, charges that are included in this adjustment are customer research expenses (Exhibit 4.4, page 16A, line 6) and AGA dues (line 10). These expenses cover the costs of customer focus groups, customer satisfaction surveys and dues to the AGA to cover industry research and training. AGA dues related to lobbying efforts, which make up about 2% of the total, are removed.

Following the guidelines of the Commission in the 1993 order, the adjustment decreases advertising and related expenses by $1,106,000 (Exhibit QGC 4.4, page 16A, column F, line 11).

Donations and Memberships
Exhibit QGC 4.3, page 4, column 17, and Exhibit QGC 4.4, pages 17A to 17C.

Adjustments totaling $73,000 have been made to remove allocated expenses from Questar Corporation to QGC for donations, lobbying, political activities, and memberships and for industry associations during the 12 months ended December 2001. This adjustment also includes costs that were assessed indirectly through QRS.

Economic development expenses that were included in this adjustment as ordered in Docket No. 93-057-01 have not been removed. QGC believes that reasonable expenses incurred for economic development that contribute to the overall favorable economic climate of the state should be recoverable in rates. For example, membership fees to homebuilders associations, as well as expenses for the Governor's Economic Development Conference and the Economic Development Corporation of Utah are reasonable expenses of doing business that should be recovered. QGC’s support of these economic development efforts is essential to the continued growth and vitality of the state of Utah, and the related costs are necessary and expected of QGC as a corporate citizen. Many commissions around the country have ordered distribution companies to implement special economic development rates. If QGC discontinues its support of economic development in Utah due to the lack recovery of these expenditures in rates, Utah’s competitive position to attract business may be weakened.

State Tax Adjustment
Exhibit QGC 4.3, page 4, column 18, and Exhibit QGC 4.4, page 18.

This adjustment removes an incremental tax allocated to QGC as a result of Questar Corporation’s consolidated Utah tax return and decreases QGC expense by $249,000. For state income tax purpose, the Utah portion of consolidated business income is computed based upon the ratio of assets, payroll and total sales in Utah to the total of the consolidated company, including affiliates. This adjustment prevents customers from paying additional taxes due to affiliate earnings.

Reserve Accrual
Exhibit QGC 4.3, page 4, column 19, and Exhibit QGC 4.4, page 19.

In Docket 99-057-20, the Commission approved an increase in the Company's self-insurance program of $176,000 to cover claims that are not covered by insurance because of the Company's self-insured retention. Although such claims do not occur every year, this adjustment provides the Company the ability to properly accrue for these claims.

Incentive Compensation Plans
Exhibit QGC 4.3, page 4, column 20, and Exhibit QGC 4.4, pages 20A to 20C.

In accordance with previous Commission orders, QGC has removed, for ratemaking purposes, incentive compensation expenses related to financial goals that were either paid directly by QGC or allocated from Questar Corporation and QRS for incentive payouts.

During 2001, the total payout by Questar Corporation for the Annual Management Incentive Plan (AMIP) and employee plans was $1,253,000. Of this total, $124,000 was related to operating goals. The remaining $1,129,000 was related to financial goals. The portion of this amount allocated directly or indirectly to QGC was $559,000 and is the amount removed through this adjustment (Exhibit QGC 4.4, page 20B, column D, line 24).

The payouts for the QGC AMIP and the Performance Incentive Plan for Employees (PIPE) are broken out between financial goals and operating goals. Line 4 of page 20C shows the 2001 payout for the AMIP operating goals, and line 8 shows the percentage PIPE payout for the operating goals. The PIPE percentage payout was then multiplied by the 2001 QGC payroll base (QGC's plus the QRS portion allocated to QGC, line 15), to arrive at an adjusted 2001 Results PIPE payout of $1,738,000. This total is then increased on line 18 for overheads of 19.45% which is the overhead rate stipulated to in previous rate cases. Line 19 shows the test year total for both plans of $2,076,000.

Each month, an accrual is made to expenses in Account 921 for the incentive plan payouts. To calculate this adjustment, the $2,076,000 calculated above is compared with the actual accruals for the 12 months ended December 2001 of $2,466,000. The total adjustment needed to reduce the incentive payouts for QGC in 2001 is the difference between these two amounts of $390,000. The total adjustment for Questar Gas, and the allocated portions of Questar Corporation and QRS for incentive payouts is $949,000.

Event Tickets
Exhibit QGC 4.3, page 4, column 21, and Exhibit QGC 4.4, page 21.

For the 12 months ended December 2001, $48,681 was expensed by Questar Corporation for tickets to Jazz, Stingers and Grizz games at the Delta Center, Franklin Quest Field and the E Center. During this period, 45.25% of the tickets were used in a QGC 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 a stipulation in Docket No. 99-057-20, the portion of these expenses related to employee recognition have been allowed in rates. This adjustment, therefore, removes the 54.75% used for other purposes. The adjustment includes costs that were charged directly to QGC from Questar Corporation or indirectly through QRS or QIC. The total amount removed is $19,000.

O&M Allocation
Exhibit QGC 4.3, page 5, column 22, and Exhibit QGC 4.4, page 22.

The transfer of employees from Wyoming and the consolidation of several functions that serve both jurisdictions resulted in a portion of QGC expenses that have been allocated to Utah that should have been shared between the jurisdictions. This adjustment transfers $759,000 of expenses from the Utah jurisdictional expenses to Wyoming. Since the transfer does not affect the system total expenses, there is no amount shown in Exhibit QGC 4.3, page 4, column 22 (which only shows system amounts).

Affiliate Postage Usage
Exhibit QGC 4.3, page 5, column 23, and Exhibit QGC 4.4, page 23.

In Docket No. 99-057-20, the Commission ordered the Company to reduce postage expense for flyers that were included in the bills sent to customers by affiliates or that were not associated with the regulatory business of QGC. The adjustment also included removal of costs for articles in the *GasLight News* that were related to corporate image building or promotional statements. During 2001, no such articles appeared in the *GasLight News*. However, the Company included flyers related to the Olympics and one promotional flyer prepared by QES that was planned prior to the order in that case. The charging for bill inserts caused this type of advertising to be too expensive, and additional flyers have not been sent. In any case, future QES flyers included in mailings to QGC customers would include the appropriate postage charge. This adjustment uses the methodology approved by the Commission in 99-057-02 to adjust 2001 postage expenses by $313,000.

Annualization of Depreciation Expense
Exhibit QGC 4.3, page 5, column 24, and Exhibit QGC 4.4, page 24.

As explained earlier, the Company has used year-end rate base in presenting the 2001 Results. This adjustment of $2,577,000 annualizes the depreciation expense to match the year-end plant.

THE 2002 TEST YEAR — COMPARISON TO 2001 RESULTS

Q. From the 2001 Results discussion and explanation that you have just given, how have you determined the annual revenue deficiency for the test year ending January 1, 2003?

A. As I explained earlier in my testimony, from that adjusted 2001 information, we have considered the changes in the utility's revenues, expenses and investments that are known or reasonably expected through January 1, 2003, as permitted under the Utah Public Utility Code.

Q. Have you prepared a summary of the test-year calculations?

A. Yes. Exhibit QGC 4.5 uses the same format presented in Exhibit QGC 4.3, with the exception that column B is extracted from Exhibit QGC 4.3, column E. Columns C and D in Exhibit QGC 4.5, page 1, then show the summary of changes from the 2001 Results that are reflected in the test-year calculations. Page 4 of Exhibit QGC 4.5 presents the imputed tax calculation as shown in column D. Column G calculates the test-year revenue deficiency by comparing the adjusted net operating income (column F, line 31) with the imputed net operating income (column H, line 31) using the Utah jurisdictional adjusted rate base (column H, line 49) and the return on equity recommended by Prof. Williamson of 12.6% (column H, line 52). The resulting deficiency shown in column G, line 31 of $14,136,000 is then grossed-up for taxes (line 26) and bad debt (line19) to arrive at the test-year revenue deficiency of $23,017,000 (column G, line 2)

Q. Please explain the changes in the fully adjusted 2001 Results revenue, expense and rate base accounts that you expect to occur and that are included in the 2002 test year values.

A. Column C, page 1, of Exhibit QGC 4.5 provides the total of all material changes in the test year from the 2001 Results. Pages 2-3 of Exhibit QGC 4.5 provide individual summaries and show how they add up to the total shown in column C of page 1. Exhibit QGC 4.6 provides the detail of these changes. The following narrative describes the rationale and methodology for these reasonably expected changes which we project will occur in the 2002 test year.

Utah Gas Service Merger—Rate Schedules GSE and F1E
Exhibit QGC 4.5, page 2, column 1, and Exhibit QGC 4.6, page 1.

In 2001, QGC purchased the Utah Gas Service system located in eastern Utah. The Commission approved a stipulation agreed upon by the Company, the Division and the Committee regarding the purchase of the system and the subsequent regulatory treatment. One of the provisions agreed to was that the former Utah Gas Service customers would continue to pay the DNG rates in effect for Utah Gas Service prior to the purchase. These higher DNG rates would only continue until QGC filed a general rate case, unless a case could be made for these customers to continue paying a higher rate compared to QGC's other customers. In this adjustment, the former Utah Gas Service customers now served under the GSE and F1E rate schedules are merged into the GS-1 and F-1 schedules, respectively. The impact of this change is to decrease the DNG revenues collected from these customers by $491,000.

New Customers
Exhibit QGC 4.5, page 2, column 2, and Exhibit QGC 4.6, pages 2A to 2C.

During 2002, QGC expects to add 18,500 Utah customers. The impact of these new customers must be reflected in the revenues, expenses and rate base at the end of the test year. Page 2A shows that the impact on DNG revenues when these 18,500 new customers are annualized for all of 2002 is an increase of $5,020,000.

On the other side of the equation, expenses also increase with the addition of new customers. Page 2B summarizes the applicable expense increases. In addition, specific incremental expenses arise due to these new customers. That is, in order to maintain the current level of customer service and provide for these additional customers, a total of 12 operating employees are needed. Page 2C provides the detail of where the employees will be added and calculates the annual expense related to these additional employees of $458,000 (Exhibit QGC 4.6, page 2C, column E, line 5). Depreciation expense associated with the increase of $54.6 million in plant (page

2B, line 1) is increased by $1,639,000 (line 2). This reflects annual depreciation at 3% that will be related to the new plant. Property taxes will also increase with the addition of plant. This increase is estimated using the average property tax as a percent of net plant, applied to the $54.6 million increase in plant.

Page 2B also summarizes the changes to rate base related to the new customers. The portion of the 2002 capital budget ($81.9 million) related to new customers, including the additions to customer mains, customer service lines, meters, regulators, feeder lines, main lines, compression stations and measuring stations totals $54,638,000. The addition to Accumulated Depreciation of $1,639,000 equals the depreciation expense increase calculated above. The increase to Accumulated Deferred Income Tax of $5,845,000 is calculated by taking the difference between the book depreciation shown here and the maximum tax depreciation available under the IRS guidelines. This increase takes into account the bonus tax depreciation of 30% allowed for plant added after September 11, 2001.

Usage Per Customer
Exhibit QGC 4.5, page 2, column 3, and Exhibit QGC 4.6, page 3A and 3B.

As was pointed out by Mr. Allred, the increase in revenue from an increasing number of customers is offset by a continuing decline in the average usage per customer. Page 3A summarizes the impact on DNG revenues of $4,038,000 when the 2002 expected usage per customer is included in the revenue calculation. Usage per customer is one of the most important variables that determines the Company’s annual revenues and revenue requirement. Page 3B (which is the same as Exhibit QGC 1.1 accompanying Mr. Allred’s testimony) shows the steadily declining usage per customer that has occurred over the past 20 years on QGC’s system. This decline results partly from the installation of more efficient gas appliances over these years and the higher awareness of the importance of proper insulation in homes and commercial buildings—both in new construction and in upgrading existing buildings.

Because revenues to be collected in the rate-effective period are primarily determined by the average usage per customer, it is important to reflect as accurately as possible what this number will be during the rate-effective period.

Actual usage-per-customer data through March 2002 has been determined and incorporated with the historical information reported through the end of 2001. This information was then projected through the end of the 2002 test year to arrive at an average usage per customer of 116.16 Dth per year to be used for determining the revenue deficiency. This usage per customer includes the effect of updating the normal degree days for the 30-year period ending 2001 and the merging of the GSE and the GS-1 rate schedules. This accounts for the slight differences from the figures used by Mr. Allred.

Other Rate Base
Exhibit QGC 4.5, page 2, column 4 and Exhibit QGC 4.6 page 4.

In addition to the change in rate base resulting from the increase in the number of customers shown in Exhibit 4.5, column 2, other changes will occur in the rate base accounts during 2002. First of all, the remaining capital budget not directly related to customer additions will be closed to plant. This increases the plant accounts by $27,212,000. As explained above, additions to plant also result in increases to depreciation expense, accumulated depreciation and accumulated deferred income taxes. These changes are shown on page 4 of Exhibit QGC 4.6.

In addition to the increase in accumulated depreciation related to the new plant, the depreciation on all existing plant increases this account. Including all reasonably expected depreciation during 2002 in the calculation results in an increase in this account of $29,529,000. The depreciation expense related to existing plant was shown in the 2001 Results.

Credit Card Fees
Exhibit QGC 4.5, page 2, column 5, and Exhibit QGC 4.6, page 5.

In April of 2002, QGC entered into an agreement with NCO Financial Systems, Inc. (NCO) to provide a credit card payment option to customers. Customers requesting to pay their bills by credit card will be provided this service by NCO. NCO will bill the customer directly for this service. QGC will no longer incur credit card expenses. Customers were informed of this change in a bill insert sent with April billings. The $321,000 of credit card expenses have been removed from the test year in comparison to the 2001 Results.

Labor Annualization
Exhibit QGC 4.5, page 2, column 6, and Exhibit QGC 4.6, page 6.

Consistent with the previous labor annualization, the expected labor costs as of December 2002 are used to create a labor annualization adjustment for the test year. The goal of this adjustment is to reflect in the test year the labor and overhead costs for the Company during the rate-effective period. An increase in labor cost of $1,816,000 annualizes the effect of a reasonably expected average merit increase of 4.0% that will take place on September 1, 2002. This amount also includes the addition of two QGC and QGC's allocation of three QRS administrative employees and 12 operating employees as discussed by Mr. Jibson.

Contributions In Aid of Construction (CIAC)
Exhibit QGC 4.5, page 2, column 7 and Exhibit QGC 4.6, page 7.

A recent review of Company procedures indicated that some areas of the main and service-line extension policy were being inconsistently applied. Consistent application of current tariff provisions is reasonably expected to increase CIAC by $1,620,000. Under the current practice of recording CIAC as revenues, these adjustments have been added to system other revenues. In his testimony, Barrie L. McKay proposes to change the accounting of CIAC to a reduction in rate base. Until that proposal has been approved, these amounts are properly reflected in the revenue area.

Property Insurance
Exhibit QGC 4.5, page 3, column 8, and Exhibit QGC 4.6, page 8.

The Company is experiencing dramatic increases in property insurance rates, particularly since September 11, 2001. $419,000 has been included in the 2002 test year and is an annualization of the reasonably expected increases in insurance costs for the test year.

2002 Postage Rate Increase
Exhibit QGC 4.5, page 3, column 9, and Exhibit QGC 4.6, page 9.

A postage rate increase has been approved that will be effective on June 30, 2002. $540,000 reflects the impact of this increase. This amount was calculated by applying the new postage rates to the total postage charges for the Company during 2001 by category and represents what is reasonably expected to occur on an annualized basis during the 2002 test year.

IRC Section 29 Tax Credits
Exhibit QGC 4.5, page 3, column 10, and Exhibit QGC 4.6, page 10.

Under the Internal Revenue Code (IRC) Section 29, producers of gas can currently qualify for income tax credits that are related to production of gas from wells classified in “tight sands” formations. These credits cease at the end of 2002. Because these credits will not be available during the rate-effective period, they have been removed from the test-year tax calculation. Under certain provisions of currently proposed tax law, some tight sands credits may be available in the future. Should the tax laws change, QGC will update this calculation to reflect the continuation of any relevant credits. The $1,735,000 has been removed from 2002 test-year revenues in comparison to the 2001 Results because of this tax-law change.

Y2K Cost Amortization
Exhibit QGC 4.5, page 3, column 11, and Exhibit QGC 4.6, page 11.

In the 2001 Results, an adjustment was made to include an amortization of Y2K expenses that was approved in Docket 99-057-20 (see Exhibit QGC 4.3, page 3, column 12, and Exhibit QGC 4.4, page 12). The amortization approved in that case was for three years, which will end in 2002. Even though these costs will continue to be amortized through the end of 2002, they will have ceased by the time rates become effective in 2003. Therefore, the $546,000 of amortization expense added in the original 2001 Results is removed from the test year.

***Distrigas* Allocation**
Exhibit QGC 4.5, page 3, column 12, and Exhibit QGC 4.6, page 12.

The *Distrigas* allocation methodology is used to allocate some of Questar Corporation's charges among its various subsidiaries. Many of these are charged directly to the affiliates where there is a direct connection between the affiliate and the expense. The *Distrigas* formula is used to allocate other corporate expenses. The expense allocation percentages are calculated at the end of each year for use in the following year. For example, the allocation percentages based on 2001 data are being used during 2002. An annualization is necessary to reflect using the current *Distrigas* allocation percentages for the test year. This is done by adjusting the total Questar Corporation charges to affiliates that are allocated based on the *Distrigas* allocation during 2001 using the 2002 allocation percentages. Part of the reason for the decrease in the QGC allocation percentage is the recent acquisition of Shenendoah Energy Inc. (SEI), a gas-producing company purchased by Questar Market Resources during 2001. During part of 2001, SEI was not included in the *Distrigas* calculation, but has been included in the allocations used during 2002. The total impact of this adjustment is to reduce QGC expenses by $463,000.

Q. Are there any other adjustments that were ordered in Docket No. 93-057-01, stipulated to in Docket No. 99-057-20, or for things that will materially effect the

rate-effective period that you have not included in this case?

A. No. To the best of my knowledge, the Company has made a comprehensive examination of previous Commission orders and of all of the Company's revenue, expense and rate base accounts and has included all material changes that are reasonably expected to occur in preparing the 2002 test year data, including all the related expenses or revenue and rate base accounts that are also affected.

Q. What is the capital structure and overall rate of return being used for the test year?

A. The long-term debt and equity positions of the Company as of December 2001 have been adjusted to annualize the effects of issuing $60,000,000 of long-term debt and $40,000,000 of capital stock during the 4th quarter of 2001. This capital structure is not expected to materially change in 2002 nor the rate-effective period. Exhibit QGC 4.7 presents the unadjusted capital structure at year-end 2001 with the currently allowed return on equity of 11% and the capital structure used in the test year. The equity ratio used in this filing is 52.61%, as shown on line 5, column B. The requested return on equity is 12.6% as shown on line 5, column C, and the overall cost of capital of 10.38% is shown on line 6, column D.

Q. At current rates, what would the expected rate of return on equity for QGC be for its Utah operations in the test year?

A. Exhibit QGC 4.5, page 1, line 52, column F presents this calculation. The exhibit shows that for the test year the Utah operations of the Company would be expected to earn **7.84%** on common equity during the rate-effective period absent rate relief in this docket.

RATE-CASE MODEL

Q. **In previous QGC rate cases, the Company has also filed a computerized model that is used to support the semi-annual Results of Operations and the test year calculations. Has the Company used this model in filing this case?**

A. Yes. The model has been updated since Docket No. 99-057-20 and has been converted to Microsoft Excel. A copy of this model will be forwarded to participants.

Q. **Does this conclude your testimony?**

A. Yes it does.