

BEFORE THE
PUBLIC SERVICE COMMISSION OF UTAH

Questar Gas Company

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Docket No. 02-057-02

PREPARED REBUTTAL TESTIMONY
OF KEITH O. RATTIE

October 4, 2002

1 **Q. Please state our name, business address and current position.**

2 A. Keith O. Rattie. 180 East First South Street, Salt Lake City, Utah 84111.
3 I am currently President and Chief Executive Officer of Questar Corporation.

4

5 **Q. What is your educational and professional background?**

6 A. I received an undergraduate degree in electrical engineering from the
7 University of Washington in 1974 and an MBA from St. Mary's College in
8 California in 1989. Prior to joining Questar Corporation, I served as Senior Vice
9 President of Coastal Corporation and President and Chief Executive Officer of
10 Coastal Gas Services Company, which conducted Coastal's unregulated natural
11 gas activities. I also previously worked for Chevron Corporation in various
12 engineering and management positions, including general manager of Chevron's
13 international gas unit.

14

15 **Q. When did you join Questar Corporation and what positions have you held?**

16 A. I joined Questar on January 30, 2001, as President and Chief Operating
17 Officer. On May 1, 2002, I became Chief Executive Officer of Questar

1 Corporation, succeeding R. D. Cash as CEO upon his retirement.

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3

4 **Q. Have you reviewed the testimony and exhibits of the Committee of**
5 **Consumer Services and the Division of Public Utilities in this case?**

6 A. Yes.

7

8 **Q: What is the scope of your testimony?**

9 A: As the CEO of Questar Corporation, I bear primary responsibility for the
10 company's strategic direction, and I must explain and justify our strategies to the
11 investment community, including decisions on raising capital, what businesses
12 we invest in, and how much we invest in those businesses. Because this is the
13 first general rate case for Questar Gas since I assumed my role as the Questar
14 Corporation CEO, I believe it is important to respond to the positions advanced
15 by the Division and Committee and tell the Commission my views on the issues
16 facing Questar Gas Company as a part of Questar Corporation.

17 This rate case, fundamentally, is about the future of Questar Gas and
18 Questar Corporation's investment in Questar Gas. Simply put, we're asking the
19 Commission for assistance to allow Questar Corporation to remain in the utility
20 business in Utah.

21 To keep pace with Utah's growth over the past decade, Questar
22 Corporation has invested approximately \$650 million in Questar Gas. Questar
23 Corporation's net investment in Questar Gas has increased by about 90% since
24 1991. However, Questar Corporation has not benefitted from its growing
25 investment in Questar Gas, whose net income today is about the same as it was a
26 decade ago.

1 In an effort to offset shortfalls in revenue, Questar Gas has cut costs by
2 eliminating services and eliminating jobs. Today, the Company serves twice as
3 many customers with one-third fewer employees than in 1991. Questar Gas
4 today is one of the most efficient utilities in the country, but its financial
5 performance does not reflect this fact. Questar Gas's current return on equity,
6 about 9%, is far below the returns expected by investors and far below returns
7 earned by financially healthy and similarly well-run utilities in other regions of
8 the country. Questar Corporation shareholders have been harmed by Questar
9 Gas's financial underperformance.

10 We share the concerns about the impact of higher energy costs on low-
11 income customers in our community. We also share our industrial customers'
12 concerns about the impact that higher energy costs could have on their
13 competitive performance. But driving Questar out of the utility business in Utah
14 will not result in lower rates. Indeed, our improvements in productivity have
15 helped soften the impact of higher energy prices on our customers. Questar Gas's
16 combination of service and rates today are among the best in the country.

17 We've come to the proverbial fork in the road. We cannot cost-cut our
18 way to acceptable returns without eliminating services that our customers need
19 and want.

20
21 **Q: The Committee and Division are recommending a reduction of the 11.0%**
22 **return on equity currently authorized by the Commission for Questar Gas.**
23 **Why is the Company requesting an increase in its allowed return?**

24 **A:** Investment risk in Questar Gas is rising, and returns have not kept pace.
25 First, Questar Gas's allowed return is not competitive with returns that many
26 similarly well-run utilities are allowed to earn. Investors frequently cite this as a

1 reason for not investing in Questar stock. Dr. Williamson's testimony makes this
2 point in a clear and compelling way.

3 Second, Utah is the only state in the country that imposes an essentially
4 unadjusted historical test year on its utilities. Given the well-established long-
5 term trend of declining usage per customer—a trend that we believe will
6 continue—Utah's regulatory approach has denied Questar Gas the opportunity to
7 earn its allowed return.

8 Third, Questar Gas faces the risk that, after the fact, it will be denied
9 recovery of some of its costs. This risk is on display in this present case. Both
10 the Division and the Committee are recommending that the Commission deny
11 Questar Gas recovery of some costs that are an inherent part of being in business.

12 Fourth, Questar Gas faces a higher level of business risk than in the past.
13 Litigation risk, environmental risk and security risk are all greater today than at
14 the time of Questar Gas's last rate case.

15 Simply put, our current allowed return is not competitive, and it does not
16 adequately compensate Questar for rising investment risk. Further, Questar Gas
17 has not had a reasonable opportunity to earn its allowed return without employing
18 heroic, cost-cutting measures.

19
20 **Q: What is your view of the position set forth by the Committee in this case?**

21 A: In their base-case proposal, the Committee has recommended an \$11-14
22 million reduction in Questar Gas revenues in 2003. If the Committee's proposal
23 is adopted by the Commission, Questar Gas earnings could decline by 15-20%,
24 Questar Corporation's stock price and market value would decline, and the
25 Company's credit ratings would be negatively affected.

26 If adopted, the Committee's recommendations will force Questar Gas to

1 eliminate services and eliminate jobs, and it will be impossible to maintain capital
2 spending at necessary levels..

3 Longer term, Questar Corporation may be forced out of the utility
4 business in Utah. This outcome is not in the interests of our customers or this
5 state. We hope it doesn't come to this.
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7

8 **Q: What is your view of the position set forth by the Division?**

9 A: The Division's recommendation would result in minimal increase in
10 revenue for Questar Gas in 2003, once again denying the Company the
11 opportunity to earn its allowed return. Questar Gas earnings would also decline,
12 and Questar's stock price and market value would be reduced.

13 The Division seems to acknowledge that it is in the state of Utah's long-
14 term interest to set rates that protect the financial viability of Questar Gas.
15 However, their filed proposal fails to do so. The Corporation would be forced to
16 respond by eliminating services and cutting expenses. While the Division's
17 proposal is less draconian than that put forward by the Committee, the longer-
18 term ramifications would be similar.
19

20 **Q: You meet regularly with Questar Corporation shareholders. How are
21 Questar shareholders reacting to the issues you are raising in this rate case?**

22 A: Key Questar shareholders and industry analysts are paying close attention
23 to this rate case. I have not met one current shareholder who believes that
24 Questar Corporation should accept the poor financial results Questar Gas has
25 delivered over the last three years.

26 That said, some of our long-time investors are value-oriented and

1 somewhat risk-averse. They like our business model, combining the stability that
2 results from our regulated businesses, with the growth potential provided by our
3 unregulated businesses. Any change in the current mix might cause some of our
4 current shareholders to sell their stock. On the other hand, Questar would
5 become more attractive to investors seeking higher earnings growth potential.

Q: Do you have any final comments?

A Questar Corporation has been an exemplary citizen of this community for over 70 years. We provide high-quality jobs for some 1750 employees in Utah. We support local charities—we've nearly doubled our financial support over the past decade. We've done our part for economic development in the state of Utah, not only by making the capital investment necessary to connect new customers, but also through our active involvement and support for agencies such as the EDCU and the Chamber of Commerce.

We are asking the state of Utah to allow Questar Corporation to remain in the utility business in Utah, by allowing Questar Gas to earn a fair, reasonable and competitive return on its investment.

Q. Does that conclude your rebuttal testimony?

A. Yes.