

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION
OF QUESTAR QUAS COMPANY TO
INCREASE DISTRIBTUION NON-GAS
RATES AND CHARGES AND MAKE
TARIFF MODIFICATIONS

)
)
)
)
)
)
)
)
)
)

Docket No. 07-057-13

DPU Exhibit No. 1.0R

**Rebuttal Testimony of
Joni S. Zenger, Ph.D.**

**TEST PERIOD
(Redacted Version)**

**For the Division of Public Utilities
Department of Commerce
State of Utah**

February 5, 2008

TABLE OF CONTENTS

I. INTRODUCTION..... 1

II. REBUTTAL COMMENTS ON TESTIMONY OF KEVIN C. HIGGINS.....1

III. REBUTTAL COMMENTS ON TEST YEAR TESTIMONY OF DONNE DERONNE
FOR THE COMMITTEE OF CONSUMER SERVICES.....6

1 **Rebuttal Testimony of Joni S. Zenger, Ph.D.**

2 **I. INTRODUCTION**

3 **Q. Please state your name and occupation.**

4 A. My name is Joni S. Zenger. I am employed by the Division of Public Utilities of the Utah
5 Department of Commerce as a Technical Consultant.

6 **Q. What is your business address?**

7 A. Heber M. Wells Office Building, 160 East 300 South, Salt Lake City, Utah, 84114.

8 **Q. Are you the same Joni S. Zenger who filed direct testimony on test period I this
9 proceeding?**

10 Q. Yes, I am.

11 **Q. What is the purpose of your rebuttal testimony that you are now filing?**

12 A. My testimony responds to certain issues raised in the testimonies of Mr. Kevin C. Higgins
13 and of Ms. Donna DeRonne. I also reiterate several issues that I described in my Direct
14 Testimony on January 28, 2008, as they pertain to the aforementioned testimonies.
15

16 **II. REBUTTAL TO PREFILED DIRECT TESTIMONY OF KEVIN C. HIGGINS**

17 **Q. What test period does Mr. Higgins recommend to be used by the Commission in
18 this case and why?**

19 A. Mr. Higgins states:

20 "I conclude that the best test period to be used in this general rate
21 case proceeding is Calendar Year 2008, consisting of the period
22 January 1, 2008 through December 31, 2008.¹
23

¹ Direct Testimony of Kevin C. Higgins, p. 3, lines 1-3.

24
25
26
27
28
29
30
31
32

As for the reason why, Mr. Higgins states the following:

I believe that a projected test period that is closer in time than QGC's proposed period is a more reasonable choice. For this reason, Calendar Year 2008 is a more appropriate choice, as it will provide a more certain basis for establishing rates that would go into effect in August 2008.²

33
34
35
36
37
38

Further, on page 15, lines 11-14 he writes:

A future test period such as Calendar Year 2008 will use forecasts that are nearer in time than those proposed by the Company, and thus will provide a more certain basis for establishing rates that would go into effect in August 2008.³

39
40

Q. Do you believe that “closer in time” or “nearer in time” makes the Calendar Year 2008 Test Year a more reasonable choice?

41
42
43

A. No, not necessarily. There is no debate regarding the truism that forecasts that are closer in time tend to be more accurate in that the forecast error is diminished. However, Mr. Higgins also acknowledges that his proposed test period is in itself a forecast:

44
45
46
47
48

I acknowledge that the Calendar Year 2008 test period I am recommending relies entirely on projections of data, and from that standpoint, is also a future test period.

49
50
51
52

However, just because a forecast is closer in time is not grounds to dismiss another forecasted test period, which may more closely reflect the conditions that the utility will encounter during the rate effective period, and of which any forecasted projections could be adjusted to ensure the accuracy of the assumptions of the alternative forecast. In other words, I propose that all other factors and conditions that I outlined in my Direct Testimony

² Direct Testimony of Kevin C. Higgins, p. 8, lines 5-8.

³ Id, p. 15, lines 11-14.

53 should be taken into account in determining which test period to use. I would advocate not
54 selecting the test period based on that one truism – that a forecast that this is closer in time
55 will have less forecasting error.

56 As I described in my Direct Testimony, there are several factors that should be
57 considered in the test period selection – the need for feeder line replacement and
58 upgrades to capital projects, the need to respond to growth in peak-day demand, new
59 customers coming online, and maintaining pipeline integrity programs.

60 **Q. Have there been any changes in these conditions since you filed your Direct Testimony?**

61 A. Yes. In my Direct Testimony I described the inflationary pressures currently facing the
62 utilities, as well as the economy as a whole. Consumer prices rose by 4.1 percent in 2007--
63 the largest increase in 17 years.⁴ The Federal Reserve had just lowered the Federal Funds
64 rate by 75 basis points or $\frac{3}{4}$ of a percent (on January 22). During these few days between
65 when I wrote my Direct Testimony, and as I am currently writing by Rebuttal Testimony, the
66 Federal Reserve on January 30, yet again lowered its target for the Federal Funds rate 50
67 basis points to 3 percent in an attempt to ward off what it sees as a pending recession ⁵ In a
68 Wall Street Journal Article, one author states, “Seeking to nip an incipient recession in the
69 bud, the Federal Reserve cut interest rates for the second time in nine days, in one of its most
70 aggressive campaigns in decades to boost the nation’s economy.”⁶

71 In my Direct Testimony, I also described the various feeder replacement projects and
72 associated costs to the Company in the amount of \$45 million per year for the next several

⁴ Direct Testimony of Joni S. Zenger, Ph.D., P. 12, lines 251-256.

⁵ <http://www.federalreserve.gov/newsevents/press/monetary/20080130a.htm>.

⁶ Greg Ip, “Central Bank Keeps Up Aggressive Campaign to Fend Off Recession,” Wall Street Journal, January 31, 2008, p. 1.

73 years. Since that time I received back from Questar a response to my DPU Data Request
74 #3.16. In the data request I asked for supporting documentation of the escalating costs of
75 pipeline replacements. I was amazed when I reviewed the (Confidential) response listed
76 below: (End Confidential). Besides the mandated pipeline integrity programs, this may yet
77 be another reason that Company has chosen to accelerate its feeder replacement projects.

78 **Q. How is this relevant to the test period selection again?**

79 A. It is relevant in that the test period that is selected should match the conditions the utility will
80 face during the rate effective period. The cost of new facilities are going to be higher, not
81 just because the general level of inflation appears to be increasing, but because of other
82 escalating costs and construction conditions and requirements as outlined in Questar's
83 response to DPU Data Request 3.16.

84 **Q. Do you have any other general comments you wish to make in response to Kevin
85 Higgins' Testimony?**

86 A. Mr. Higgins and I both pointed out the factors that the Commission identified to be
87 considered in selecting a test period (which arose from a PacifiCorp general rate case.)⁷
88 Questar participated in the various task forces, but was never a party to the Stipulation of the
89 Parties that resulted in the Commission's acceptance of the Stipulation. Mr. Higgins and I
90 both have assumed that these factors could be considered in this case--a gas docket. The
91 factors that we have both looked at are listed below:

- 92 • The general level of inflation
- 93 • Changes in the utility's investment, revenues or expenses

⁷ Docket No. 04-035-42, Commission Order Approving the Test Period Stipulation, October 20, 2004.

- 94 • Changes in utility services
- 95 • Availability and accuracy of data to the parties
- 96 • Ability to synchronize the utility's investment, revenues and expense
- 97 • Whether the utility is in a cost increasing or cost declining status
- 98 • Incentives to efficient management and operation, and length of time the
- 99 new rates are expected to be in effect.

100 Other than the statute and this 2004 Commission order, we have never had an order from
101 the Commission resulting from the Stipulation of the Parties or directing us how to determine
102 the test period and if it in fact needs to be determined up front or can be determined at a later
103 time as part of the general rate case.

104 The Division has been neutral as to when the test period selection needs to be determined.
105 However, we have no objections to using the Company's proposed test period ending June
106 2009. This is based on the analysis that was available to us at the time, within the limited
107 time that we were allowed by the scheduling order in this case and our ability to make
108 adjustments to the Company's data.

109

110 **REBUTTAL TO DONNA DERONNE'S PRE-FILED DIRECT TEST YEAR**

111 **TESTIMONY**

112 **Q. Will you please comment on the timeliness of the test year resolution?**

113 A. Yes. As mentioned above, the Division is neutral on the decision of whether the test period
114 selection needs to be made up front or whether it can be determined as part of the revenue
115 requirement portion of the case. Ms. DeRonne states that "it is imperative that the

116 Commission resolve the test year issue in a timely manner.”⁸ The Division recognizes the
117 benefits to the auditors and others working on the case to have the test year decision up front,
118 and we agree that Ms. DeRonne has pointed out some valid reasons for resolving the test
119 year issue early in the case.⁹

120 **Q. Will you please comment regarding Ms. DeRonne’s view regarding the selection of the**
121 **appropriate test period?**

122 A. The Division and Ms. DeRonne do not oppose using the Company’s forecasted test year,
123 with conditions.

124 **Q. What are the conditions?**

125 A. There are two main areas of conditions: the adjustments and the safeguards. The Division
126 believes that adjustments can, and will need, to be made to the Company’s June 2009 test
127 period, as I described in my Direct Testimony:

128 The Division believes that its auditors and other staff can
129 appropriately adjust the test period proposed by the Company for
130 any appropriate reason, including, but not limited to, forecasting
131 issues. This could include bringing the expenses or rate base back
132 to an earlier time period than proposed by the Company in the
133 event of a forecasting error or due to a lack of sufficient evidence
134 presented by the Company that would support the expense
135 proposed.¹⁰
136

137 In a similar line of thought, Ms. DeRonne writes:

138 It is the Committee’s view that the information and calculations
139 presented in Questar Gas’ filing can be adjusted such that the
140 requested period can be reasonably reflective of the conditions
141 Questar Gas will face in the rate effective period.¹¹

⁸ Pre-Filed Direct Test Year Testimony of Donna DeRonne, p. 2, lines 35-36.

⁹ Id, p. 7, lines 174-177; p. 8, lines 178-189.

¹⁰ Direct Testimony of Joni S. Zenger, Ph.D., p. 4, lines 45-51.

¹¹ Pre-Filed Direct Test Year Testimony of Donna DeRonne, p. 5, lines 120-123.

142

143 Regarding the safeguard conditions, the Division agrees with Ms. DeRonne in that there

144 are valid reasons to consider implementing some form of rate payer safeguards. Ms.

145 DeRonne discusses two potential types--deferral mechanisms and customer credits.¹²

146 However, the Division did not address the safeguards in the test year testimony, other than to

147 mention the need for ratepayer safeguards and the future need for parties to be able to

148 analyze and have access to Company data. The Division's policy witness will present

149 testimony in the revenue requirement phase of this case regarding ratepayer safeguards.

150 **Q. Does this complete your testimony?**

151 A. Yes it does.

¹² Id, at p. 6, lines 146-153.