

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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

Docket No. 07-057-13

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**TEST YEAR REBUTTAL TESTIMONY OF**

**DAVID M. CURTIS**

**FOR**

**QUESTAR GAS COMPANY**

**February 5, 2008**

**QGC Exhibit 5 TYR**

1 **Q. Please state your name, employer and position.**

2 A. David M. Curtis. I am vice president and controller for Questar Gas Company (Questar  
3 Gas or Company).

4 **Q. Have you previously filed testimony in this case?**

5 A. Yes, I previously filed direct testimony for Questar Gas as QGC Exhibit 5.0 on December  
6 19, 2007.

7 **Q. What is the purpose of this test-year rebuttal testimony?**

8 A. I will respond to test-year testimony filed by Joni Zenger for the Division of Public  
9 Utilities, Eric Orton and Donna DeRonne for the Committee of Consumer Services,  
10 Kevin C. Higgins for the UAE Intervention Group, and Roger J. Ball for himself. My  
11 rebuttal testimony will discuss the importance of the test-year determination; the  
12 positions of the other parties; the possibility of using a pipeline-replacement tracker  
13 mechanism; why the Company's proposed test year better reflects conditions that the  
14 Company will encounter during the rate-effective period than the test year proposed by  
15 Mr. Higgins; and why the principle that assets must be used and useful to be included in  
16 rate base does not prevent use of a fully forecasted test period in this case.

17 **Q. Can you explain the importance of the test-year decision?**

18 A. A test year is a framework for determining the revenue requirement that will be  
19 representative of conditions that will be in effect during the rate-effective period. The  
20 goal is to determine the rate base, revenues and expenses that will be in effect during the  
21 rate-effective period. Given that Questar Gas filed its Application in this case on  
22 December 19, 2007, the rate-effective period will likely begin in mid-August 2008.

23 The primary driver for this case is the substantial investment in pipeline reinforcement  
24 and upgrades that are taking place and will take place on Questar Gas' system during the  
25 rate-effective period. The test year must allow setting rates based on a reasonable  
26 projection of this increased rate base. Unless the test year selected reflects the conditions,

27 including the level of investment in the rate effective period, the resulting rates will not  
28 be just and reasonable.

29 **Q. Committee of Consumer Services witnesses Donna DeRonne and Eric Orton state**  
30 **that it is imperative that the resolution of the test period be determined early in the**  
31 **rate case schedule. Division of Public Utilities witness Joni S. Zenger recognizes the**  
32 **benefits to having a decision on the test year now. Do you agree with these**  
33 **statements?**

34 A. I believe a Commission decision on the test year early in the rate-case process provides  
35 significant benefits to both Questar Gas and intervenors in the case.

36 Questar Gas has prepared a rate case using a test year ending June 30, 2009. All  
37 testimony, exhibits and calculations have been coordinated using this test year. Questar  
38 Gas continues to believe this test year is most representative of the rate-effective period.

39 If the Commission decides that this test year is appropriate then intervenors can focus on  
40 auditing and evaluating the amounts for this test year and Questar Gas can respond to  
41 data requests for this period.

42 If the Commission were to decide that another test year is more representative of the rate  
43 effective period, then Questar Gas would need to perform significant work to make the  
44 appropriate known and measureable changes to rate base, operating expenses and  
45 customer usage reflective of conditions during the rate-effective period. Intervenors  
46 would need to evaluate and audit these adjustments.

47 Given the amount of work required by all parties, early resolution of test-year issues  
48 would be beneficial and help parties focus on the issues that ultimately will be tried  
49 before the Commission.

50 **Q. Do the parties and the Commission have sufficient evidence to determine that the**  
51 **proposed 12-month period ending June 2009 is reflective of the rate-effective**  
52 **period?**

53 A. Yes, on two accounts. First, the Company has provided in the filing and in response to  
54 data requests annual, and in some instances, monthly data for 2006 – 2009. Second, with  
55 the Commission’s early determination of a test period, all parties can review the data and  
56 propose adjustments that represent their positions.

57 **Q. Is there support for the Company’s test year in this rate case?**

58 A. Yes, Ms. Zenger, representing the Division of Public Utilities states, “The Division found  
59 that the Company’s proposed forecasted test period ending June 2009 generally complies  
60 with Utah’s statutes: (1) the test period does not exceed the 20-month date limit; (2) the  
61 test period determination appears to be based on evidence which the Division will  
62 scrutinize and adjust as necessary; and (3) based on that evidence, the test period best  
63 reflects the conditions that the utility will likely encounter during the rate effective  
64 period.”

65 **Q. What evidence does Ms. Zenger refer to that “the test period best reflects the**  
66 **conditions that the utility will likely encounter during the rate effective period?”**

67 A. Questar Gas has provided testimony on increasing investment in property, plant and  
68 equipment, including a significant feeder line replacement project; continued growth in  
69 customers; increasing operating costs; and changes in the capital structure and cost of  
70 capital. These have all been reflected in a test year that commences before the beginning  
71 of the rate-effective period.

72 **Q. How would the components of the revenue requirement be properly reflected in a**  
73 **different test year?**

74 A. Any proper test year would need to take into account all appropriate changes in rate base,  
75 operating costs, customers and cost of capital that are representative of conditions during  
76 the rate-effective period. Theoretically, this could be accomplished by adjusting amounts  
77 from another test year for known and measurable changes. In doing so, one must

78 carefully coordinate investment, operating costs and customers. It is easier to use a  
79 forecast test year, such as the test year ending June 30, 2009 as proposed by the  
80 Company, than an historical test year with known and measurable adjustments.

81 **Q. Does the Committee of Consumer Service agree with the test year as filed by the**  
82 **Company?**

83 A. Yes, Ms. DeRonne states, “It is the Committee’s view that the information and  
84 calculations presented in Questar Gas’ filing can be adjusted such that the requested  
85 period can be reasonably reflective of the conditions Questar Gas will face in the rate  
86 effective period.”

87 **Q. Does the use of the test year as filed by the Company prevent parties from**  
88 **proposing adjustments they believe are necessary to accurately reflect conditions**  
89 **during the rate effective period?**

90 A. No, as both the Division and Committee have stated, they will be able to propose such  
91 adjustments. The same is true for other intervenors.

92 **Q. Ms. DeRonne states that potential safeguards in the form of deferral mechanisms or**  
93 **tracking accounts might be used to mitigate risks to rate payers if the actual capital**  
94 **spending falls short of projected levels. How does Questar Gas respond to that**  
95 **suggestion?**

96 A. If any such deferral or tracking mechanism is adopted it should include costs that are  
97 higher than reflected in the test year as well as costs that are lower.

98 I believe that the capital budget forecasts that have been included in our rate case are  
99 reasonable estimates of amounts that will be spent during this period. Questar Gas has  
100 filed testimony on the need to replace significant feeder lines to increase capacity and  
101 reduce risk. The Company has been successful at keeping this replacement process on  
102 schedule.

103 Questar Gas has also provided testimony on the need to continue to spend significant  
104 capital on feeder line replacement well beyond the test year. This will likely result in a

105 series of continuing rate cases over the next few years as rate base grows without a direct  
106 corresponding increase in customers. One way to avoid time and expense of repetitive  
107 cases for all parties would be a properly designed tracking mechanism to adjust rates  
108 specifically for the investment in feeder line replacements as they occur during the next  
109 several years. Customer rates would change only as the investment is placed in service.  
110 This should help satisfy the Committee's concerns.

111 **Q. Have other companies used similar tracking mechanisms?**

112 A. I am aware of several companies using tracking mechanisms to adjust rates for specific  
113 major pipeline replacement projects. These other companies include: Atlanta Gas Light,  
114 Laclede Gas and Northwest Natural Gas.

115 **Q. Why have you not proposed a tracking mechanism in this case?**

116 A. We believe our estimate of capital expenditures during the test year is reasonable. Proper  
117 matching of actual cost of service and customer rates during the rate effective period will  
118 be achieved if rates are set on a test year ending June 30, 2009, that includes these  
119 expenditures.

120 However, a properly designed tracking mechanism to adjust rates for these feeder line  
121 replacements might be an appropriate way to recover these costs in rates as they are  
122 incurred.

123 **Q. Mr. Kevin C. Higgins, representing the UAE Intervention Group, has filed**  
124 **testimony that a calendar year ending December 31, 2008, is the test year that best**  
125 **reflects conditions Questar Gas will encounter during the rate-effective period. Do**  
126 **you agree with this statement?**

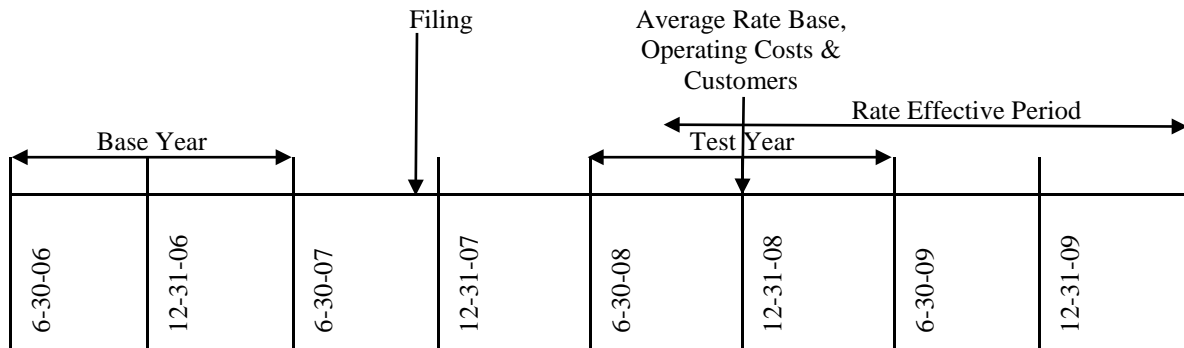
127 A. No, I continue to believe that the test year that best reflects conditions Questar Gas will  
128 encounter during the rate effective period is the 12 months ending June 30, 2009. The  
129 primary reason for this test year is the growth in rate base due to feeder line investment.  
130 Our feeder line replacement project is underway and will continue for several years into  
131 the future. Unlike investment in electric generation plant, feeder-line investment is not  
132 added to plant all at once when the project is completed. Rather, as feeder lines are

133 replaced, connections are made to intermediate high pressure lines. These feeder lines  
134 are placed into service in segments in order to keep the distribution system functioning.  
135 The additions to rate base are expected to be relatively continuous during this feeder line  
136 replacement period.

137 Questar Gas filed a test year using the 12-months ending June 30, 2009. However, the  
138 rate base used in this test year is an average over the 12 months. The monthly average is  
139 close to the rate base at the mid-point of this test year of December 31, 2008.

140 The following chart illustrates the time line of the rate case filed by the Company:

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143 As this chart illustrates, the average rate base, operating costs and customers in the  
144 Company's proposed test year would all be approximately equal to the amounts on  
145 December 31, 2008. These amounts are representative of conditions that the Company  
146 will encounter over the first few months of the rate-effective period. Rate base, operating  
147 costs and customers are forecast to continue growing beyond these first few months.

148 The use of a calendar test year ending December 31, 2008, and average rate base,  
149 operating costs and customers at June 30, 2008, would be representative of conditions  
150 before the start of the rate-effective period rather than the conditions during the rate-  
151 effective period.

152 **Q. Could a calendar year ending December 31, 2008, be used as test year that would be**  
153 **representative of conditions during the rate-effective period?**

154 A. A calendar year ending December 31, 2008, could be used as test year if year-end,  
155 instead of average, rate base and customers were used, if proper known and measurable  
156 adjustments were made to operating costs, and if natural gas usage per customer was also  
157 adjusted to the end of the year.

158 **Q. Mr. Higgins testifies that use of a test year ending June 2009 is inconsistent with the**  
159 **principle that plant cannot be included in rate base until it is used and useful.**  
160 **Please respond.**

161 A. One of the premises for Mr. Higgins' statement is that ratepayers would be prepaying a  
162 return on projected investment in future facilities. I believe this statement oversimplifies  
163 the issue. The rate-effective period in this case begins in mid-August 2008. The rate  
164 base proposed by Questar Gas is an average rate base for the test period starting July 1,  
165 2008 and ending June 30, 2009. As I have explained, the investment is in facilities that  
166 will be added and placed into service incrementally throughout the rate-effective period.

167 **Q. Mr. Higgins claims that the CET provides support for using a test period "closer in**  
168 **time," thus justifying the use of his recommended 2008 and test period. Does this**  
169 **argument rebut the need for the Company's proposed test period?**

170 A. No. Mr. Higgins is incorrect on at least two accounts. First, the goal of rate making  
171 should never be to "knowingly," as his argument implies, adopt a test period that is not  
172 reflective of what the revenues, usage, costs and rate base are expected to be. It should  
173 be just as likely that usage would be lower in the future as it would be higher in the  
174 future. Second, to justify the use of a higher usage per customer, as his answer suggests,  
175 is contrary to the purpose of the CET. The goal is not to set rates (usage, costs and  
176 revenues) incorrectly thinking that because of CET entries everything will be corrected.  
177 This approach will cause unneeded CET entries and seems to be a disguised effort to  
178 create large, unneeded CET accruals. This is of particular concern since the CET also  
179 has limits on the amounts that can be accrued. Instead, the goal should be to create a test  
180 period that during the first year of the rate-effective period would have little if any CET



181 entries. Said another way the likelihood of having a positive or negative (debit or credit)  
182 entry should be equal.

183 **Q. Mr. Higgins also states that using a 2008 test period is better than the Company's**  
184 **proposed test period ending June 30, 2009 because projections closer in time to the**  
185 **present will likely be more reliable than projections further out. Please respond to**  
186 **this statement.**

187 A. Mr. Higgins' statement addresses the wrong issue. The Commission is to choose a test  
188 period that is most reflective of conditions that Questar Gas is likely to encounter during  
189 the rate-effective period, not the test period that has the most reliable estimate of  
190 revenues and costs. As long as projections of the various factors considered in setting  
191 just and reasonable rates are reasonably reliable, it is better to choose a test period that  
192 corresponds to the rate-effective period than one that doesn't.

193 In addition, Mr. Higgins is proposing a fully-forecasted test period that happens to end  
194 six months earlier than the test year proposed by the Company. It is unlikely that  
195 projections for his proposed period would be significantly more accurate than those for  
196 the Company's proposed test year.

197 **Q. Mr. Ball has provided testimony recommending that Questar Gas' Application**  
198 **should be denied because Questar Gas has not earned significantly below its allowed**  
199 **rate of return. Do you have any response to Mr. Ball's testimony?**

200 A. First, most of this testimony has nothing to do with a determination by the Commission  
201 of an appropriate test period. Second, I am not aware of any statute or utility rate making  
202 principle that requires Questar Gas to incur an economic loss (defined as earning less  
203 than an appropriate return) before it can apply for a change in rates. Third, Questar Gas  
204 will suffer an economic loss in the rate effective period without rate relief.

205 **Q. Does this conclude your rebuttal testimony on the test year?**

206 A. Yes.

State of Utah            )  
                                  ) ss.  
County of Salt Lake    )

I, David M. Curtis, being first duly sworn on oath, state that the answers in the foregoing written rebuttal testimony filed in Docket No. 07-057-13 are true and correct to the best of my knowledge, information and belief.

\_\_\_\_\_  
David M. Curtis

SUBSCRIBED AND SWORN TO this \_\_\_\_ day of February, 2008.

\_\_\_\_\_  
Notary Public