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**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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| In the Matter of the Application of Questar<br>Gas Company to File a General Rate Case | <b>Docket No. 07-057-13</b> |
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**PREFILED DIRECT TESTIMONY OF KEVIN C. HIGGINS**

**[REVENUE REQUIREMENT]**

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The UAE Intervention Group hereby submits the Prefiled Direct Testimony of Kevin C. Higgins on revenue requirement issues.

DATED this 21<sup>st</sup> day of April, 2008.

/s/ \_\_\_\_\_  
Gary A. Dodge,  
Attorneys for UAE

## CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 21<sup>st</sup> day of April, 2008, to the following

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**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF UTAH**

**Direct Testimony of Kevin C. Higgins**

**on behalf of**

**UAE**

**Docket No. 07-057-13**

**[Revenue Requirement]**

**April 21, 2008**

1 **DIRECT TESTIMONY OF KEVIN C. HIGGINS**

2 **Introduction**

3 **Q. Please state your name and business address.**

4 A. Kevin C. Higgins, 215 South State Street, Suite 200, Salt Lake City, Utah, 84111.

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

6 A. I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies is a  
7 private consulting firm specializing in economic and policy analysis applicable to energy  
8 production, transportation, and consumption.

9 **Q. On whose behalf are you testifying in this proceeding?**

10 A. My testimony is being sponsored by the Utah Association of Energy Users  
11 Intervention Group (UAE).

12 **Q. Are you the same Kevin C. Higgins who has previously filed direct testimony on  
13 behalf of UAE in the Test Period and Rate of Return phases of this proceeding?**

14 A. Yes, I am. A detailed description of my qualifications is contained in Attachment  
15 A, attached to my direct testimony on test year, UAE TP 1.

16  
17 **Overview and Conclusions**

18 **Q. What is the purpose of your testimony in this proceeding?**

19 A. My testimony addresses two revenue requirement issues in Questar Gas  
20 Company's ("QGC") general rate case filing, and recommends adjustments to the  
21 Company's proposed revenue requirement in support of a just and reasonable outcome.  
22 My recommended adjustments are on a limited number of issues. Absence of comment

1 on my part regarding a particular revenue issue does not signify support (or opposition)  
2 toward the Company's filing with respect to the non-discussed issue.

3 **Q. What are your conclusions and recommendations?**

4 A. I am recommending the following adjustments to QGC's Utah revenue  
5 requirement:

6 (1) Reduction in Outside Services expense to reflect a 3.5 percent increase over 2007  
7 actual costs. This reduces QGC's proposed Utah revenue requirement by \$753,869.

8 (2) Reduction in Computer Software expense to reflect an 8.9 percent increase over 2007  
9 actual costs, consistent with the rate of growth in these expenses from 2006 to 2007. This  
10 reduces QGC's proposed Utah revenue requirement by \$241,020.

11 The combined effect of these two adjustments is to reduce QGC's proposed Utah  
12 revenue requirement by \$994,889.

13  
14 **Outside Services Expense**

15 **Q. What has QGC proposed with respect to expenses for Outside Services?**

16 A. Outside Services is a component of Operations and Maintenance ("O&M")  
17 expense. As shown in QGC Exhibit 5.5U, QGC's actual cost for Outside Services in  
18 2007 was \$7,884,987. For 2008, the Company is projecting that this expense will  
19 increase 13.3 percent to \$8,937,000. The basis for this increase is addressed by QGC

1 witness David M. Curtis who explains that these costs are rising faster than inflation due  
2 to a tight labor market and the changing mix of service needs.<sup>1</sup>

3 **Q. What is your assessment of the Company's proposed expense for this item?**

4 A. I believe that a reasonable cost increase should be projected for this item, but 13.3  
5 percent appears excessive. It is likely that the tight labor market referenced by Mr. Curtis  
6 will be abating in 2008 given the current trend in the U.S. economy. Instead of QGC's  
7 projection, I recommend applying an escalator to 2007 Outside Services expenses of 3.5  
8 percent, which is the mid-point between the general inflation rate of 2.5 percent and the  
9 wage escalation rate of 4.5 percent used by QGC in this proceeding.

10 **Q. What is the impact on revenue requirement of your recommended adjustment?**

11 A. The impact of this adjustment is to reduce QGC's proposed Utah revenue  
12 requirement by \$753,869, as shown in UAE Exhibit RR 1.1.

13  
14 **Computer Software Expense**

15 **Q. What has QGC proposed with respect to computer software expense?**

16 A. As shown in QGC Exhibit 5.5U, QGC's actual cost for computer software in  
17 2007 was \$2,426,184. For 2008, the Company is projecting that this expense will  
18 increase 19.1 percent to \$2,889,867. The basis for this increase is addressed by QGC  
19 witness David M. Curtis who explains that these costs are comprised primarily of

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<sup>1</sup> Updated direct testimony of David M. Curtis, p. 8, lines 204-209.

1 maintenance fees and annual renewal costs of systems used to service customers. Mr.  
2 Curtis states that the market rate for these fees has been rising faster than inflation.<sup>2</sup>

3 **Q. What is your assessment of the Company's proposed expense for this item?**

4 A. I believe that a reasonable cost increase should be projected for this item, but 19.1  
5 percent appears excessive. From 2006 to 2007, QGC's actual cost increase for computer  
6 software was 8.9 percent. Instead of QGC's projection, I recommend applying the prior  
7 year's escalation rate to 2007 expenses to project the 2008 cost.

8 **Q. What is the impact on revenue requirement of your recommended adjustment?**

9 A. The impact of this adjustment is to reduce QGC's proposed Utah revenue  
10 requirement by \$241,020, as shown in UAE Exhibit RR 1.2.

11 **Q. Does this conclude your direct testimony with respect to revenue requirement?**

12 A. Yes, it does.

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<sup>2</sup> Updated direct testimony of David M. Curtis, p. 8, lines 210-212.