

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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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REVENUE REQUIREMENT DIRECT TESTIMONY OF

ROGER J BALL

21 APRIL 2008

1 Q Are you the same Roger J Ball who filed Test Year Direct Testimony in this Docket on 26
2 January 2008?

3 A Yes. It was admitted into evidence during the 8 February Test Year hearing as Exhibit RJB
4 1.0, together with a statement of my academic and professional qualifications and
5 professional experience as Exhibit RJB 1.1, and my 4 February Test Year Rebuttal
6 Testimony as Exhibit RJB 2.0. On 8 February I appeared and testified during the Test Year
7 hearing, and most recently, on 31 March, I filed my Rate of Return Direct Testimony as
8 Exhibit RJB 3.0.

9 Q What is the purpose of your Rate of Return Testimony?

10 A To comply with the requirement in the Commission's 7 April 2008 Second Amended
11 Scheduling Order in this proceeding that non-Company parties file direct testimony regarding
12 revenue requirement by 21 April 2008, and to address the recovery of regulatory expenses in
13 rates.

14 Q What regulatory expenses has Questar Gas Company (Questar, or QGC, or Company, or
15 LDC) included in its Updated Direct Testimony in this Docket?

16 A QGC witness and Senior Regulatory Affairs Analyst Mendenhall presents QGC Exhibit 6.3U,
17 which shows a total of \$0 (Lines 217-220, Page 10) for Regulatory Expense.

18 Q Is this an appropriate amount for regulatory expense to be passed on to ratepayers?

19 A Absolutely. Regulatory expense is not a cost that benefits ratepayers in any way. In fact, a
20 large portion of it is spent to their detriment when the Company argues for increased rates.

21 Q Is there a parallel in a below-the-line item?

22 A Yes. Questar spends considerable sums each year on lobbying that has much the same
23 purpose, to benefit the Company's managers and owners. The LDC has reported such sums

24 and then provided adjustments to remove them from its revenue requirement because such
25 items have been removed in the past.

26 Mr Mendenhall revealed the tip of this iceberg in Pages 34-36 of QGC Exhibit 6.3 filed with
27 his original Direct Testimony on 19 December 2007. (Revealed may not be the best choice
28 of word – the title on all three pages refers to “Donations and Memberships”.)

29 At that point, it appeared that Questar Corporation had spent \$465,969 on lobbying during the
30 year ended 30 June 2007, of which \$131,008 was allocated to QGC (Page 35: Line 7, Col B;
31 and Line 27, Col D.)

32 In the same period, the LDC spent \$79,419 on its own account on “consulting fees related to
33 lobbying” (Page 36, Lines 1-4, Col C; and Footnote 1).

34 It is absolutely appropriate that these expenditures should be borne by management and
35 owners. Questar lobbied intensively for passage and against repeal of House Bill 320 (“The
36 Questar Bill”) in 2000 and 2001. The contents of that Bill continue to be the Company’s
37 legislative agenda. In 2003, Senate Bill 61 re-enacted its provisions regarding settlement and
38 test periods.

39 The settlement provision has encouraged the Division of Public Utilities to enter into
40 agreement after agreement (coal-seam gas processing and rural gas rates are just a couple
41 of examples) with QGC that have, or would have, resulted in increased rates with no
42 commensurate benefit to ratepayers. It encouraged the Committee of Consumer Services to
43 do likewise, although later in the process.

44 The effect, as far as ratepayers are concerned, has been that rates have been higher than
45 they would have been if these regulatory agencies had been vigourously scrutinising
46 Questar’s activities, fulfilling their statutory duties (other than making private agreements),

47 and if the Commission had insisted upon them doing so and hearing all the evidence in public
48 hearings.

49 The test period provision has resulted in this request for rates to be increased, currently by
50 almost \$27M, an increase that would simply not have been countenanced by this
51 Commission absent the removal of the historical test period option and its replacement with a
52 future test period projected out as far as 20 months.

53 Lobbying expense of \$210,000 a year is a modest charge for managers and owners to bear
54 for a potential return of \$27M annually. But it would be a great injustice for ratepayers to
55 have to shoulder it.

56 Q Does the absence of regulatory expense from Mr Mendenhall's testimony mean that the
57 Company is not recovering it?

58 A Unfortunately, what is actually going on here is that the Company has been allowed to shift
59 this expense to its Pass-through account, an even more inappropriate recovery mechanism
60 than general rates.

61 It is not at all evident that regulatory expense is a function of the market price of gas or any
62 other variable properly contemplated in a balancing account. This seems to be one more
63 risk-reduction tactic of QGC's.

64 When addressed in the light of the Commission's formal complaint procedure, it is particularly
65 concerning. The Commission provides ratepayers with a one-sided form, giving them about
66 two inches of vertical space to state their "complaint in simple, straightforward, non-technical
67 language. (Of course, complainants have the alternative option to write at whatever length
68 they choose in a letter.) What the Commission, or at least its Administrative Law Judge,
69 knows but ratepayers do not is that Questar's reply will come from an attorney, often a Stoel

70 Rives attorney, in a very technical, un-straightforward, un-simple legal document running to
71 ten or twelve pages, replete with “Questar admits” to insignificant things, “Questar denies” the
72 things that matter, and “Questar neither admits nor denies” page after page of things the
73 ratepayer probably never mentioned. All of this at ratepayer expense and 100% recoverable,
74 no risk at all, through what is usually presented as simply a gas-cost balancing account.

75 It was bad enough that the Commission enabled the atrocious behaviour of Questar and its
76 Stoel Rives attorneys in issuing sub-poenas to 5 of the 55 Supreme Court petitioners for
77 review in the coal-seam gas processing matter. It is unforgivable that the cost of dragging
78 one young lady to her door at 9:00pm in her pyjamas to accept service was immediately
79 passed through, every last cent, to ratepayers.

80 The Commission must take this opportunity to bring regulatory expense out of the pass-
81 through account and back into general rates. It must then declare them unrecoverable.

82 Q But wouldn't ratepayers be worse off without regulation?

83 A I don't mean to imply that ratepayers would be better off with an unregulated monopoly
84 supplier. If there is a monopoly, there must be regulation, and it must be effective, and it
85 must be focused on protecting ratepayers. There are great benefits for utility owners and
86 managers in being granted a monopoly, and it is only reasonable that they should bear the
87 costs of regulation.

88 Q What benefits?

89 A They have no competition, no-one to look over their shoulders at. Every entrepreneur
90 dreams of carving out a market niche where he will have no competition. Bill Gates and his
91 colleagues who created Microsoft come forcibly to mind. But most business owners struggle

92 for years without achieving monopoly. When a state grants monopoly rights to a utility, it
93 confers enormous cost-saving advantages upon it.

94 Q Are there no benefits to ratepayers?

95 A Perhaps during the early years, if the grant of a monopoly persuades owners to invest in
96 infrastructure where none previously existed. But those days are long gone. Nowadays,
97 Questar owners and managers have licence to milk a \$1B a year cash cow. There has been
98 no end to the Corporation's greed as it has hived off wells, pipeline, exploration and
99 production to increase revenues and profits largely sheltered from State regulation; as it has
100 neglected providing new cost-of-service resources for customer numbers that it has in part
101 actively sought through service area expansions; and as it has put QGC's customers in
102 harm's way (the testimony of the Company's own witnesses) to increase pipeline revenues
103 and profits; all while apparently neglecting to manage the LDC's core business prudently and
104 efficiently (transponders, expansion into rural areas).

105 Q Are Utah ratepayers supposed to be paying Questar Gas Company's regulatory costs?

106 A No. Utah Code Annotated (UCA) §54-5-1.5(1)(a) says:

107 A special fee to defray the cost of regulation is *imposed upon all public utilities* subject
108 to the jurisdiction of the Public Service Commission. (Emphasis added.)

109 UCA §54-5-1.5(4)(a) goes on to say:

110 It is the intent of the Legislature that *the public utilities provide all of the funds* for the
111 administration, support, and maintenance of:

- 112 (i) the Public Service Commission;
113 (ii) state agencies within the Department of Commerce involved in the regulation of
114 public utilities; and
115 (iii) expenditure by the attorney general for utility regulation. (Emphasis added.)

116 The plain language of these statutory provisions state that Utah's Legislature has imposed all
117 the costs of regulating QGC upon the Company; no-one else; certainly not its ratepayers.

118 Q The opening phrase of UCA §54-5-1.5(4)(a) is: "It is the intent of the Legislature". Don't the
119 courts attach less weight to Legislative intent language than to statutory provisions?

120 A When that intent language is recorded in Legislative journals, that is the case. However, in
121 this instance, the intent is part of the statute and therefore carries the weight of law.

122 Although Utah utilities' rates have been set based upon revenue requirements including
123 regulatory costs for several years, it is illegal, and the Commission will act *ultra vires* if it
124 chooses to do so in this proceeding.

125 Q UCA §54-5-1.5(4) speaks to the costs of Utah's state regulatory agencies. How should that
126 guide the Commission with regard to the LDC's own regulatory expenses?

127 A Given that the provisions of this sub-section require that public utilities, rather than
128 ratepayers, bear all the costs of the regulatory agencies, whose primary purpose is to protect
129 captive customers with no alternative suppliers, it clearly makes no sense that ratepayers
130 should be saddled with the costs incurred by those utilities advocating higher rates or other
131 burdens for consumers in regulatory proceedings.

132 Even if the Commission is unpersuaded that it is unlawful for it to exclude the public utility
133 regulatory fee from Questar's revenue requirement on this occasion, it would be entirely
134 inequitable for it to impose the cost of the Company's expenses in advancing its managers'
135 and owners' interests on ratepayers.

136 Q Does that conclude your Revenue Requirement Direct Testimony?

137 A Yes, thank you.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Revenue Requirement Testimony of Roger J Ball in Docket 07-057-13 was served upon the following by electronic mail on 21 April 2008:

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