

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. 09-057-16

DIRECT TESTIMONY OF BARRIE L. McKAY

FOR QUESTAR GAS COMPANY

December 3, 2009

QGC Exhibit 1.0

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DIRECT TESTIMONY OF
BARRIE L MCKAY

I. INTRODUCTION

1

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

3 A. My name is Barrie L. McKay. My business address is 180 East First South Street, Salt
4 Lake City, Utah.

5 **Q. By whom are you employed and what is your position?**

6 A. I am employed by Questar Gas Company (Questar Gas or Company) as General Manager
7 of State Regulatory Affairs. I oversee and am responsible for state regulatory and energy
8 efficiency matters affecting Questar Gas Company in Utah and Wyoming.

9 **Q. What are your qualifications to testify in this proceeding?**

10 A. I have listed my qualifications in QGC Exhibit 1.1.

11 **Q. Attached to your written testimony are QGC Exhibits 1.1 through 1.12. Were these
12 prepared by you or under your direction?**

13 A. Yes.

14 **Q. What is the purpose of your testimony in this Docket?**

15 A. My testimony explains that the primary driver for this general rate case is the capital
16 expenditure required to replace our aging feeder-line infrastructure and I propose a
17 feeder-line tracker mechanism. My testimony requests that the Conservation Enabling
18 Tariff be approved going forward.

19 It also proposes the test period that best reflects the rate-effective period and it describes
20 the Company's plans to invest in compressed natural gas (CNG) facilities for natural gas
21 vehicles (NGV).

22 I will also introduce the witnesses who will support the Company's proposed return on
23 equity of 10.6% and overall cost of capital of 8.55%, the Company's revenue
24 requirement, the Company's cost-of-service and rate-design proposals, the proposed
25 changes to temperature and elevation adjustments, and changes to the Company's tariff.

26 I will also provide background testimony updating information provided to the
27 Commission in prior rate cases.

28 **Q. Why is Questar Gas filing a general rate case at this time?**

29 A. The timing of this case is driven primarily by the Company's ongoing critical need to
30 replace its aging infrastructure. Questar Gas's capital expenditures are significantly
31 increasing from \$80 million in 2009 to approximately \$130 million in 2010. These
32 capital expenditures are driven by the costs associated with maintaining, upgrading and
33 replacing the Company's high-pressure feeder-line infrastructure, the number of
34 customers that the Company serves, and the growth in peak-day demand.

35 **II. INTRODUCTION OF WITNESSES**

36 **Q. Would you please identify the Company's witnesses?**

37 A. Yes.

38 Mr. David M. Curtis, Vice President and Controller of Questar Gas, will provide
39 testimony supporting the Company's capital structure, cost of debt, cost of equity and
40 overall rate of return. Mr. Curtis will also describe the high performance of the Company
41 compared to its peers.

42 Mr. Kelly B. Mendenhall, Supervisor in the regulatory affairs department for Questar
43 Gas, will provide testimony showing the revenue requirement deficiency for the proposed
44 test period. Mr. Mendenhall will also present the depreciation study and lead/lag study.

45 Mr. Steven R. Bateson, Supervisor in the regulatory affairs department for Questar Gas,
46 will provide testimony supporting the Company's cost-of-service model for all rate
47 classes, including the NGV rate class, and rate design, including firm-transportation
48 charges.

49 Mr. Judd E. Cook, Specialist in the regulatory affairs department for Questar Gas, will
50 provide testimony supporting the Company's proposed refinement to adjusting metered

51 volumes for temperature and elevation, the FT-1 qualifications and some minor tariff
52 changes.

53 **III. BACKGROUND**

54 **Q. Can you describe Questar Gas's performance in meeting customers' daily and peak**
55 **demands?**

56 A. We have met our firm customers' demand for reliable natural gas service, especially
57 during cold weather, without a major service disruption for nearly 80 years. Meeting
58 customers' energy demands requires comprehensive planning, extensive natural gas
59 supplies, capacity on upstream interstate pipelines, storage services, and a well-
60 engineered and maintained distribution system. It requires dedicated, trained employees
61 who understand and operate these systems and facilities. Our customers' demand for
62 natural gas can vary from approximately 85,000 Dth per day in summer weather to over
63 1.4 million Dth per day in below-zero peak-day conditions. During extreme weather, we
64 strive to meet all customers' demands for natural gas. This requires around-the-clock
65 dedication of our gas-supply and gas-control employees. It requires our facilities to be
66 well maintained and in top working condition. It takes the combined effort of hundreds
67 of Questar Gas, Questar Pipeline and Wexpro employees working in the field in sub-zero
68 weather.

69 Our employees take pride in our reputation for providing reliable natural gas service. If
70 Questar Gas had not invested significant capital over the past few years to reinforce and
71 upgrade our distribution system, we would not have been able to meet the record demand
72 of recent years. An aging system, the number of customers, and growing peak-day
73 demand will require continued new capital to maintain, replace, expand, and upgrade
74 high-pressure feeder lines, main lines and service lines.

75

76

77 **Q. How many new customers request service from Questar Gas each year?**

78 A. In our last general rate case, Docket No. 07-057-13, the number of customers served by
79 Questar Gas was growing by 25,000 to 30,000 each year. This level of growth has
80 declined substantially as a result of the severe economic recession that started in 2008.
81 We are currently projecting the addition of about 11,000 customers per year. Our goal is
82 to provide safe and reliable natural gas service to each of these customers on a timely
83 basis with a high level of customer satisfaction. The bars in QGC Exhibit 1.2 show the
84 number of customers added each year for the past five years and projections for 2009.
85 The boxes at the bottom of each bar show the number of complaints we have received
86 from new customers because service connections were not made in a timely manner. The
87 small number of complaints shows how well we are meeting new customer needs.

88 **Q. Why does Questar Gas strive to increase its operating efficiency?**

89 A. We know customers want reliable, reasonably priced natural gas service. To keep service
90 as economical as possible, we strive to operate efficiently. Today Questar Gas is serving
91 100 percent more customers than we served in 1985 with 21 percent fewer employees.
92 QGC Exhibit 1.3 depicts customers per employee from 1985 through 2008. This
93 efficiency reduces the price customers pay for natural gas service. Mr. Curtis' testimony
94 discusses how Questar Gas's performance compares with its peers in several key areas.
95 His testimony confirms Questar Gas's top efficiency performance compared to other gas
96 distribution companies. Very few gas utilities operate in areas where the geography and
97 population distribution is as diverse as Questar Gas's service territory. This makes
98 Questar Gas's top-level efficiency even more remarkable.

99 **Q. How do the overall prices paid by Questar Gas's customers compare to prices paid**
100 **by customers in other states?**

101 A. The U. S. Department of Energy's Energy Information Administration (EIA) maintains
102 an online database of energy statistics at <http://www.eia.doe.gov/>. It includes the average
103 residential natural gas price by state on a trailing 12-month basis. Utah natural gas
104 customers consistently pay near the lowest prices in the Continental U.S., and Questar

105 Gas serves nearly all natural gas customers in Utah. QGC Exhibit 1.4 shows Utah's
106 ranking in the EIA data. Utah's price for both commercial and industrial customers is
107 also near the lowest in the country. Efficient Questar Gas operations is a significant
108 reason why our prices are lower than other areas of the country.

109 **Q. Does Questar Gas use customer-service benchmarks to track whether it is meeting**
110 **customers' expectations?**

111 A. Yes. Questar Gas files detailed quarterly reports with Utah regulators showing our
112 performance in many areas of customer service including call handling, meter-reading
113 accuracy and emergency-response times. Our goals were established with input from
114 regulators. Our performance consistently exceeds almost every goal and the trends are
115 positive. I have prepared QGC Exhibit 1.5 that summarizes these service levels for
116 selected areas. We have worked hard to manage expenses and operate efficiently. At the
117 same time, we remain focused on providing high levels of service in areas customers
118 value most.

119 **Q. Do you also measure customers' satisfaction with your service?**

120 A. Yes. Every quarter Dan Jones and Associates surveys a random sample of customers
121 who have called Questar Gas for service, as well as customers who have had in-home
122 service. Customers who have not called or had a service person in their homes are also
123 surveyed. This survey includes detailed questions seeking customer satisfaction with the
124 service they received on the telephone and in their home. It also includes questions on
125 their overall satisfaction. QGC Exhibit 1.6 shows quarterly survey results since 2002 for
126 the question concerning customers' overall satisfaction with the products and services
127 they receive from Questar Gas. The results show customer satisfaction is high. Data for
128 the third quarter of 2009 show that on a five-point scale where "five" is "totally satisfied"
129 and "one" is totally dissatisfied, 84 percent of our customers rate our overall service as a
130 four or five. Only 7 percent rate our overall service as a one or two. 9 percent give us a 3
131 rating or do not respond to the question. The dip in customer satisfaction shown in the 4th
132 quarter of 2005 occurred right after a significant gas-cost rate increase. After the

133 publicity about the rate increase ended, the ratings rebounded. The survey also includes
134 questions about many specific areas of service such as call center and Ask-A-Tech
135 services. Customer opinion of our service in each of these areas is also high.

136 **Q. In the 2007 rate case, testimony filed by the Company discussed J.D. Powers 2007**
137 **report. Please describe the J.D. Powers report and the results since that case?**

138 A. The J.D. Powers survey measures residential customer satisfaction with gas utility
139 companies across six factors or areas: company image, communications, billing and
140 payment, price and value, customer service, and field service. Only 10 percent of the
141 total J.D. Powers score is based on customer service and field service, which are the key
142 areas covered in the Dan Jones survey. Over 50 percent of the JD Powers survey results
143 reflect the customer's opinion of the image of the Company and the communications they
144 have heard about the Company. As Alan Allred testified in our 2007 rate case, we
145 believed our J.D. Powers rating would improve as our Thermwise Program became more
146 widely known. This has been the case. We have improved our rank significantly, both
147 nationally and in the west, by J.D. Powers in customer satisfaction. However, we
148 continue to believe that the Dan Jones survey, which is more targeted to customer service
149 issues more accurately reflects how well the Company is meeting customers'
150 expectations.

151 **Q. What overall conclusion do you draw from these performance factors?**

152 A. As demonstrated by these factors and the analysis performed by Mr. Curtis, Questar Gas
153 is among the top-performing natural gas utilities in the nation. We continue to deliver
154 safe, reliable, low-priced natural gas service to our customers, and they are very satisfied
155 with the service they receive. Even with the rate increase we are asking for in this case,
156 our customer prices for natural gas service will continue to be among the lowest in the
157 nation.

158

IV. TEST PERIOD

159 **Q. What is the test period that the Company proposes be used in this case?**

160 A. The Company is proposing to use the 12-months ending December 31, 2010, as the test
161 period. The Company has matched year-end rate base with year-end depreciation. Year-
162 end customers have been used to calculate annual revenues. Additionally, annualization
163 adjustments have been made to reflect year-end expenses. The proposed test period will
164 best reflect the conditions the Company will encounter during the rate-effective period.

165 **Q. Is the proposed test period consistent with the “test period” statute?**

166 A. Yes. Utah Code Ann. § 54-4-4 provides that, “the Commission may use a future test
167 period that is determined on the basis of projected data not exceeding 20 months from the
168 date a proposed rate increase or decrease is filed.” The statute further provides that, “the
169 Commission shall select a test period that, on the basis of evidence, the Commission finds
170 best reflects conditions that a public utility will encounter during the period when the
171 rates determined by the Commission will be in effect.” The test period ending December
172 2010 meets these criteria.

173 **Q. The “rate-effective” period has been an issue of debate, and, in some cases,
174 confusion, in recent Questar Gas and Rocky Mountain Power general rate cases
175 before this Commission. What do you think is the rate-effective period to be
176 considered in this case?**

177 A. Based on the Company’s filing date and assuming the entire 240-day statutory timeframe
178 is needed to complete the case, the rate-effective period will start approximately the
179 beginning of August 2010. If the rate-effective period were to match the period of time
180 included in a test period, then the test period should reflect conditions that will occur
181 from the beginning of August 2010 through the end of July 2011.

182

183

184 **Q. Couldn't rates set in this case still be in effect after July 2011?**

185 A. Yes, they could if they remain just and reasonable. However, if the Company sees that
186 revenues, costs and rate base have changed such that the rates set in this case no longer
187 cover the costs the Company will incur in providing service, then it is incumbent upon
188 the Company to file another general rate case with a test period that best reflects the
189 conditions that will occur in that future period. If revenues, costs and rate base have not
190 changed enough to warrant a general rate case, then rates would remain the same.

191 **Q. Couldn't the Company try to change general rates before the end of July 2011 by**
192 **filing another general rate case immediately after receiving the Commission's order**
193 **in this case?**

194 A. Technically, yes. Practically, no. The new filing requirements adopted by the
195 Commission in the 700 series of rules make that very difficult. But the fact that rates
196 could change between August 2010 and July 2011 does not mean that that 12-month
197 period should not be the rate-effective period assumed for this case. The rate-effective
198 period is simply the period starting when rates go into effect. We do not know when it
199 will end, but we can assume it will end when the rates set in this case are no longer just
200 and reasonable. We use a 12-month period simply because rates are set on the basis of an
201 annual period.

202 **Q. Given the fact that the rate-effective period will be August 2010 through July 2011,**
203 **why did the Company choose a year-end December 2010 as the proposed test**
204 **period?**

205 A. Year-end December 2010 is approximately the mid-point of the rate-effective period and
206 is a point closer in time to the filing date of this case. The Company could have chosen a
207 historical test period. However, the most recent historical period would be July 1, 2008
208 through June 30, 2009. Data used to set rates for this historical test period would be 18 to
209 24 months old when compared to the midpoint of the rate-effective period and would not
210 reflect the additional capital investment associated with feeder-line replacement through
211 the rate-effective period.

212 The Company could also have chosen to use a partially forecasted test period. However,
213 to choose average 2009 or year-end December 2009 test periods would mean that rates
214 would be set on data that is 12-18 months old when compared to the mid-point of the
215 rate-effective period. This lag between the data and the rate-effective period would result
216 in rates that are not representative of the rate-effective period.

217 The Company could have chosen an average 2010 test period. This would have been
218 similar to what the Commission ordered in Docket No. 07-057-13. However, this would
219 have only reflected (on average) conditions at the beginning of the rate-effective period.
220 On average, the data would be 7 months old when compared to the mid-point of the rate-
221 effective period.

222 The remaining two reasonable options are a 12-month test period ending December 2010
223 adjusted for end-of-year data or a test period ending June 2011¹ using the average for the
224 12 months. Both of these test periods would, on average, match the mid-point of the rate-
225 effective period. Both, if properly adjusted, would reasonably reflect conditions during
226 the rate-effective period.

227 **Q. What assurances can the Company provide that its forecasted test period is**
228 **reliable?**

229 A. With respect to both Capital Expenditures and Operation and Maintenance (O&M)
230 expense, Mr. Mendenhall's QGC Exhibit 3.8 shows that for the last five years the
231 Company's capital expenditures and O&M expense have been, on average, within 3.5
232 percent and 0.3 percent, respectively, of forecasted levels. Overall, the Company's
233 budgeting and planning process has been very accurate.

¹ The Company notes that the precise mid-point and end-point of the rate-effective period would be the end of January 2011 and July 2011 respectively. These are not points in time that coincide with any reporting and therefore have not been chosen.

234 **V. INFRASTRUCTURE RATE-ADJUSTMENT MECHANISM**

235 **Q. Have you prepared an exhibit showing the Company’s planned replacement of its**
236 **feeder lines?**

237 A. Yes, the Company has developed a long-term plan and annual capital budgets associated
238 with feeder-line replacements that are planned to occur each year for the next several
239 years. The capital expenditures required to replace the Company’s aging feeder-line
240 infrastructure are based on these budgets. QGC Exhibit 1.7 shows the schedule and
241 estimated costs of the feeder-line replacement anticipated to occur over the next several
242 years.

243 **Q. What is the Company proposing in conjunction with the replacement of its aging**
244 **feeder-line infrastructure?**

245 A. The replacement of aging infrastructure is critical for the Company to fulfill its mandate
246 to provide safe and reliable service to its customers. Questar Gas proposes the adoption
247 of an infrastructure rate-adjustment mechanism to assist Questar Gas in the fulfillment of
248 that mission.

249 **Q. What is an infrastructure rate-adjustment mechanism?**

250 A. An infrastructure rate-adjustment mechanism or “tracker” allows for incremental cost
251 recovery of investments made for infrastructure replacement. These types of cost-
252 recovery mechanisms allow the utility to track costs that are directly associated with the
253 ongoing replacement of identified infrastructure through an incremental surcharge to
254 general service rates.

255 **Q. Do other local distribution companies (LDCs) use similar mechanisms?**

256 A. Yes. Currently, more than 20 natural gas utilities in 21 service territories in 13 states
257 have implemented commission-approved infrastructure rate-adjustment mechanisms.
258 One other utility is currently seeking state-commission approval for similar mechanisms.²

² American Gas Association as of July 2009.

259 I have attached as QGC Exhibit 1.8 a summary of natural gas utilities that have been
260 authorized to implement an infrastructure rate-adjustment mechanism. This exhibit also
261 includes a general description of each mechanism and how it works.

262 **Q. Please explain how a typical tracker works.**

263 A. Costs associated with specific plant are tracked and recovered from customers through a
264 commission-approved surcharge. Surcharge adjustments may be made monthly,
265 quarterly, semi-annually or annually. Usually the surcharge is rolled into general rates at
266 the time of the next general rate case bringing the surcharge to zero until further
267 investments are made in the identified plant and the plant is placed in service.

268 **Q. In your research what type of plant has been included in infrastructure rate-**
269 **adjustment mechanisms?**

270 A. The most common type of plant that is included is aging and/or obsolete plant that needs
271 to be replaced, such as cast iron or bare steel pipe.

272 **Q. Is Questar Gas proposing an infrastructure rate-adjustment mechanism similar to**
273 **what you have seen in the industry?**

274 A. Yes. Based on our research and examination of various cost-recovery mechanisms,
275 Questar Gas is proposing a tracker similar to other commission-approved trackers to
276 recover costs related to the replacement of its aging high-pressure feeder lines.

277 **Q. Please describe the aging high-pressure feeder lines scheduled for replacement.**

278 A. Many of the aging feeder lines were originally installed in the 1930s. The industry
279 practice in the 1950s and 1960s was to recondition the pipe. The pipe was reconditioned
280 in place or removed from other portions of the system, refurbished, and reinstalled at new
281 locations. This practice extended the life of these facilities, but to meet increasingly
282 rigorous Department of Transportation (DOT) pipeline integrity management
283 requirements, and to continue ensuring safe and reliable service, these aging high-
284 pressure feeder lines need to be replaced.

285 **Q. What is Questar Gas's plan for replacement of its aging feeder lines?**

286 A. Attached as QGC Exhibit 1.7 is a summary of the feeder lines currently scheduled for
287 replacement. Questar Gas has identified approximately 20 feeder lines that are scheduled
288 for replacement over the next decade. This plan is reviewed on an ongoing basis and is
289 subject to change depending on factors such as pipeline-integrity testing, customer-
290 growth patterns, highly populated areas, capacity restraints, proposed street-widening
291 projects and other criteria. Although the timing of each feeder-line replacement could
292 vary from the schedule shown on QGC Exhibit 1.7 based on factors such as these, annual
293 expenditures should remain approximately the same.

294 **Q. What does the Company plan to spend per year to replace its aging infrastructure?**

295 A. The Company plans to spend \$40-50 million per year. The annual project costs may vary
296 because of property and right-of-way acquisition, construction issues, environmental
297 permitting, and steel costs. The goal each year is to replace and have in service \$40-50
298 million of replaced feeder lines.

299 **Q. Did the Company begin this process in its last rate case?**

300 A. Yes. This need was specifically identified in Docket No. 07-057-13. A technical
301 conference dedicated to this topic was held on February 27, 2008. During 2008, which
302 was the test period in that case, the Company invested \$47 million to replace aging
303 infrastructure.

304 **Q. Were these costs included in the setting of current rates?**

305 A. Yes. The investment in the replacement of this plant was included in rates in 2008 and
306 this plant was placed in service during 2008.

307 **Q. What happened in 2009?**

308 A. As explained by Mr. Curtis in his testimony attached as QGC Exhibit 2.0, the global
309 economic downturn caused the capital markets to dry up, requiring the Company to self-
310 fund all of its capital projects. As a result, the feeder-line replacement budget was

311 limited to a total of \$18 million in 2009. This was one of the reasons the Company did
312 not file a general rate case during the latter part of 2008 and the first part of 2009.

313 **Q. Why does the Company need this tracker when it already has the ability to file a**
314 **major plant addition/single-item rate case?**

315 A. The “major plant addition” statute, Utah Code § 54-7-13.4, does not lend itself to this
316 type of pipe replacement. This is not one, neat, tidy project that can be identified and
317 completed within the framework described in § 54-7-13.4. Replacing this type of aging
318 infrastructure will take many years and will occur incrementally throughout that period.
319 The Company does have some projects, like the St. George expansion, that may
320 reasonably take advantage of the “major plant addition” option. But the nature of the
321 ongoing replacement of aging infrastructure either calls for annual general rate cases or a
322 tracker. After reviewing the issue, we believe a tracker is the better option.

323 **Q. Has the Company included in its proposed tracker some of the same safeguards that**
324 **are included in the major plant addition option?**

325 A. Yes. Like the major plant addition option, the plant must be in service before it can be
326 included in rates. Additionally, the increment in rates related to this replacement pipe
327 will be rolled into general rates at the time of the next general rate case. To avoid too
328 long a period between general rate cases, the Company is proposing to file a general rate
329 case at least every five years.

330 **A. *Calculation of Rate-Adjustment Mechanism***

331 **Q. Please provide an example of the costs that would be included in the calculation?**

332 A. Questar Gas is planning to spend approximately \$40 million annually for feeder-line
333 replacement. QGC Exhibit 1.9 is an example of how the rate impact of this capital
334 expenditure is calculated. The total net plant attributed to the feeder-line replacement is
335 multiplied by the Commission-allowed pre-tax return on rate base (line 5). Annual
336 depreciation expense of 2.1% is added (line 7). The annual property taxes on the

337 replacement plant, roughly 1.2% is also added (line 8). The net result is the incremental
338 revenue requirement related to this plant.

339 **Q. How will this amount be assigned to the various rate classes?**

340 A. The Company proposes spreading this increase in costs to all rate classes through a
341 change to DNG tariff revenues based on the bottom-line total tariff revenues approved in
342 this case. Page 2 of QGC Exhibit 1.9 illustrates how the replacement plant and its
343 associated costs will be allocated. This allocation to the various rate classes will remain
344 the same between general rate cases.

345 **Q. How will rates change under the Company's proposal?**

346 A. Quarterly the Company may file, in a separate docket, a request to adjust the surcharge
347 for replacement plant that is in service but has not yet been included in rates. The
348 application and accompanying exhibits will describe the plant that has been completed
349 and put in service, calculate the associated costs, allocate the costs to the various rate
350 classes and calculate the proposed adjustment in the surcharge. Additionally, new tariff
351 sheets in legislative and final format will be provided along with the effect on the typical
352 GS customer. The Company may forego a filing in any quarter in which the change in
353 surcharge would be de minimis. In that case, the new investment during the quarter
354 skipped will be held until the next quarterly filing.

355 **Q. Has the Company proposed tariff sheets describing the infrastructure rate-
356 adjustment mechanism?**

357 A. Yes. The tariff pages are attached to Mr. Cook's testimony as QGC Exhibit 5.7.

358 **Q. What will happen to the feeder-line replacement surcharge when the Company files
359 a future general rate case?**

360 A. Our review of proposals and orders in other states shows that commissions have handled
361 this issue in one of two ways. Either all of the in-service replacement plant is included

362 in general rates and the surcharge is reduced to zero or the replacement plant continues to
363 be separately tracked.

364

365 **Q. What does the Company recommend?**

366 A. We recommend that the replacement plant and its associated costs be included in the
367 establishment of general rates and the surcharge be reset to zero. That way any changes
368 in the cost-of-service (COS) allocation and rate-design methodology would be reflected.
369 We note that this impact will be immaterial, given the balance of the replacement plant
370 when compared to total rate base, but we recommend the update to consistently apply the
371 matching principle.

372 **B. *Beginning and Ending of the Tracker***

373 **Q. Assuming new rates are set based on a year-end 2010 test period, at what point in**
374 **time will replacement investment begin to be included in the infrastructure rate-**
375 **adjustment mechanism?**

376 A. Based on a year-end 2010 test period, any investment, with its associated increase in
377 costs, that is put into service on or after January 1, 2011, should be included in the
378 tracker. The Company notes that December 31, 2010, is a forecasted point in time and
379 that \$40 million of investment in feeder line replacement has been included in the test
380 period. If this level of investment is not reached by year-end 2010, then tracking of
381 incremental investment in replacement pipe should not begin in 2011 until the \$40
382 million of investment has been reached. Additionally, the effective date of an incremental
383 surcharge related to the infrastructure rate-adjustment mechanism should be on or after
384 August 1, 2011. Both of these limiting criteria will assure that no costs have been
385 included twice and rates are just and reasonable. The Company's first request to adjust
386 rates for the tracked replacement of aging feeder lines will include evidence showing that
387 these two limiting criteria have been followed.

388 **Q. Will the infrastructure rate-adjustment mechanism be discontinued when the**
389 **feeder-line replacement program is complete?**

390 A. The Company would continue to charge customers until the first general rate case after
391 completion of the program. At that time the investment and expenses will be rolled into
392 rates and this type of infrastructure replacement will no longer be tracked.

393 **VI. CONSERVATION ENABLING TARIFF**

394 **Q. Is the Company proposing that the Conservation Enabling Tariff be approved on a**
395 **going-forward basis?**

396 A. Yes. The Company is nearing the end of the Conservation Enabling Tariff (CET) and
397 Demand-Side Management (DSM) Pilot Program (Pilot Program) and believes that the
398 Pilot Program has not only performed as intended, but has exceeded expectations.
399 Therefore, the program should be approved going forward.

400 **Q. In your testimony filed in Docket No. 05-057-T01, you identified three primary**
401 **benefits of the Conservation Enabling Tariff. Would you summarize those?**

402 A. Yes. The Conservation Enabling Tariff provides a simple mechanism that: 1) allows the
403 Company to collect the Commission-allowed distribution non-gas (DNG) revenues; 2)
404 allows the Company to aggressively promote energy efficiency; and 3) aligns the
405 interests of the Company and regulators for the benefit of customers.

406 **Q. Please explain how these benefits were achieved.**

407 A. First, for the GS class the CET decoupled DNG revenue collection from customer usage
408 levels. With the CET, the Company only collects the Commission-allowed revenue,
409 nothing more, nothing less. Second, once the disincentive was removed, the Company,
410 with assistance from the DSM Advisory Group, launched and successfully implemented
411 an aggressive campaign to promote increased energy efficiency. Finally, the CET
412 aligned the interests of the Company and customers by: 1) creating an atmosphere where
413 customers no longer receive mixed signals about usage and conservation, and 2) lowering

414 customer monthly bills (through decreased usage) without negatively impacting the
415 Company's financial health. The parties are now aligned in promoting energy efficiency.

416 **A. *The CET Decoupled Revenues From Usage***

417 **Q. Would you provide an overview of the CET balancing account for each of the years**
418 **of the Pilot Program?**

419 A. Yes. The Company's experience has been that the entries in the CET balancing account
420 have both added to and reduced revenues. QGC Exhibit 1.10 shows the ending balance
421 (column F) for each month for the last 3 years. The CET balance was well within the
422 parameters agreed to by the parties to the Commission-approved Settlement Stipulation
423 in Docket No. 05-057-T01.

424 **Q. Is it important to look at 12-month periods when considering CET results?**

425 A. Yes. The CET is designed to ensure that the Company only collects the annual DNG
426 revenue per customer allowed by the Commission. The allowed DNG revenue to be
427 collected per customer is spread over 12 months. Any month-to-month volatility in the
428 CET accruals is removed when 12 months are considered in aggregate.

429 **Q. Do you believe the CET is working as expected?**

430 A. Yes. The accruals resulting from the CET make sense. When usage per customer has
431 increased from what was forecast, the CET accruals reflect over-collection of revenues.
432 When usage has declined from what was forecast, the CET accruals have reflected the
433 under-collection. The Company can no longer increase revenues by encouraging
434 customers to increase natural gas usage.

435 **B. *The CET Has Removed the Barrier to Promoting Energy Efficiency***

436 **Q. Do you believe the CET has been effective in removing the barrier the Company**
437 **previously faced in promoting energy efficiency?**

438 A. Yes. As evidenced by the results from each of the three years, the CET has decoupled
439 the link between customer usage (volumetric sales) and DNG revenue collection. The

440 Company has aggressively pursued the implementation of energy-efficiency programs
441 and market-transformation initiatives. Our customers and industry providers of energy-
442 efficient products and services are responding positively to the energy-efficiency
443 campaign.

444 **Q. Can you provide an update on the progress the Company, with the assistance of the**
445 **DSM Advisory Group, has made to implement energy efficiency?**

446 A. Yes. QGC Exhibit 1.11 provides an overview of the energy-efficiency rebate programs,
447 the energy audits and market-transformation initiatives implemented in the months
448 following approval of the Settlement Stipulation. This exhibit provides details on the
449 participation levels we have experienced from program participation from January 1,
450 2007 through third quarter 2009.

451 **Q. Are the participation levels, since the program launch, in line with projected**
452 **participation rates?**

453 A. Customer response, industry response and combined participation in the programs has
454 been far greater than forecast. This positive response has caused the programs to be even
455 more cost-effective than originally anticipated.

456 **Q. Are the energy-efficiency programs being well received by the Company's**
457 **customers and other stakeholders?**

458 A. Yes. The response has been very good in terms of direct participation from customers,
459 home builders and trade allies. Customers have provided positive feedback on the entire
460 campaign, including ease of participation with the rebate programs and awareness and
461 understanding of the energy-efficiency message. The Division, with input from the
462 Advisory Group, continues to provide input and help shape the programs as we make
463 improvements each year.

464 **Q. The Company has made substantial progress in implementing energy efficiency in a**
465 **short period of time. Is this a result of the Conservation Enabling Tariff?**

466 A. Yes. The removal of the disincentive to promoting energy efficiency through the
467 implementation of the CET has been a major factor. With the CET the Company is
468 motivated to remain in alignment with its customers and help them save energy and lower
469 their bills.

470 **Q. Has there been increasing nationwide momentum to remove the disincentive for**
471 **natural gas utilities to promote energy efficiency?**

472 A. Yes. With continued concerns about climate change and CO₂ emissions, energy-
473 efficiency improvements are more important than ever. The State of Utah, through
474 Governor Herbert and former Governor Huntsman, has stressed the importance of
475 increasing energy efficiency and removing regulatory barriers to promoting energy
476 efficiency. More than 28 state commissions have approved some form of barrier
477 removal as shown on QGC Exhibit 1.12. This represents a significant increase in activity
478 and action since the CET was first proposed. A decision not to approve or to restrict the
479 CET at this time would be contrary to the clear trend among other states and Utah state
480 policies encouraging energy conservation.

481 **Q. What has been your experience in Wyoming?**

482 A. We filed a general rate case in Wyoming in August 2008 and requested approval of a
483 Conservation Enabling Tariff and five energy-efficiency programs. The Wyoming
484 Commission approved the CET and the energy-efficiency programs. The Company is
485 required to file a rate case in three years to review the CET and energy-efficiency
486 programs in Wyoming.

487 **C. *Alignment of Interests***

488 **Q. Has the CET been effective in aligning the interests of the Company and**
489 **stakeholders?**

490 A. Yes. The CET, as noted earlier, has been effective in removing the Company's
491 disincentive to promote energy efficiency. With the CET in place, the Company will
492 continue its work and success in promoting cost-effective energy efficiency. The

493 Company's DSM Pilot Program has progressed at a pace that reflects the benefits gained
494 when interested stakeholders fully cooperate to attain a common goal—in this case,
495 helping customers achieve greater energy efficiency.

496 **Q. Are there indicators that show there are additional ways to gain even greater**
497 **savings and participation?**

498 A. Yes, as the market matures and the “low-hanging fruit” is “harvested” a natural lull or
499 plateau could occur. Some jurisdictions have begun implementing various forms of
500 incentives to LDCs when program cost/benefit analyses show that providing an incentive
501 for reaching participation and savings goals can be included as a cost of the program and
502 still prove cost effective. Some utilities have been able to share a portion of those
503 incentives with their customers. Some have received incentives based on specific goals
504 relating to energy efficiency program participation. Others, to spur energy efficiency,
505 have been allowed to include a portion of the DSM costs in rate base, while still others
506 have been allowed a higher rate of return.

507 **Q. Is the Company proposing an incentive mechanism at this time?**

508 A. No, but with the approval of the CET and energy-efficiency programs going forward, the
509 Company believes interested stakeholders should analyze the issue and present their
510 findings to the Commission. This is also consistent with the Public Utilities Regulatory
511 Policy Act (PURPA) standards that have been recommended for Commission adoption
512 by several stakeholders. Specifically the act states:

513 each state regulatory authority ... shall consider . . . (ii) providing to
514 [natural gas] utilities incentives for the successful management of energy
515 efficiency programs, such as allowing utilities to retain a portion of the
516 cost-reducing benefits accruing from the programs; (15 U.S.C. §
517 3203(b)(6)(B)(ii)).

518 **D. Recommendations**

519 **Q. What is the Company's proposal regarding the CET/DSM Program?**

520 A. The Company recommends the CET/DSM program be approved and no longer be
521 considered a pilot program.

522 **Q. The initial approval of the CET/DSM Pilot Program included limits to the accruals
523 and amortizations. Is it necessary to continue to limit accruals and amortizations?**

524 A. No. The implementation of the CET and the resulting accruals have shown the limits are
525 not necessary. Limiting CET accruals and amortizations sends the Company mixed
526 signals and suggests a limited approach to energy efficiency is preferred over an
527 aggressive one. The Company has aggressively implemented energy efficiency even
528 with the limitations in an effort to demonstrate its good faith and commitment. However,
529 continuing the limitations is counterproductive and inconsistent with removal of the
530 disincentive.

531 **VII. COMPRESSED NATURAL GAS RATE FOR NATURAL GAS VEHICLES**

532 **Q. In the Company's last general rate case, what was the Company's position
533 regarding the rate for compressed natural gas for natural gas vehicles (NGV Rate)?**

534 A. In the Company's direct testimony, no specific mention was made of the NGV Rate.
535 However, during the rate case the sharp increase in the demand for CNG caused various
536 parties to weigh in on the issue of whether the NGV Rate should continue to be less than
537 full cost. The Company's position in that case was to move the rate closer to cost, but
538 continue the rate at less than full cost.

539 **Q. Since that case, can you describe the events that have led the Company to continue
540 to support an NGV Rate that is less than full cost?**

541 A. Yes. There have been several significant events that have persuaded the Company that it
542 is in the public interest to support an NGV Rate that is less than full cost-of-service.
543 First, the Utah State Division of Energy expressed interest in partnering with the
544 Company to encourage natural gas vehicles for fleets and consumers as part of its
545 campaign to endorse alternative fuel vehicles. Second, the demand for CNG has stayed

546 at a level of approximately 350,000 Dth a month despite a drop in gasoline prices. Third,
547 the Utah Clean Cities Coalition was the recipient of a total grant award of \$15 million.
548 Questar Gas is one of the potential grant recipients under the Utah Clean Cities Coalition
549 grant and may qualify for \$4.2 million in federal grant money if it invests at least \$12.1
550 million dollars in its existing and new NGV re-fueling stations in Utah. Fourth, House
551 Bill 392 was passed in the 2009 general session of the Utah Legislature.

552 **Q. Did the Company support the passage of H.B. 392?**

553 A. Yes, based on the above mentioned events, and in an effort to clarify that past
554 Commission practice of having an NGV Rate that was less than full cost was just and
555 reasonable, the Company supported H.B. 392 which modified Utah Code Ann. § 54-4-
556 13.1, Natural Gas Vehicle Rate, to read:

557 (1) The commission may find that a gas corporation's request for a
558 natural gas vehicle rate that is less than full cost of service is:
559 (a) in the public interest; and
560 (b) just and reasonable.
561 (2) If the commission approves a gas corporation's request under
562 Subsection (1), the remaining costs may be spread to other customers of
563 the gas corporation.

564 **Q. Can you describe the Questar Gas partnership with the State of Utah?**

565 A. Yes. Former Governor Huntsman initiated the partnership when he took the position that
566 the state would reduce pollution and become more energy independent. In his State of
567 the State Address in January 2009, former Governor Huntsman stated:

568 Our second goal will be to designate Interstate 15 from Idaho to Arizona
569 as a natural gas corridor! It makes sense – working with Questar, a great
570 local company – to encourage the use of natural gas which emits almost
571 no pollution, is more affordable and most importantly, is a domestic fuel
572 found right here in our own backyard; getting Utah, and the nation, one
573 step closer to breaking our addiction to foreign oil.

574 This will require adding infrastructure, looking differently at our
575 regulatory approach and demanding that we look beyond the here and
576 now.

577 The Company understands that Governor Herbert continues to support this
578 partnership.

579 **Q. What is the Company's position regarding its role to serve its NGV customers and**
580 **continue providing an NGV Rate that is less than full cost-of-service?**

581 A. Questar Gas's promotion of the use of natural gas vehicles by its customers is critical to
582 the success of the state's goals. This industry continues to be in its infancy across the
583 U.S. However, Utah is currently recognized nationally as a leader in the industry. The
584 Company recognizes that this is because of the Utah regulatory approval of the current
585 rate structure and the support of past and current Governors. The Company believes that
586 continued investment in NGV infrastructure and an NGV rate that is less than full cost is
587 in the public interest.

588 **VIII. CONCLUSION**

589 **Q. What do you conclude about the rates proposed by Questar Gas in this case?**

590 A. The rates proposed by Questar Gas in this case are just and reasonable. They reflect the
591 prudent costs Questar Gas will incur in providing safe, reliable and adequate service to its
592 customers during the rate-effective period. The rate spread and rate design proposed by
593 Questar Gas represent a fair apportionment of those costs among our customer classes
594 and provide customers with the correct signals to use natural gas efficiently. I
595 recommend that the Commission approve the rates proposed by Questar Gas in our
596 application and testimony.

597 **Q. Do you have other recommendations?**

598 A. Yes. As stated previously, I recommend that the Commission approve the infrastructure
599 rate-adjustment mechanism to enable the Company to receive prompt and accurate
600 recovery of the costs associated with its increased capital investment required to replace
601 aging feeder lines without the necessity of annual rate cases. I also recommend that the

602 Commission approve the CET/DSM program going forward. The program has exceeded
603 expectations and is essential to continued improvement in energy efficiency.

604

605 **Q. Does this conclude your testimony?**

606 A. Yes.

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

I, Barrie L. McKay, being first duly sworn on oath, state that the answers in the foregoing written testimony are true and correct to the best of my knowledge, information and belief. Except as stated in the testimony, the exhibits attached to the testimony were prepared by me or under my direction and supervision, and they are true and correct to the best of my knowledge, information and belief. Any exhibits not prepared by me or under my direction and supervision are true and correct copies of the documents they purport to be.

Barrie L McKay

SUBSCRIBED AND SWORN TO this 3rd day of December, 2009.

Notary Public