

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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

Docket No. 13-057-05

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HEARING PROCEEDINGS, DAY 2  
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TAKEN AT: Public Service Commission
Hearing Room 403
160 East 300 South
Salt Lake City, Utah

DATE: Tuesday, January 14, 2014

TIME: 9:01 a.m.

REPORTED BY: Teena Green, RPR, CSR, CRR, CBC

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Hearing Proceedings, Day Two

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January 14, 2014

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PROCEEDINGS

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THE HEARING OFFICER: Good morning, ladies and gentlemen. We're here today to continue our hearing in Docket No. 13-057-05.

7

Let's be off the record a minute.

8

(Discussion held off the record.)

9

THE HEARING OFFICER: On the record. A brief technical adjustment there.

10

11

As I mentioned, this is a continuation of our hearing in Docket No. 13-057-05, commonly known as general rate case of Questar Gas Company. The issue for today is cost of capital.

12

13

14

Are there any preliminary matters before we proceed?

15

16

Thank you. Counsel?

17

MS. BELL: Good morning. Should we take appearances very quickly or--

18

19

THE HEARING OFFICER: I thought we had--you have a new--I see that now, Ms. Bell. Thank you very much. I missed Mr. Monson sitting next to you there.

20

21

22

MS. BELL: On behalf of Questar Gas Company, in addition to myself, Colleen Larkin Bell, and Jenniffer Nelson Clark, we also have Gregory B. Monson.

23

24

25

THE HEARING OFFICER: Welcome, Mr. Monson.

1 Are there any additional appearances today?

2 MR. JETTER: For the Division of Public Utilities,
3 I'd like to also make an appearance for Patricia Schmid. She
4 may or may not join us at the table today, but I'd like to put that
5 on the record.

6 THE HEARING OFFICER: Thank you very much.
7 Anything further?

8 Thank you, Ms. Bell.

9 MS. BELL: We'd like to call Mr. David Curtis.

10 THE HEARING OFFICER: Before you take your
11 seat, Mr. Curtis, please raise your right hand.

12 DAVID M. CURTIS, called as a witness for and on
13 behalf of the Company, being first duly sworn, was examined
14 and testified as follows:

15 THE HEARING OFFICER: Thank you very much.
16 Please be seated.

17 THE WITNESS: Thank you.

18 DIRECT EXAMINATION

19 BY-MS.BELL:

20 Q. Good morning, Mr. Curtis.

21 A. Good morning.

22 Q. Would you please state your full name for the
23 record.

24 A. My name is David M. Curtis.

25 Q. And by whom are you employed?

1 A. I am employed by Questar Corporation as their vice
2 president and controller. I also serve as the vice president and
3 controller for Questar Gas.

4 Q. Did you file direct testimony in this proceeding,
5 consisting of 20 pages and premarked as QGC Exhibit 2.0, with
6 attached Exhibits 2.1 through 2.11, on July 1, 2013?

7 A. Yes.

8 Q. Did you also file rebuttal testimony in this
9 proceeding, consisting of 15 pages and premarked as QGC
10 Exhibit 2.0 R, with attached Exhibits 2.1 R through 2.4 R, on
11 December 5, 2013?

12 A. Yes.

13 Q. Were these exhibits prepared by you or under your
14 supervision?

15 A. Yes.

16 Q. Are you prepared today to give a summary of your
17 testimony?

18 A. Yes, I am.

19 Q. Would you please proceed.

20 A. Okay. Thank you.

21 I filed direct and rebuttal testimony in this general
22 rate case requesting a continuation of the current 10.35 allowed
23 return on equity and a 7.90 overall return on capital.

24 This rate of return testimony is based on financial
25 models of investor expectations, returns authorized in other

1 jurisdictions, and risk analysis.

2 I believe that an allowed return equity of 10.35 is
3 necessary to track capital and maintain the financial strength to
4 continue a significant infrastructure investment program.

5 I have not proposed an inflated rate of return with
6 expectations that the filed return would be pared back in the
7 rate case; rather, I believe that an authorized return on equity in
8 this range is expected by investors.

9 I viewed several approaches to show that an
10 authorized return equity of 10.35 is reasonable and should be
11 approved by the Public Service Commission.

12 These approaches include the discounted cash flow
13 model, the capital asset pricing model, and analysis of actual
14 returns earned by other natural gas distribution companies and
15 analysis of returns authorized by various Public Service
16 Commissions for other natural gas distribution companies. The
17 results of my analysis are shown on page 3 of my rebuttal
18 testimony.

19 The discounted cash flow model and the capital
20 asset pricing model require the use of a proxy group of
21 publicly-traded natural gas distribution companies--slow down--
22 to measure investor expectations, since the stock of Questar
23 Gas is not publicly traded.

24 I selected a group of natural gas distribution
25 companies that I believe are similar to Questar Gas and meet

1 my criteria for inclusion in the proxy group. The witnesses for
2 the Division of Public Utilities and the Office of Consumer
3 Services have used similar proxy groups.

4 The discounted cash flow model is used to estimate
5 the discount rate used in the calculation where the
6 present-value investors expected future cash flows equals the
7 current stock price.

8 If one assumes that cash flows grow at a constant
9 rate, then this discount rate is equal to the dividend field, plus
10 the growth rate. While this equation is simple, the actual growth
11 assumptions used by investors are not knowable.

12 I prepared two versions of the discounted cash flow
13 model. The first version is the traditional model using analyst
14 growth estimates and dividend yields. This model produced
15 results that I believe are not fully reflective of investor
16 expectations.

17 Earnings growth estimates, as reported by the few
18 sell-side analysts that actively followed the stocks in the proxy
19 group, are relatively static and are generally lower than either
20 actual historical earnings growth rates or future growth rates, as
21 reported by these companies in Questar Gas.

22 It is important to note that these sell-side analysts
23 who publish growth expectations are not investors, they do not
24 make the buy/sell decisions that set the market price for the
25 stock.

1 While some retail investors consider these
2 projections in making investment decisions, most institutional
3 investors have their own buy-side analysts who make
4 projections of earnings growth.

5 All natural gas distribution companies that I am
6 aware of are engaged in significant infrastructure replacement
7 programs to replace aging facilities and comply with increasing
8 and costly pipeline safety regulations. This investment, as well
9 as customer growth from an improving economy, will likely result
10 in earnings growth above the level reported by these few
11 sell-side analysts.

12 I prepared the second version of the discounted
13 cash flow model because of my concern over the artificially low
14 level of earnings growth rates as reported. I used an average of
15 the five-year historical earnings growth rate, the ten-year
16 historical earnings growth rate, and an industry growth rate as
17 reported to investors by the proxy companies that provide an
18 estimate, plus Questar Gas.

19 The results of this discounted cash flow model are
20 significantly higher than the first model. I give some weight to
21 both of these models, since my recommended allowed return
22 equity at 10.35 is in between the results of these models.

23 The capital asset pricing model is a risk premium
24 model that uses investor expectations about risk and return.
25 Investors require higher returns for riskier investments.

1 Investments in common stock are riskier
2 investments than long-term government bonds. Investments in
3 smaller stocks are riskier than investments in larger stocks.
4 This model uses an historical relationship between returns from
5 the different asset classes.

6 I prepared a capital asset pricing model for the
7 proxy companies using the yield on the 30-year Treasury bond,
8 the long-term market risk premium from the Ibbotson Valuation
9 Yearbook, beta measurements as reported by Value Line and
10 size premium from the Ibbotson Valuation Yearbook. This
11 model shows a mean expected return about the same as my
12 recommended authorized return.

13 I prepared a risk analysis of the proxy group
14 compared to Questar Gas. The risks were as follows:

15 Number 1, Questar Gas bond ratings are currently
16 A3 for Moody's and A for Standard & Poor's. These ratings are
17 consistent with the average bond ratings for the proxy group.

18 Number 2, Questar Gas's interest coverage is lower
19 than the proxy group, indicating higher financial risk.

20 Number 3, Questar Gas's actual financial return on
21 equity is lower than the proxy group, indicating higher financial
22 risk.

23 Number 4, Questar Gas's capital expenditures as a
24 percent of net plant are slightly higher than the proxy group,
25 indicating slightly higher risk because of the need for additional

1 capital.

2 Number 5, Questar Gas is smaller than the proxy
3 group, based on the number of customers, which increases risk
4 due to lower economies of scale, less diversification, and more
5 difficult access to capital. For these reasons, I believe Questar
6 Gas has a slightly higher risk than the proxy companies.

7 I prepared analysis of the impact of lower terms
8 and equity as proposed by the Division of Public Utilities and
9 the Office of Consumer Services. Questar Gas's bond ratings
10 are at risk even if it is allowed to continue base rates on a 10.35
11 percent return in equity because of the high-level investment
12 required in the next few years.

13 These bond ratings would be under serious risk of
14 downgrade if the allowed returns of equity proposed by the
15 Division of Public Utilities or the Office of Consumer Services
16 are approved in this case because credit metrics deteriorate.

17 I compiled actual financial returns and equity for
18 the proxy companies for the years 2002 through 2012. My
19 recommended rate of return equity is within the range of these
20 historical returns and is significantly lower than the mean.

21 I summarized recently authorized returns and equity
22 for natural gas distribution companies through the first half of
23 2013. Mr. Wheelwright provided updated information from SNL
24 on recently authorized returns through the end of 2013. Four
25 out of ten results for the last half of 2013 were 10 percent or

1 higher. The mean approved return was 10.5 for the first half of
2 2013 and--excuse me--I think I said that wrong, the mean
3 approved return was 9.50 for the first half of 2013 and 9.71 for
4 the last half of '13.

5 My recommendation of a 10.35 authorized return
6 would not be out of line within the range of the 2013 returns.

7 The witness for the Office of Consumer Services
8 recommends that Questar Gas's authorized return equity be
9 adjusted downward because of various rate stabilization and
10 revenue recovery mechanisms. This recommendation does not
11 make sense, because companies in the proxy group used to
12 analyze the authorized return have similar mechanisms.

13 The table on page 9 of my rebuttal testimony shows
14 that all of the proxy companies have a form of rate stabilization,
15 and six out of the eight proxy companies have infrastructure
16 tracking mechanisms.

17 In conclusion, I believe that overall analysis and
18 evidence supports a continuation of a 10.35 authorized return
19 on equity. Questar Gas is committed to make capital
20 expenditures necessary to support accelerating customer growth
21 and to upgrade infrastructure. To do this, Questar Gas needs
22 access to debt and equity capital. An authorized return of 10.35
23 is just and reasonable, will enable Questar Gas to obtain this
24 capital, and will help prevent further declines in credit matrix.

25 Thank you.

1 Q. Thank you, Mr. Curtis. Does that conclude your
2 summary?

3 A. Yes, it does.

4 MS. BELL: I move for the admission of Mr. Curtis's
5 testimony and exhibits.

6 THE HEARING OFFICER: Any objection? They're
7 received.

8 (QGC Exhibit 2.0 R, with attached Exhibits 2.1 R through 2.4 R
9 were received into evidence.)

10 MS. BELL: Mr. Curtis is now available for
11 questioning.

12 THE HEARING OFFICER: Thank you.

13 Mr. Jetter?

14 MR. JETTER: Yes. I do have a few questions.

15 Thank you.

16 CROSS EXAMINATION

17 BY-MR.JETTER:

18 Q. Mr. Curtis, my name is Justin Jetter. I represent
19 the Division of Public Utilities.

20 I think I'm going to just kind of walk through a few
21 questions I have in chronological order with your direct
22 testimony.

23 A. Okay.

24 Q. I think I'd like to start, if I can just direct you to line
25 112 and 113. This is in the part of your testimony where you're

1 determining the companies that use proxies.

2 A. Yes.

3 Q. You removed one company because it was in the
4 process of acquiring or being acquired; is that right?

5 A. Yes, I did.

6 Q. And that was not part of the categories that you
7 excluded in previous testimony; is that correct?

8 A. Right. Yeah. I've used that company in previous
9 testimony, correct.

10 Q. Okay. Just a quick question I had about that.

11 Moving forward, I'd like to ask a few questions
12 about the discounted cash flow model. You provided testimony
13 in the 2009 general rate case; is that correct?

14 A. Yes.

15 Q. And in the 2009 general rate case, you did a similar
16 calculation to what you calculated using the industry analysts'
17 numbers; is that correct?

18 A. Yes.

19 Q. And in the 2009 rate case, the industry analyst, you
20 relied on their numbers, as far as you didn't create your own
21 version of the discounted cash flow with five- and ten-year
22 historic averages?

23 A. No, I did not use that specifically.

24 Q. Okay. And in this case, you chose--I believe in the
25 previous case, you just chose two industry analysts. In this

1 case, you, I believe, have five; is that correct?

2 A. Yes. Identified some additional sources of
3 information.

4 Q. Okay. And these are common analysts used within
5 the industry; is that correct?

6 A. Yes.

7 Q. And people rely on these analysts?

8 A. I guess I don't know what you mean exactly by that.
9 I mean it's common knowledge, I think as I stated--

10 Q. You think they're reputable analysts?

11 A. Yes, they're certainly reputable.

12 Q. Okay. And you wouldn't have included them in your
13 testimony if you didn't think they were reputable?

14 A. No.

15 Q. Okay. And so you trusted their analysis in 2009,
16 you didn't make any adjustments for conservative estimates of
17 future earnings growth at that point, but...

18 So I guess my question here is, they were accurate
19 in 2009, but they're not accurate today. Is that essentially your
20 testimony?

21 A. No, that's not necessarily. You know, I think in the
22 previous case, you know, those returns were consistent with
23 some historical returns, those--as I recall, typically, those
24 expectations are growth or a little higher. And they have now
25 been pared back, so--

1 Q. Okay. And do you think that they've been pared
2 back based on these analysts' estimates of future market
3 conditions?

4 A. Yeah. I mean I don't know everything that goes
5 into their estimates. You know, they are what they are, but, you
6 know, certainly what stood out in this--at this point in time, is
7 we're seeing the natural gas distribution business going through
8 a period of high growth because of these infrastructure
9 replacement programs. And so we're seeing the--analysts are--
10 you know, the companies are talking about it.

11 For the first time, the companies are giving
12 long-term growth rates and growth expectations that they
13 weren't necessarily publishing before. And those expectations
14 are higher than what these analysts are saying. So that's why I
15 believe that we need to, in addition to just looking at the
16 sell-side analysts' estimates of earnings growth, also look at
17 other estimates, which I believe are used by the broader pool of
18 investors.

19 Q. Okay, but across the board, all five of these
20 analysts are doing the same thing and they're lowering the
21 return on--

22 A. It's not across the board, it's kind of on average.

23 Q. Okay. And in light of that, then you've created a
24 new version of the discounted cash flow model for this case?

25 A. Yes.

1 Q. And it's one that you haven't done before; is that
2 correct?

3 A. Correct.

4 Q. This is your first time?

5 A. Yes.

6 Q. Do you have your testimony in front of you?

7 A. I do.

8 Q. I'd like to turn to Exhibit--well, we can just go to 2.3
9 real quickly and then we'll go to the next page, which is page 2
10 of 2.3.

11 A. Okay.

12 Q. Page 1 of 2.3 is consistent with the same methods
13 that you've used in previous rate cases. And that indicates a
14 range of 7.96 to 9.5, with an average of 8.73; is that correct?

15 A. That's correct.

16 Q. Okay. And the new one that you've created for this
17 case is on page 2 of Exhibit 2.3. When we look down to--I
18 guess these are the footnotes, is what you might call them, line
19 1, 2, and 3 below line 12?

20 A. Right.

21 Q. You've compiled a growth-rate estimate based on
22 what companies are telling investors, is that correct--

23 A. That is correct.

24 Q. --what companies are estimating?

25 When a company is courting investors, is it fair to

1 say that they have a certain incentive to show a favorable
2 number?

3 A. No.

4 Q. No, you don't think they have an incentive?

5 A. Absolutely not. I think they have an incentive to
6 show an amount, something that is reasonable and that they can
7 actually meet.

8 Q. Okay. Is there any data, do you know, that's
9 published to access these numbers?

10 A. These numbers are all from internal reports from
11 the companies.

12 Q. Okay. They're from internal reports?

13 A. Published to investors, so these are all public.
14 Everything here is public, it's been in an 8-K to investors.

15 Q. Okay. And I see Questar's five-year growth rate on
16 here--

17 A. Questar Gas's.

18 Q. Questar Gas, excuse me.

19 Questar Gas's five-year growth rate is 7 to 9
20 percent; is that correct?

21 A. Yes.

22 Q. And that's the highest of the group; is that correct?

23 A. Yes.

24 Q. Okay. And effectively, as this flows through using
25 Questar's five-year inside projected growth rate, sort of a

1 self-fulfilling prophecy is that if you base a return that you're
2 going to get from the Commission on your own internal estimate
3 of what you think your growth will be, isn't that, in effect,
4 allowing you to--

5 A. I wouldn't say that's the main driver. The main
6 driver for this growth rate is the investment that Questar expects
7 to make over the next five years.

8 Q. Okay, but that's an internal number--

9 A. Yes.

10 Q. --you come up with?

11 A. Yes.

12 Q. And you've added it into your--

13 A. I've averaged that in, averaged with everything
14 else.

15 Q. Okay. And you said you've averaged it, except I
16 see here that you take the midpoint rather than the average?

17 A. I take the average of the high and low, and then I
18 average the high and low together. So you can see, you know,
19 I've taken the low estimate and the high estimate, taken that
20 version, and then I've averaged those two numbers.

21 Q. Okay. So that midpoint, actually, is just an
22 average?

23 A. Yes.

24 Q. Okay. Do you anticipate using this model--do you
25 think this model is better than the analysts' growth expectation?

1 A. I think it needs to be used in addition to the
2 analysts' growth expectation.

3 Q. Okay. So it may be somewhere between the two
4 might be an accurate number?

5 A. And my number is in between the two.

6 Q. If we were looking at these two and you had to
7 choose a number within the range in which they overlapped, is it
8 correct that that would be somewhere between 6.19 and 9.5?

9 A. I'm not sure I understand the question, where they
10 overlap. I'm sorry.

11 Q. The maximum value from the discounted cash flow
12 in the traditional model using the analysts' growth estimates is
13 9.5?

14 A. Correct.

15 Q. And the minimum using your model is 6.19. And so
16 the range of overlap between those, where you could pick a
17 number that would fall within the maximum of the traditional
18 model and the minimum, would be somewhere between 6.19 and
19 9.5; is that correct?

20 A. I wouldn't calculate it that way. I've looked at the--
21 you know, I think I've used both of these models in addition to
22 everything else that we've used to help set that rate. So it's
23 not--you know, a range, you know, of that wide clearly shows
24 the weakness of the model, anyway.

25 You know, I don't believe there's investors out

1 there that only require a 6 percent return on one utility and
2 would require, you know, something twice that in another utility.
3 You know, the range of outcomes here shows that--you know,
4 somewhat underlines the weakness of the model, anyway, that
5 you're trying to estimate something that's really not knowable.

6 Q. Okay. It would just be fair to say that 10.35 is not
7 within the range of the traditional model, as you've calculated it;
8 is that correct?

9 A. 10.35 is not in the traditional model,
10 no--

11 Q. Okay. Thank you.

12 A. --if that's the question.

13 Q. I just have one more question about your model
14 here.

15 You have eight companies in the top chart--

16 A. Yes.

17 Q. --I see. Below, where you're looking at the industry
18 growth rate, as reported by investors to individual companies,
19 there are six.

20 Why are some--

21 A. Three of those companies did not publish any
22 future five-year growth expectation to investors. That's not a
23 required disclosure. That's a voluntary disclosure and three of
24 them chose not to.

25 Q. Okay. And you also did not include Questar Gas in

1 the top portion. Is that because it's not publicly traded?

2 A. Correct.

3 Q. Okay. I'd like to move on a little bit now to the next
4 portion of your testimony, the capital asset pricing model. And
5 specifically, if I could direct you to your direct testimony,
6 beginning on line 212 to 215. This gives a description of a
7 graph that's included in your exhibit, which indicates--and this is
8 a quote from line 214, "The level of risk can be measured by the
9 variability of returns."

10 Is that a sound fundamental principle of returns?

11 A. Yes. You know, the theory is investors require
12 more risk--make return because of volatility.

13 Q. Okay. And the primary volatility that investors are
14 concerned about is the cash flow that they're going to receive
15 from the particular investment, along with the growth of that
16 investment's value?

17 A. Right. And the variability in that cash flow is--yeah.

18 Q. And so the standard deviation of that cash flow
19 would be one of, if not the most important factor?

20 A. Right.

21 Q. Okay. And now you've testified, I believe, that you
22 believe that Questar's risk, as investors see it, is greater than
23 the comparable companies that you compared it to?

24 A. I think we used the words "slightly higher."

25 Q. Slightly higher, okay.

1 Have you reviewed Douglas Wheelwright's
2 testimony, the DPU witness?

3 A. Yes.

4 Q. I don't know if you have it with you.

5 A. I do.

6 Q. I'm specifically looking at--

7 A. Is this direct or surrebuttal?

8 Q. It's the last exhibit in the direct testimony and I
9 believe it's also the last in the surrebuttal testimony. Okay.

10 A. It says Exhibit 111, is that--

11 Q. Yes, it's 1.11. Oh, okay. I am going to have to
12 direct you, it is slightly different in the surrebuttal.

13 A. So go to the surrebuttal?

14 Q. Yes.

15 A. And that is Exhibit 1.6 SR.

16 Q. Okay. If you look at the column on the furthest
17 right of the page, which indicates a nine-year standard
18 deviation, could you go down and tell me what Questar Gas's
19 nine-year standard deviation is.

20 A. This shows .48.

21 Q. Okay. And as a general comparison, would you say
22 that that's higher or lower than the typical standard deviation
23 you see above for the proxy group?

24 A. That's lower.

25 Q. And is it correct that there's only one in that proxy

1 group with a lower nine-year standard deviation?

2 A. Yes. I haven't recalculated this, but that appears
3 to be so.

4 Q. Okay. And that's Atmos Energy--

5 A. Yes.

6 Q. --correct?

7 And if you look on the row of Atmos Energy,
8 directly to the left of the standard deviation, could you tell me
9 the three-year average and five-year average return on common
10 equity for Atmos Energy?

11 A. The three-year average is 9.28 and the five-year
12 average is 9.12. I'm assuming this is the financial return on
13 equity, not a regulatory return on equity; is that correct?

14 Q. Yes, that's correct.

15 A. Yeah. I think Atmos is a little bit of a special case,
16 because they have grown significantly over this period of time
17 by acquisition. And so typically, they have certain costs, the
18 costs above the historical costs are not allowed in returns. So
19 they are known throughout the industry to have very low actual
20 allowed returns.

21 Q. Okay. And they also have a very low, by industry
22 comparison, standard deviation--

23 A. Yes.

24 Q. --of their returns?

25 And would you say that fits with what you testified

1 earlier, as far as the lowest standard deviation correlates
2 directly to a low average return?

3 A. You know, I don't know that a standard deviation of
4 this return over nine years, you know, would be total. I mean,
5 certainly, it would be part of the evidence that would suggest
6 that, you know, that--you know, the proxy group was selected, it
7 was a group of, you know, distribution companies, just like
8 Questar Gas.

9 Q. Okay. And in your model, your discounted cash
10 flow model, you're using a five-year and a ten-year historical
11 average?

12 A. Right.

13 Q. Okay. And a nine-year historical average is in that
14 range?

15 A. Yes.

16 Q. Okay. And just to clarify, Questar Gas would then
17 be the second lowest standard deviation within--

18 A. Using that measure, yes.

19 Q. Okay. And just to make sure I'm finishing, I guess,
20 this area, my cross-examination, that lower standard deviation
21 would, in effect, indicate a lower risk for Questar Gas, all else
22 equal?

23 A. Yes, that would be a measure that would show
24 there might be.

25 Q. Thank you.

1 I'd like to move on to your recommendation portion,
2 which is found at line 445 of your direct testimony. And it's
3 similar, I believe, to your rebuttal testimony, approximately line
4 54.

5 In either case, I've gone through the numbers a few
6 times and I am having trouble calculating 10.35.

7 Would you explain how this set of numbers resulted
8 at 10.35? Is that a number you've chosen just on your
9 experience or is that something that you calculated with
10 weighting?

11 A. The 10.35 is what we are currently allowed to earn
12 in Utah. And my belief is that we should be able to continue to
13 be allowed to earn that 10.35. There's not a mathematical--it's
14 not any sort of average of these numbers. There's certainly a
15 range, it's within the range of these numbers. And so, you
16 know, as we put this case together, you know, what we're asking
17 for is we're not asking for something much greater than we're
18 allowed today. We're asking to be allowed to continue to earn
19 the 10.35.

20 Q. Okay. Thank you for that clarification.

21 You discussed earlier a little bit of a difference
22 between a financial return on equity and a
23 Commission-approved return on the rate base?

24 A. Yes.

25 Q. Do you generally believe that one is a good proxy

1 for the other?

2 A. They certainly relate fairly closely to each other.
3 There are certain ailments that don't--you know, are different.

4 Q. Okay. You mentioned also in your testimony, but
5 also in your opening statement here today, that a lower rate of
6 return number would put your bond rate at risk.

7 Are you aware of any of the bond rating agencies
8 currently looking at Questar Gas and indicating that they intend
9 or are proposing to change the bond rating?

10 A. Yes. Back in September, Moody's wrote a general
11 report basically stating that they are reconsidering the credit
12 metrics of the utility industry. And in November, they issued a
13 report stating, you know, kind of a follow-up to that report,
14 listing specifically, you know, all--basically, was almost all--run
15 utilities in the United States, with the exception of those that
16 had special issues that they're reviewing for a possible upgrade.

17 Q. Okay. So you may be in line for an upgrade, not a
18 downgrade; is that right?

19 A. Yes. It's important to note that we already have a
20 split rating. Moody's already rates us at a three, which is one
21 step lower than the Standard & Poor's rates us at A, but, you
22 know, it's important to note also that Moody's is looking at our
23 current allowed return of 10.35, not some--a number
24 dramatically lower than that that would certainly affect those
25 current metrics.

1 Q. Okay. And at 10.35, they're looking at it as a
2 potential upgrade; is that fair?

3 A. A potential upgrade? Along with all the other
4 utilities. It's not specific to Questar Gas, it's basically they're
5 looking broadly across the whole universe and they've come to
6 the conclusion that they need to shift their risk model slightly.

7 Q. Are you aware of any indication that the rate of
8 return in Wyoming, considerably lower, has affected the credit
9 ratings that--

10 A. Wyoming is only a couple of percent of Questar
11 Gas's operation, so mathematically, it just doesn't come in.

12 Q. Okay. I just have a few other questions.

13 In your opening statement, you noted that in 2013,
14 four out of ten of the approved rate cases nationally were over
15 ten percent, and that would mean that six out of ten were under
16 ten percent?

17 A. Yes.

18 Q. And I believe that you stated that the average of
19 the first half of the year was 9.5 and the average in the second
20 half of the year was 9.7?

21 A. Yes.

22 Q. And these are other companies that are in that
23 same review for their bond rating that may be upgraded?

24 A. I did not compare that list, you know, not all of
25 them--you know, it depends on where the debt is held. I would

1 assume some of them are, but I have not compared those lists.

2 Q. Would it be fair to say that you would assume that
3 Moody's, for example, would be aware of the downward trend in
4 ROE when reviewing all utility companies for future bond
5 ratings?

6 A. You know, that downward trend, I think, is maybe a
7 little question. You know, it seems to me like, given the interest
8 rate environment, that trend has probably turned. And certainly,
9 you know, what we've seen in the last half of '13 is different
10 than what we saw in the first half. There's a lag in the time of
11 the prosecution of the case and interest rates have changed. I
12 would expect that that direction would have changed.

13 Q. Okay. If Moody's were seeing averages in the 9
14 and a half to 9.7 range, would it be fair to assume that they
15 would project Questar Gas's rate case outcome to be in that
16 range, if they were looking at what they think an average
17 outcome would be during the 2013 year?

18 A. I don't know. I don't know what they did on that.

19 Q. Okay. Final question I have for you, is Questar
20 Gas's operations and revenue streams riskier or would you say
21 less risky than Rocky Mountain Power?

22 A. You know, I don't know if I have a great answer for
23 that. I certainly believe that, you know, our need for capital is
24 large going forward and we need access to capital markets. I
25 know Rocky Mountain also, you know, has that--their need for

1 capital tends to be a little lumpier, as they invest in fairly large
2 facilities. Our need is maybe a little more static. So, you know,
3 I don't know.

4 Q. Okay.

5 MR. JETTER: I believe that's all of the
6 cross-examination questions. Thank you.

7 THE WITNESS: Thank you.

8 THE HEARING OFFICER: Mr. Coleman?

9 MR. COLEMAN: I do have a few questions. Thank
10 you.

11 CROSS EXAMINATION

12 BY-MR.COLEMAN:

13 Q. Mr. Curtis, my name is Brent Coleman. I am the
14 new counsel for the Office of Consumer Services. I believe
15 today is the first day we've had an opportunity to meet.

16 A. Yes, nice to meet you.

17 Q. I have a couple of questions that are going to move
18 back and forth between some of the testimony, written
19 testimony, and some of the charts that Mr. Jetter has had you
20 look at. So I apologize in advance for some of the--

21 A. That's fine.

22 Q. --flipping back and forth.

23 First, I'd like to move to your direct testimony,
24 starting on page 8, line 198.

25 This is a summary of your overall discounted cash

1 flow model results; correct?

2 A. Yes. Just verbalizing those, yes.

3 Q. Thank you. So in your verbalization of your results,
4 on line 201, it states that--well, starting on 200, the model using
5 reported investment analyst growth rates shows, on average, a
6 dividend yield of 4 percent. We'll stop there for just a minute.
7 Correct? Did I read that correctly?

8 A. Yes.

9 Q. Will you turn with me, please--and, again, I
10 apologize for some of the flipping back and forth, to QGC
11 Exhibit 2.3, page 1, column G, line 9. That's the adjusted yield
12 that you're referring to; correct?

13 A. Right.

14 Q. And that number in your work papers is 3.74
15 percent?

16 A. Right.

17 Q. So in your presentation, in your summary, you
18 rounded that up 26 basis points?

19 A. Yeah. This is more of a concept, you know, trying
20 to show the order of magnitude. Obviously, the numbers are in
21 the table and, you know, I haven't tried to, you know, manipulate
22 anything. It was just more of a verbalization of what these
23 results overall were saying.

24 Q. Okay. And so you did the similar kind of
25 presentation verbalization with respect to the earnings growth,

1 as you stated on line 201, the earnings growth rate of 5 percent.
2 And it's a slight rounding up from your page 1 of Exhibit 2.3,
3 column M, line 9, of 4.99, just a slight--

4 A. Yeah. Just general--

5 Q. Then moving further through the sentence, "To
6 arrive at an overall average required return on equity of about 9
7 percent"; correct?

8 A. Correct.

9 Q. Line 202.

10 Moving back to the exhibit, the average that work
11 paper calculates is 8.73 percent?

12 A. Right.

13 Q. So you rounded again 27 basis points?

14 A. Right.

15 Q. What's the different between your recommended
16 position and the Office's recommended position?

17 A. It's 95 basis points, I believe.

18 Q. So you rounded more than the--

19 A. No.

20 Q. --105 basis points?

21 A. Let's see. Your--

22 Q. 9.3 to--

23 A. Yeah, 105. Yes. Yeah, sorry.

24 Q. Roughly, a fourth of the difference between your
25 recommendation and the Office's recommendation is lost in

1 rounding in your presentation?

2 A. No. I mean my presentation is--you know, there's--I
3 think one of the things that we need to avoid--I mean there's a
4 level of variability here, you know, in these numbers. And here
5 again, I was just trying to state overall the directional--you
6 know, what one model showed versus the other, you know,
7 clearly, in my table and in the testimony, that all the numbers
8 are shown.

9 Q. Okay. So in your presentation, you used two
10 significant figures to present the Company's position of 10.35,
11 you didn't round that down to 10?

12 A. No.

13 Q. So then staying on Exhibit 2.3, page 1, the range
14 that is generated by this model, using the analysts' growth
15 estimates, the minimum is 7.96 and the maximum is 9.50;
16 correct?

17 A. Correct.

18 Q. And in your rebuttal update, if I can ask you to find
19 another finger or two to turn to that--

20 A. Sure.

21 Q. --so that would be QGC Exhibit 2.1 R, page 1. The
22 average falls a bit to 8.57; correct?

23 A. Correct.

24 Q. And the range expands a touch--the minimum
25 becomes 6.36 and the maximum becomes 9.76.

1 A. Correct.

2 Q. And by definition, that range is reasonable, all the
3 numbers within that range are reasonable?

4 A. Using that model alone, yes.

5 Q. Okay. That's a relatively precise range. I mean
6 your initial presentation is--I'm really bad at math, 7.96 percent
7 and 9.50 percent, that's a relatively precise range, it's pretty
8 tight?

9 A. Yes.

10 Q. It expands a little bit, but substantially different--or
11 a substantially more precise range than your historic growth rate
12 DCF--

13 A. Yes.

14 Q. --that we talked about just a moment ago?

15 You testified previously that the scope of the range
16 is indicative of the weakness of the model. You said that the
17 range shows the weakness of the model?

18 A. Yes.

19 Q. So would you believe that a tighter range is
20 demonstrative of a stronger model? If the range shows the
21 weakness of the model and the one range is smaller than
22 another, the smaller range is the stronger model?

23 A. Not necessarily, not if there's a systemic weakness
24 in the model.

25 Q. Okay. So let's move a little bit further down and

1 we'll go back. Again, I apologize for the back and forth. Line
2 203--

3 A. This is in the direct?

4 Q. In your direct.

5 A. Okay.

6 Q. And this is the summary of the model using the
7 historic earnings growth rates?

8 A. Right.

9 Q. Your presentation summary is 4 percent; earnings
10 growth rates are, on average, a dividend yield of 4 percent. And
11 then moving to QGC Exhibit 2.3, page 2, your work papers have
12 that as 3.81 percent--

13 A. That's correct.

14 Q. --rounded--

15 A. That's correct, yes.

16 Q. So you move through the same type of rounding
17 throughout. And the summary that you have on 204 to arrive at
18 an overall average required return on equity of about 11
19 percent?

20 A. Correct.

21 Q. In your work papers, Exhibit 2.3, page 2, column L,
22 line 9, had that at 10.75 percent?

23 A. Correct.

24 Q. So another 25 basis points for--

25 A. Just for discussion purposes, yes.

1 Q. Okay. As we just discussed, the range here is 6.19
2 to 12.59.

3 A. Yes.

4 Q. And by definition, all numbers within that range
5 would be reasonable?

6 A. Not necessarily. You know, I think there's certainly
7 numbers in this range that are below the reasonable level and
8 certainly above the reasonable level. So--

9 Q. But you averaged those to come up with a 10.75.
10 Do you believe the 10.75 is a reasonable number?

11 A. You know, as I requested, you know, in the 10.35, I
12 think it's on the higher end of the reasonable numbers. We
13 have seen results from the Commission in that range.

14 Q. So on the high end, it is reasonable?

15 A. It would be on the high end.

16 Q. It's reasonable?

17 A. Yes.

18 Q. Can you put nonreasonable numbers in a formula to
19 come up with a reasonable result? Can you use nonreasonable
20 numbers in a range and average those and have a reasonable
21 number?

22 A. Here again, and this comes back to my summary
23 here, you know, in part, you're looking at this overall what
24 investors are expecting out of the natural gas distribution
25 business. And so, you know, I think it's yes, I think it's okay to

1 use averages to look at these on average, you know, across the
2 board.

3 Q. I'm having a hard time understanding how you can
4 get a reasonable result from a formula that includes
5 unreasonable variables. Doesn't, by definition, the variable in
6 the formula have to be reasonable to come to a reasonable--

7 A. I think if you start going there, then, you know, you
8 start looking at the range of analysts' growth estimates. You
9 know, I think both of these models are--you know, you could
10 say, yeah, there's some risk in these models because of the
11 variability of the numbers that you could throw out as not
12 reasonable.

13 Q. Okay. You testified that you believe that there's a
14 bias from investment--an analyst to underrepresent the growth
15 projections. Do you have any empirical support or published
16 support for that assertion?

17 A. No, not directly. I think we've looked back in the
18 past, you know. If I look back, you know, what the analysts
19 were expecting back in 2009 for a five-year growth and what
20 they actually did, they tend to be low.

21 Q. That's a personal judgment?

22 A. Yes. That would not be an exhaustive scientific
23 study, no.

24 Q. Let's talk a little bit more about QGC Exhibit 2.3,
25 page 202. Mr. Jetter talked with you a bit about the information

1 that is in footnote 3.

2 A. Correct.

3 Q. To employ a discounted cash flow model, you need
4 to use estimates that are based upon market data; correct?

5 A. What you're trying to do is you're trying to discover
6 what investors' expectations are.

7 Q. And you're using data available to the market?

8 A. Yes.

9 Q. So the first line on your footnote 3 is Questar Gas's
10 five-year growth rate, and you have a low of 7 percent and a
11 high of 9 percent. Where is that number available to the
12 market?

13 A. It's available in 8-Ks of earnings of investor
14 presentations.

15 MR. COLEMAN: May I approach the witness?

16 THE HEARING OFFICER: Yes.

17 BY MR. COLEMAN:

18 Q. Mr. Curtis, I've handed to you a packet of pages.
19 They are slides available from the Questar Corporation website
20 as a PowerPoint presentation that accompanies Questar
21 Corporation's third quarter 2013 earnings release, released on
22 October 31, 2013.

23 Do you see that on the front page?

24 A. Yes.

25 Q. Have you seen this?

1 A. Sure. Yes.

2 Q. You have?

3 If you would, can you turn to slide 18? The slide is
4 entitled "What Makes Questar Unique."

5 A. Yes.

6 Q. Just over halfway down, there's a--it's on the
7 left-hand side, there are kind of blocks that sort of separate
8 horizontally the information that's presented. The third block
9 down is entitled "Solid Growth"; correct?

10 A. Yes.

11 Q. And the first bullet that appears to be associated
12 with that block reads, "Strong 7 to 9 percent rate base growth at
13 Questar Gas."

14 A. Correct.

15 Q. Is that the source of your number here in footnote 3
16 on this exhibit?

17 A. We've also stated that as earnings growth in other
18 presentations.

19 Q. The rate base growth is the same as earnings
20 growth?

21 A. We've stated it both ways, yes.

22 Q. Are they synonymous?

23 A. Generally, yes.

24 Q. If you'd turn back two slides to slide 16 for me,
25 please, this slide is entitled "Q3 2013 Adjusted Return on

1 Equity."

2 A. Correct.

3 Q. This slide indicates that, reported to the public,
4 Questar Gas's adjusted return on equity as of the third quarter
5 of 2013 is 11 percent.

6 A. Correct.

7 Q. And that was reported before any requested
8 changes in this particular application in this case; correct?

9 A. Sorry. I didn't--we filed this case well before the
10 third quarter.

11 Q. This number that's presented does not incorporate
12 any of the requested changes in the current application?

13 A. No. It does not, no.

14 I would point out that the actual financial return on
15 equity has a very distinct seasonal pattern, because you have
16 losses during your second and third quarters, so your equity is
17 at a low point at the end of the third quarter. And so you
18 calculate this using the end of third quarter data. This number
19 tends to be higher than you would see on end of the year.

20 Q. Going back to your Exhibit 2.3, you have a Questar
21 five-year growth rate with earnings or rate base--

22 A. It's earnings.

23 Q. Earnings.

24 For AGL resources, you have a target five-year net
25 income compound annual growth rate; correct?

1

A. Yes.

2

Q. So that's a net income--

3

A. Yes.

4

Q. --report?

5

A. Yes.

6

Q. For Atmos Energy, you have a compound annual

7

growth rate in earnings per share through 2016?

8

A. Correct.

9

Q. So the timeframes don't necessarily coincide?

10

A. No. I've used what they reported.

11

Q. Is earnings per share the same as net income?

12

A. It certainly correlates strongly. You know, the only

13

change would be a difference in outstanding shares.

14

Q. So they're not exactly the same?

15

A. Not exactly, but similar.

16

Q. For New Jersey Resources, you have long-term net

17

financial earnings growth--

18

A. Right.

19

Q. --with the timeframe of the long-term--

20

A. I'm assuming it's a five-year timeframe, I don't

21

know for sure. This is what they reported.

22

Q. You're not sure about the time synchronicity?

23

A. Other than it says long-term. Generally, I think

24

investors would assume that's in the five-year range.

25

Q. Okay. For South Jersey Industries, it reports

1 average annual earnings per share growth. Is that a forecasted
2 or historical number?

3 A. Forecasted.

4 Q. Forecasted.

5 Averaged over how long, do you know?

6 A. I don't know.

7 Q. And then for WGL Holdings, you have earnings per
8 share growth target through 2016?

9 A. Yes.

10 Q. So that most closely follows the Atmos Energy
11 report?

12 A. Correct.

13 Q. So it's possible that some of those informations
14 aren't necessarily apple-to-apple comparisons?

15 A. No, not necessarily, but keep in mind what you're
16 trying to do here. You're trying to understand what investors
17 believe about long-term growth. The way we've applied it in this
18 model, it's not just through 2016 or 2018, it's perpetual. It's,
19 you know, on into the future. So, you know, what we're trying to
20 find is the best evidence what investors have, what investors
21 understand about that perpetual growth rate.

22 Q. Those numbers don't necessarily represent the
23 same piece of data?

24 A. No. And none of them represent that perpetual
25 number.

1 Q. Okay. If I can move you back to your direct
2 testimony, line 99 through the first three-fourths of line 102, it's
3 all one long sentence, can you read that for me, please?

4 A. Okay, 99 through 104, is that--

5 Q. 102. Just the--it's one sentence that covers most
6 of line 102, so if you'd just start on line 99 and read to the first
7 period.

8 A. Okay. "In addition, even if Questar Gas's common
9 stock were publicly traded, it would be necessary to use a proxy
10 group to assure that the return on equity authorized for Questar
11 Gas is commensurate with returns on investments of similar
12 risks and to avoid any anomalies in the return expected by
13 investors in Questar Gas."

14 Q. So your testimony is that it's important to use the
15 proxy group in calculating these expected numbers?

16 A. Yes.

17 Q. And you used Questar Gas in this number?

18 A. Questar Gas is not in the proxy group, because
19 they are not publicly traded.

20 Q. The data for Questar Gas is in the raw data that
21 you used to calculate your industry earnings growth?

22 A. Yes. Here again, what we're trying to estimate is
23 what we believe how the industry is going to grow, you know,
24 over the long-term. And using Questar Gas as a point of
25 reference of how they expect to grow along with, you know,

1 some of these other companies, how they expect to grow, what
2 they have publicly stated to investors, I think is an important
3 data point.

4 Q. Doesn't it violate the independence of your
5 comparison when you use Questar Gas data to calculate a
6 number against what you're going to compare Questar Gas?

7 A. No. If Questar Gas were publicly traded, and you
8 see this all the time, typically the publicly traded company stock
9 is also included in the proxy group. So, no, I don't think it
10 violates anything.

11 Q. You think it's appropriate?

12 A. Here again, I've used it for a very limited purpose,
13 and that is to try to ascertain what investors understand about
14 long-term industry growth rate.

15 Q. So if you removed the Questar Gas data and had a
16 fully independent comparison, can you--I apologize to kind of
17 put you on the spot.

18 A. I didn't do that math. We certainly--

19 Q. Just starting on footnote 3, the low end of the
20 range, you would have 10, 20, 17--excuse me--27 divided by 5.

21 A. Yeah. So it's going to take--I mean if you take out
22 the 7 percent out of the average, so then you're averaging five
23 numbers instead of six, yeah, it's going to come down, you
24 know, a quarter percent or so, my guess without doing the math.

25 Q. Okay. I've done the math--

1 A. Okay.

2 Q. --and used your formulas. So for purposes of our
3 discussion, would you be willing to just take a look at the
4 spreadsheet that I've--

5 A. Sure.

6 MR. COLEMAN: May I approach?

7 THE HEARING OFFICER: Yes.

8 Mr. Coleman, do you have another copy or two of
9 that?

10 MR. COLEMAN: Certainly.

11 BY MR. COLEMAN:

12 Q. So for purposes of our discussion, I eliminated the
13 information from Questar Gas data.

14 A. Yeah.

15 Q. And the new range is--5.4 is the low, to 6.8. That's
16 not represented on your sheet.

17 A. Right.

18 Q. But the midpoint of that is 6.1.

19 A. Let's see. Yes. I got it.

20 Q. So if we replaced your industry earnings growth
21 estimate number with an independent number that doesn't
22 include Questar Gas data--you see I have a new column next to
23 column J of 6.1?

24 A. Right.

25 Q. And that's lower than your 6.42?

1 A. Correct.

2 Q. And that's going to decrease your adjusted yield
3 number; correct?

4 A. Yes. It will make a slight adjustment to that.

5 Q. And it will decrease your combined company growth
6 estimate number?

7 A. Correct.

8 Q. And then those two newly decreased numbers are
9 summed together to get your DCF investor expectation, column
10 L?

11 A. Yes. It drops by about 12 basis points.

12 Q. Now that you have an independent number against
13 which to compare Questar Gas that that number is 10.63, does
14 that change your opinion of the Company's request of 10.35?

15 A. No.

16 Q. If we go back to your direct testimony, on lines 204
17 and 205, starting on 204 and rolling over to 205, it reads, "I
18 believe these two models support a required return on equity of
19 10.35 percent."

20 And when you say "these two models," you're
21 referring to the two models of discounted cash flow that we've
22 been talking about; correct?

23 A. Correct.

24 Q. The simple average of the two results, your 8.73
25 and 10.75 is 9.74?

1 A. Yeah. Yes.

2 Q. There must be some sort of weighting--and you've
3 testified, with respect to a question from Mr. Jetter, that it was
4 not a mathematical selection but an identification of a number
5 within the range?

6 A. Correct.

7 Q. And the numbers proposed by the Office are also
8 within the range; correct?

9 A. Yes.

10 Q. So it would be reasonable to select any number
11 within that range?

12 A. Yes. I think it shows that the, you know, selection
13 of return equity is not a mathematical exercise. You have to
14 take into account a lot of information.

15 Q. The simple average of the two is about 61 basis
16 points lower than your recommendation?

17 A. Yes.

18 Q. Okay. And with respect to the idea that you were
19 just referencing of a comprehensive application of some of this
20 data in your rebuttal testimony--

21 A. Uh-huh.

22 Q. --line 61 and 62, it reads--are you there? I don't
23 want to be too fast.

24 A. Yeah, I'm there.

25 Q. It reads, "The results of these models," which are

1 the models that you employed; correct?

2 A. Yes.

3 Q. "The results of these models must be used with
4 other information, including actual earned returns and recent
5 authorized returns."

6 A. Correct.

7 Q. Did you have the opportunity to review the
8 surrebuttal testimony of Mr. Lawton?

9 A. Yes.

10 Q. And you've reviewed the references that he made in
11 his testimony to the recently ordered returns in Nevada,
12 Maryland, and Arkansas?

13 A. Yes.

14 Q. And those numbers were lower than the Company's
15 request in this case; correct?

16 A. Yes.

17 Q. And they were below ten?

18 A. Yes. He selected some that are below ten.

19 Q. Okay. And you saw his analysis about how those
20 numbers compare to the Office's recommendation of 9.3
21 percent?

22 A. Yes.

23 Q. Do those current, recently-ordered returns
24 employed with your models change your opinion?

25 A. No, because there are other returns that are

1 significantly higher than what he used there as well.

2 MR. COLEMAN: Can I have just a moment?

3 THE HEARING OFFICER: Yes. We'll be off the
4 record.

5 (Discussion held off the record.)

6 MR. COLEMAN: With that, I think I would--

7 THE HEARING OFFICER: Let's be on the record.

8 MR. COLEMAN: I have no further questions. We
9 pass the witness.

10 THE HEARING OFFICER: Thank you.

11 Lieutenant Colonel Fike?

12 MR. FIKE: Thank you, Commissioner.

13 CROSS EXAMINATION

14 BY-MR.FIKE:

15 Q. Good morning, Mr. Curtis.

16 A. Good morning.

17 Q. I believe the Division and the Office have already
18 asked a lot of the questions and concerns I had regarding your
19 DCF models, so I'm going to move into some different topics.

20 You stated on line 452 of your direct testimony--

21 A. Okay. Let me get there.

22 Q. I'll let you get there, I guess.

23 A. Yes.

24 Q. --that you believe the Commission should approve a
25 10.35 percent ROE because it was the same ROE the

1 Commission approved in the previous rate case?

2 A. Yes.

3 Q. And I believe you said that in your old testimony
4 this morning--

5 A. Yes.

6 Q. --as well as in response to the Division's questions
7 regarding that?

8 A. Correct.

9 Q. You provided expert testimony regarding the ROE
10 cost of long-term debt and capital structure in the last rate case
11 on 3 December 2009, did you not?

12 A. Yes.

13 Q. And you performed a CAPM analysis, a capital
14 asset analysis, in the last rate case. Your CAPM analysis
15 yielded a mean result of 8.5 percent ROE; isn't that correct?

16 A. Yes.

17 Q. However, you didn't give the CAPM model any
18 weight in the last rate case because you thought it was too low;
19 correct?

20 A. Yes. If you recall, back in 2009, the financial
21 markets were in complete disarray and the relation--the
22 historical relationships did not seem to be holding true.

23 Q. And you performed a CAPM model analysis in this
24 rate case as well; correct?

25 A. Yes.

1 Q. And in your CAPM analysis, it was a mean 10.3
2 percent ROE, as shown in your rebuttal testimony, QGC Exhibit
3 2.21 R?

4 A. Correct.

5 Q. This time you included the CAPM analysis in
6 arriving at your 10.35 ROE; is that true?

7 A. Correct.

8 Q. Because it supported your 10.35 percent
9 recommendation; correct?

10 A. Yes.

11 Q. And you provided expert testimony regarding cost
12 of long-term debt in the last rate case on 3 December 2009;
13 correct?

14 A. Correct.

15 Q. Back then, the financial conditions, as you just
16 mentioned, were drastically different than they are now?

17 A. Yes.

18 Q. Would it be fair to say there was great uncertainty?
19 Would that be fair to say, there was a great uncertainty back
20 then, in--

21 A. It was, yeah.

22 Q. And by your testimony, the U.S. was still in the
23 most significant recession since the Great Depression?

24 A. Yes.

25 Q. The bank lending policies were very tight--

1 A. Yes.

2 Q. --back then?

3 The US national unemployment rate was over 10
4 percent?

5 A. Right.

6 Q. You calculated the cost of long-term debt was 6.52
7 percent back in 2009 for the Company; correct?

8 A. Something to check, I don't have those numbers
9 with me.

10 Q. I have a copy of your testimony--

11 A. I trust your numbers, yes.

12 Q. You calculated that Questar's cost of long-term
13 debt now is expected to be 5.16 percent at the end of 2014.
14 That's on line 461 of your direct testimony?

15 A. Yes. A couple of things have happened, some
16 higher cost, long-term debt has matured and has been replaced
17 with lower-cost debt. That's probably the biggest change in
18 those numbers.

19 Q. So you would agree that Questar's cost of
20 long-term debt has been significantly reduced since the last rate
21 case?

22 A. That's the average cost. And here again, it's
23 because the higher-cost debt has matured and been replaced
24 with lower-cost debt. So, you know, what I don't have clearly in
25 mind is what the actual cost of debt at that time versus--you

1 know, what the incremental cost of debt would have been at that
2 time versus what it is today. I don't know that number, I don't
3 remember that number off the top of my head.

4 Q. Let me go back then and refresh your memory.

5 So you calculated that Questar's cost of long-term
6 debt back then was 6.25 percent?

7 A. Yes. That is an average of all outstanding
8 long-term debt issues.

9 Q. And that's what you used for your expert analysis
10 and opinion in the last case?

11 A. Yeah.

12 Q. In this case, your expert analysis opinion used the
13 cost of long-term debt of 5.16 percent?

14 A. Right. And that's not really based on projection.
15 That's based on what the actual outstanding issues are at this
16 time.

17 Q. Would you agree, then, that the cost of long-term
18 debt used in both your testimonies back then and today, the
19 cost long-term today is 17 percent lower than what it was in
20 2009 when you performed your testimony back--

21 A. I agree that there's a significant change in the cost
22 of long-term debt, but here I think the biggest factor is the
23 maturity of higher-cost debt that had been issued many years
24 ago that has now come to, it's been matured, and has been
25 replaced with something in the current market.

1 MR. FIKE: No more questions, Commissioner.

2 Thank you.

3 THE HEARING OFFICER: Thank you.

4 Redirect?

5 REDIRECT EXAMINATION

6 BY-MS.BELL:

7 Q. Mr. Curtis, you were asked questions about Questar
8 Gas's growth rate in one of your exhibits, I think it was Exhibit
9 2.3?

10 A. Yes.

11 Q. And I believe, in this case, there's been a great
12 deal of evidence about the importance of raising capital for
13 Questar Gas; is that true?

14 A. That is correct.

15 Q. And will that be at risk if Questar Gas's credit
16 rating is downgraded?

17 A. I think the cost of capital going forward certainly
18 would go up if Questar Gas's credit rating is downgraded.

19 Q. You were also asked questions about a report by
20 Moody's, I believe it was a 2013 report?

21 A. Yes. Yeah, it came out in November of '13.

22 Q. Would it be your opinion that if Questar Gas's rate
23 of return were reduced, that they would not be on a list for
24 reconsideration for an upgrade, necessarily?

25 A. I don't know for sure. I think it would--because the

1 credit metrics deteriorate, I think it would make it harder to get
2 an upgrade.

3 Q. I believe there were also questions regarding that
4 report that suggested that the utilities that were listed in that
5 report were being considered for an upgrade; is that true?

6 A. Yes.

7 Q. But it's not necessarily the case that they
8 automatically would get an upgrade if different factors that
9 Moody's examines were to change dramatically or significantly?

10 A. That's correct. All they were announcing is that
11 they were starting a review.

12 Q. I would like you to turn to Exhibit 2.3, column L.

13 A. 2.3 in the direct?

14 Q. Yes.

15 A. 2.3, page 1 of page 2.

16 Q. Page 1, please.

17 A. Okay. Column L?

18 Q. Actually, I'm sorry. Page 2, column L.

19 A. Okay.

20 Q. I believe you have testimony, in particular, with
21 regard to Northwest Natural Gas. And your testimony was that
22 that was somewhat anomalous. If you look across my four, you
23 will see that the DCF investor expectation for Northwest is 6.19.

24 Can you explain why you think that might be the
25 case?

1 A. Well, clearly, because in the--you know, if you look
2 back at the five-year numbers, you know, in this model,
3 Northwest Natural has actually shrunk over five years, and so
4 there's a negative number there.

5 Q. If we were to eliminate Northwest Natural as being
6 anomalous, would your numbers be closer to 11 percent?

7 A. Correct.

8 Q. Are analyst projected growth rates perpetual, Mr.
9 Curtis? Would you consider them perpetual or based on a
10 forecasted period?

11 A. I think the analysts try to look at--they're looking at
12 probably--long-term to them is probably the five-year range.

13 Q. Why didn't you weigh the DCF model results--you
14 had, I believe, two different model results. Why didn't you
15 weigh them the same? What were your reasons for weighing
16 them differently?

17 A. In my belief, the investor expectations of long-term
18 growth for the natural gas industry and really closer to the
19 second version of the model rather than the first, you know,
20 which used the analyst expectations, I think their expectations
21 are actually better, bigger.

22 MS. BELL: I think that concludes my redirect at
23 this time.

24 THE HEARING OFFICER: Thank you.

25 Any further questions from counsel? Any recross?

1 MR. JETTER: I just have one recross question.

2 RE CROSS EXAMINATION

3 BY-MR.JETTER:

4 Q. Are you aware, Mr. Curtis, any time that you've
5 been employed at Questar Gas, that you've put a bond issue up
6 and had a failure to sell? Have you ever actually failed to--

7 A. No. You know, we did have problems with access
8 to capital in 2008, as did many companies. It wasn't in the
9 long-term area, it was in the short-term area, that basically
10 credit markets shut down, but as far as--but we didn't try to
11 issue long-term bonds at that point in time. It's not a question,
12 necessarily, of whether you can sell a bond, it's what the price
13 is going to be. Even junk bonds often, in many markets, can
14 sell but at prices much greater.

15 Q. Okay. And so when you say that you wouldn't have
16 access to capital, you're really saying that your cost of capital
17 might be higher?

18 A. Certainly, yes.

19 Q. But currently, you're being reviewed for an upgrade
20 in your bond rating?

21 A. By Moody's. And there's a split rating, anyway, you
22 know, but what we'd hope is that the Moody's rating gets equal
23 to the Standard & Poor's rating.

24 Q. Thank you.

25 THE HEARING OFFICER: Anything else?

1

MR. COLEMAN: Just one brief question.

2

REXCROSS EXAMINATION

3

BY-MR.COLEMAN:

4

Q. You just testified on redirect that Northwest Natural Gas was an anomaly. If it was anomalous, why did you include it in your proxy group?

5

6

7

A. What I wanted to do--here again, the purpose of the second version of the DCF model was looking at a broad range in kind of the industry growth rate, applied to these proxy companies. So because it was broad, I thought it was important to leave the negative number in, so that reduced the results.

8

9

10

11

12

Q. Wasn't so anomalous that you felt like it was--

13

A. Right.

14

Q. --improper to include?

15

A. Right.

16

MR. COLEMAN: I have nothing further.

17

THE HEARING OFFICER: Any questions for the witness?

18

19

Thank you, Mr. Curtis. You're excused.

20

THE WITNESS: Thank you.

21

THE HEARING OFFICER: We'll be in recess until 10:30. Thank you very much.

22

23

(A recess was taken.)

24

THE HEARING OFFICER: Let's be on the record.

25

Anything further from the Company before we

1 proceed? Thank you.

2 Mr. Jetter?

3 MR. COLEMAN: If I may, Mr. Brent Coleman here.

4 I was curious, with respect to the spreadsheet that I presented,
5 the Commission took a couple of copies. And for administrative
6 purposes, I was curious if it would be appropriate to introduce it
7 as a demonstrative exhibit for consistency with the
8 interpretation of the transcript and the discussion that I had with
9 the witness.

10 THE HEARING OFFICER: Is there any objection to
11 that?

12 MS. BELL: No objection.

13 THE HEARING OFFICER: It will be received.

14 MR. COLEMAN: Although, I have a clean copy for
15 the court reporter. I'll go ahead and mark it as an exhibit.

16 THE HEARING OFFICER: Thank you. For the
17 record, how are you marking it so that we'll be able to identify it
18 on the transcript?

19 MR. COLEMAN: I have a sticker that was
20 preprinted at OCS Hearing Exhibit--and I'll just go ahead and
21 mark that as 1, Hearing Exhibit 1.

22 THE HEARING OFFICER: Thank you.

23 Mr. Jetter?

24 MR. JETTER: Thank you. The Division would like
25 to call Douglas Wheelwright.

1 THE HEARING OFFICER: Mr. Wheelwright, you
2 have been previously sworn, I believe.

3 THE WITNESS: Yes, I have.

4 THE HEARING OFFICER: Thank you.

5 DOUGLAS WHEELWRIGHT, called as a witness for
6 and on behalf of the Division of Public Utilities, being previously
7 duly sworn, was examined and testified as follows:

8 DIRECT EXAMINATION

9 BY-MR.JETTER:

10 Q. Mr. Wheelwright, I asked you this yesterday and I
11 just want to ask you again today so you can properly introduce
12 all of your direct and surrebuttal testimony into the record.

13 Did you create and file direct and surrebuttal, along
14 with the attached exhibits to those in this docket?

15 A. Yes, I did.

16 Q. And, again, the answer with respect to everything in
17 those will cover--if you were asked all of those questions today,
18 would your answers be the same?

19 A. Yes, they would.

20 Q. And do you have any corrections you'd like to make
21 to either of those?

22 A. No, I don't.

23 MR. JETTER: The Division would move, at this
24 time, to enter the direct and surrebuttal of Douglas Wheelwright,
25 along with the exhibits in their entirety, the portion that we didn't

1 enter into the record yesterday.

2 THE HEARING OFFICER: Thank you.

3 Any objection?

4 MS. BELL: No objection.

5 THE HEARING OFFICER: They're received.

6 (Direct and surrebuttal of Douglas Wheelwright, along with the
7 exhibits in their entirety were received into evidence.)

8 And just to clear up one small item, on line 236 in
9 the surrebuttal, the question refers to your rebuttal testimony. I
10 just want it to be clear that you haven't filed any rebuttal.

11 THE WITNESS: No.

12 THE HEARING OFFICER: Go ahead and take a
13 minute to look at that and make sure I'm not misinterpreting.

14 THE WITNESS: Which line, again?

15 THE HEARING OFFICER: 236.

16 THE WITNESS: That is correct. You are correct.
17 It's from direct testimony.

18 THE HEARING OFFICER: Thank you.

19 Pardon me, Mr. Jetter. Proceed, please.

20 BY MR. JETTER:

21 Q. Thank you. And I'll make this clear for the record,
22 Mr. Wheelwright, on line 236 of your surrebuttal testimony,
23 should that question read, "Have you modified your calculation
24 of the CAPM model from your direct testimony?"

25 A. Yes, that is correct.

1 Q. Have you prepared a brief statement on the return
2 on equity?

3 A. Yes, I have.

4 Q. Okay. Please, go ahead.

5 A. Thank you.

6 The primary objective of regulation is to produce
7 results for a regulated utility that closely approximates the
8 conditions that would be obtained if the utility and services were
9 determined in a competitive market. A public utility is
10 responsible to provide adequate service to its customers and
11 also establish rates sufficient to provide the utility with the
12 opportunity to cover all reasonable costs, including a fair rate of
13 return on the capital employed.

14 Regulation and the Commission allowed ROE to
15 provide the utility with a right to earn a fair rate of return but did
16 not guarantee a specific return. The fair rate of return, or cost
17 of capital, is established and applied to the rate base since the
18 Company is financed with a combination of both debt and
19 equity. The cost of debt or the interest rate is known and can
20 be calculated, while the cost of equity must be estimated using
21 various models.

22 Previous decisions have established the guiding
23 principles to be used by regulatory Commissions and have
24 established three important responsibilities in determining the
25 cost of capital.

1 First, the public utility is entitled to earn a return on
2 the value of its property which it employs.

3 Second, the return should be reasonably sufficient
4 to assure confidence in the financial soundness of the utility.

5 And third, the return of the utility should be
6 adequate, under efficient economical management, to maintain
7 and support its credit and enable it to raise the money
8 necessary for continued operations.

9 In reality, there is no single or specific number for
10 the fair rate of return. The concept represents a zone of
11 reasonableness and is based on the assumptions used in the
12 analysis and on the judgment and perspective of the individual.
13 I have performed an analysis to estimate the cost of capital,
14 particularly with respect to the cost of equity.

15 In my direct and surrebuttal testimony, I have
16 included the calculations for the various models and believe that
17 the appropriate cost of equity for Questar Gas is 9.45 percent.

18 The Division's recommendation is near the midpoint
19 of the calculated range and is based on the average of the
20 discounted cash flow model, the capitalized pricing model and
21 the comparable earnings model.

22 In preparing the analysis, I have included nine
23 natural gas companies to serve as the proxy group. With the
24 exception of one of the companies, all of the comparable
25 companies are the same as those used in the analysis

1 completed by Questar Gas.

2 In completing the single and two-stage discounted
3 cash flow model, I've used the forecast growth rates as reported
4 by Reuters, Zacks, Yahoo Finance, and Value Line. In my final
5 recommendation, I have selected the higher Value Line growth
6 rate, which calculates the cost of equity in this model at 9.26
7 percent.

8 In the capital asset pricing model, I used a 30-year
9 U.S. Treasury as the risk-free rate and the 87-year average risk
10 premium as calculated by Ibbotson. I've included the beta value
11 for each of the comparable companies, as reported by Reuters,
12 Zacks, Yahoo Finance, and Value Line.

13 While I've included the size premium in my exhibits,
14 my final recommendation does not include the size premium,
15 due to the uncertainty over the use of the industry and size
16 premiums for public utilities.

17 Using the higher beta value reported by Value Line,
18 the capital asset pricing model calculates a cost of equity of
19 8.48 percent.

20 The comparable earnings model includes the return
21 on common equity for the comparable companies and calculates
22 the average return for 2012, along with a three- and five-year
23 average returns.

24 The three-year average return for the comparable
25 companies is 10.71 percent, or just 16 basis points higher than

1 the Questar average of 9.55.

2 As a final comparison, I've included what other
3 commissions across the country have determined to be the
4 allowed rate of return for natural gas companies over the last
5 three years. The recommended rate for Questar Gas compares
6 favorably with a 9.66 percent average for the authorized return
7 for natural gas companies in 2013.

8 Based on my analysis, I believe that the
9 recommended rate is fair and reasonable and will allow the
10 Company to earn an adequate return on the value of its property
11 employed, will allow the Company to remain financially sound,
12 and raise the money necessary for continued operations.

13 That concludes my summary.

14 MR. JETTER: Mr. Wheelwright is available for
15 cross-examination.

16 THE HEARING OFFICER: Thank you.

17 Who desires to cross-examine?

18 Mr. Monson?

19 MR. MONSON: Thank you.

20 CROSS EXAMINATION

21 BY-MR.MONSON:

22 Q. Mr. Wheelwright, how are you this morning?

23 A. Good. How are you?

24 Q. Good.

25 I just want to ask you a few questions.

1 In the DCF model, we're attempting to determine
2 what a shareholder expects he'll receive in cash flow from
3 buying stock; is that right?

4 A. Yes.

5 Q. And so we're looking at the current dividend yield
6 and then the expected growth in the dividend out into perpetuity,
7 if we can estimate that.

8 A. Yes.

9 Q. And the growth projection is the hardest part of that
10 analysis, isn't it?

11 A. It is.

12 Q. Would you agree that in determining whether to buy
13 a stock and how much to pay for it, an investor would look at all
14 the information they could about that company, all the
15 information that's readily available?

16 A. I don't know if that's a fair representation. I don't
17 know what other investors would do. I don't know.

18 Q. Do you think that would be a good thing to do if
19 you're an investor?

20 A. Certainly, more information is better than less.

21 Q. And so an investor looking at a stock of a utility
22 might want to look at their historical earnings growth rate and
23 their projections of earnings, as well as analyst growth forecast;
24 is that correct?

25 A. Yeah. I think they might look at that, yes. I don't

1 know if they would have access to the Company's forecast. I
2 don't know if anybody would look at that.

3 Q. Well, if they were published in their reports--

4 A. They could--

5 Q. --the Securities and Exchange Commission and if
6 they were given in investor presentations to investors, obviously
7 those investors, at least, would know what they were; is that
8 right?

9 A. If they're making presentations to investors, yes. If
10 they're making presentations to analysts, they would not have
11 that information.

12 Q. Thank you.

13 Mr. Curtis testified that he thinks that currently the
14 investment analysts, on average, are underestimating the growth
15 rate of the utility companies.

16 Did you recall that?

17 A. Yes.

18 Q. And in response to that, you cited a research study
19 by Thomson Reuters; is that right?

20 A. Yes, I did.

21 Q. And that study--and I've got a copy of it, if you want
22 to refer to it, but wasn't that a study of investment analysts'
23 projections of quarterly earnings per share numbers?

24 A. It was looking at, I believe, the report--if I
25 remember correctly, said that their long-term projections were

1 historically high, where their projections for the year in the
2 future was closer to being accurate.

3 Q. Maybe we ought to look at it for a minute.

4 A. Okay.

5 MR. MONSON: Is it okay if I approach the witness?

6 THE HEARING OFFICER: Yes.

7 If you have copies for the Commission, we
8 appreciate it.

9 MR. MONSON: I've got lots of copies.

10 BY MR. MONSON:

11 Q. Mr. Wheelwright, have you had a chance to look at
12 this?

13 A. Just briefly.

14 Q. Is this a document you cited in your testimony?

15 A. I believe it is.

16 Q. Okay. And the title of the document--well, the
17 subtitle, "An Analysis of the Life Cycle of Quarterly Earnings
18 Estimates"; right? Is that correct?

19 A. Yes.

20 Q. And isn't it true that this report shows that in the
21 short term, that the analysts tend to underestimate, but as they
22 get further out, in estimating quarterly earnings, they get closer?

23 A. I believe that's the summary, yes.

24 Q. Okay.

25 A. Closer in time they are to the actual earnings,

1 they're more accurate.

2 Q. I think it's the opposite. Maybe we ought to look at
3 it.

4 Let's see. Look at the second bullet point on the
5 first page. Can you read that?

6 A. Where are you?

7 Q. The second bullet point on the first page under
8 "Highlights."

9 A. "Analysts tend to overestimate earnings initially,
10 but subsequent downward revisions bring estimates closer to
11 actual earnings."

12 Q. Okay. So initially, they're overestimating, but as
13 they get further out, they're closer; is that right?

14 A. Yes.

15 Q. But these are estimates of quarterly earnings;
16 right?

17 A. Yes.

18 Q. That's what this is talking about. This isn't talking
19 about five-year estimates of long-term growth rates, is it?

20 A. No.

21 Q. Okay. Thank you.

22 A. They're forecasting their earnings. And I think the
23 same principle would apply. If they're overestimating a few
24 quarters in advance, they're probably going to overestimate
25 further into the future.

1 Q. Okay, but this study says they don't further out;
2 isn't that correct? I mean maybe you didn't read the whole
3 study, so I don't want to put you on the spot, but...

4 A. It says analysts tend to overestimate earnings
5 initially, they overestimate.

6 Q. Right.

7 A. So the earnings prediction is being lower as they
8 get closer in time to the actual event.

9 Q. So their estimates of quarterly earnings, which is
10 what this is talking about, if they're--I mean we can go through it
11 in detail, I don't want to take the time to do that, but it says that
12 for about two years out, they overestimate and then they start
13 getting closer, but they aren't talking about a five-year earnings
14 growth projection, they're talking about the estimate of actual
15 earnings per share for a company.

16 Do you have any reason to disagree with that?

17 A. No.

18 Q. Okay. In your direct testimony, you criticized Mr.
19 Curtis's use of the size adjustment in his CAPM model?

20 A. Yes.

21 Q. But then in your surrebuttal testimony, you also
22 used the size adjustment?

23 A. I include it in my exhibits, but I don't use it in my
24 summary.

25 Q. So you didn't average it in your

1 numbers--

2 A. No.

3 Q. --that result? Okay.

4 I assume you have reviewed the Ibbotson, the
5 Morningstar annual work evaluation--

6 A. Yes, I have.

7 Q. --book?

8 They talk about the size adjustment in that book,
9 don't they?

10 A. They do.

11 Q. And let me show you a textbook on principles of
12 utility corporate finance. And I'll give you the whole book, if you
13 want.

14 MR. MONSON: I've got copies of relevant pages to
15 pass out. Is that all right?

16 THE HEARING OFFICER: Yes.

17 BY MR. MONSON:

18 Q. Mr. Wheelwright, can I direct your attention to page
19 239 of the textbook?

20 A. Yes.

21 Q. Could you read the first paragraph under Section
22 11.9.

23 A. "One of the key issues in using CAPM turns out to
24 be the size of the firm."

25 Keep going?

1 Q. Yeah, keep going.

2 A. "In general, smaller firms face greater financial risk
3 than do large firms. Of course, this is not a hard or fast rule, as
4 bankruptcies of various investment banks, like Lehman Brothers
5 in 2008 demonstrated."

6 Keep going?

7 Q. Keep going.

8 A. "Nevertheless, it has been observed empirically and
9 is often included in ROE estimates that are based on the
10 CAPM."

11 Q. Okay. And so this is a textbook on principles of
12 utility corporate finance. Does that appear to be correct?

13 A. Yes.

14 Q. Okay. And when you did the CAPM model and
15 included the size adjustment in the CAPM result, what was your
16 result? Do you remember?

17 A. I can look. Are you referring to--

18 Q. In your surrebuttal.

19 A. My surrebuttal?

20 Q. Yeah.

21 A. Which would you like to use?

22 Q. Well, the one where you used the CAPM model
23 using the Ibbotson Valuation Yearbook.

24 A. 8.48 percent is what I used in my number.

25 Q. All right, but that doesn't include the size

1 adjustment?

2 A. No. With the size adjustment, it's 10.04.

3 Q. 10.04. Thank you.

4 There's also some discussion in your testimony
5 about the possibility of a bond rating downgrade; is that right?

6 A. Yes.

7 Q. And you say that even with the adjustment in the
8 ROE, that the analysis shows there would not be a decrease in
9 bond rating; is that right?

10 A. Yes.

11 Q. Okay, but you would agree that a reduction in the
12 ROE would translate into a decrease in the credit metrics that
13 go into determining the bond rating; is that correct?

14 A. I was basing my information on the calculation
15 provided by Mr. Curtis, which showed that in any of the
16 scenarios, either the Office's position, the Division's position, or
17 the Company's position, the ratings would be the same.

18 Q. Okay, but can you--well, why don't you turn to your
19 surrebuttal, line 112.

20 There you acknowledge that the different allowed
21 returns do slightly change, the key ratio calculations?

22 A. That's correct.

23 Q. So if the Commission were to authorize a lower
24 ROE than 10.35, then the credit metrics would decline?

25 A. It would change the metrics, that's correct.

1 Q. Okay. And you also agree that if you have a lower
2 rate of debt that you do have a higher cost of debt?

3 A. A lower-rated bond and lower-rated debt does carry
4 a higher rate of return.

5 Q. Okay. Thank you. Just one other thing.

6 In your surrebuttal testimony, you provide a chart
7 that shows authorized rates of return through 2013; is that
8 right?

9 A. Yes.

10 Q. Can you turn to that? It's Exhibit 1.2 SR.

11 A. Yes.

12 Q. And you show there on the first page a 2013
13 average authorized ROE of 9.66?

14 A. Yes.

15 Q. Would you agree with me that if you look at the
16 authorized ROEs during the last quarter of 2013, that actually
17 the average for those ROEs would be higher than 9.66?

18 A. Yeah. The last half of the year, they were higher
19 than they were the first half.

20 Q. And that four out of those ten results in the last
21 quarter of 2013 that are actually 10 percent or over?

22 A. That's true. I think we need to also look at what's
23 happened and look back a little further and notice that the 2012
24 return, the average was 9.94, so the trend is going down.

25 Q. Well, did the trend turn in the middle of 2013? Isn't

1 it possible?

2 A. I'm looking at year over year, from '12 to '13, that
3 the trend is down.

4 Q. Okay, but you don't see any 10 percents in the first
5 half of 2013--

6 A. No.

7 Q. --right?

8 But you see four in the second half--and actually,
9 not in the second half, but in the last quarter?

10 A. Yeah.

11 Q. Okay. Thank you.

12 MR. MONSON: That's all my questions.

13 MR. FIKE: Mr. Commissioner, I have a brief cross
14 question.

15 CROSS EXAMINATION

16 BY-MR.FIKE:

17 Q. Morning, Mr. Wheelwright. I have a question on
18 your rebuttal testimony, Exhibit No. 1.1 SR of your rebuttal
19 testimony.

20 A. Yes.

21 Q. I'm trying to understand one of the numbers there.
22 It's in the right column, Questar Gas rebuttal testimony has a
23 number--it's 9.82 percent, the average of top-weighted methods.

24 How did you arrive at that number?

25 A. I wanted to make my analysis similar to what the

1 Company had proposed. And so there's so many numbers flying
2 around, it's hard to get your arms around it. So I wanted to
3 show the Company's proposal compared to mine. The 9.82 is
4 an average of the 8.57 on the DCF, the 10.3 on the CAPM, and I
5 believe the comparable earnings of 10.6, comes up to an
6 average of 9.82. That's how I did my average, and I wanted to
7 see what it would do using the same criteria under the
8 Company's calculations.

9 Q. And you excluded the 10.75 Company growth
10 estimate in that average; correct?

11 A. I did.

12 Q. And why did you exclude that 10.75?

13 A. That calculation has never been used before by the
14 Company. I don't have a lot of confidence in the growth
15 estimate that was used in that, and so I excluded it.

16 Q. Okay.

17 MR. FIKE: No further questions.

18 THE HEARING OFFICER: Any further--

19 MR. MONSON: No, but I guess we could mark the
20 one with the orange top, the Thomson Reuters report of QGC
21 Cross 1, and the excerpt from Utility Corporate Finance, which
22 is QGC Cross 2. I would offer those.

23 THE HEARING OFFICER: Any objection?

24 MR. JETTER: I have no objection.

25 THE HEARING OFFICER: They're received.

1 (QGC Cross 1 and QGC Cross 2 were received into evidence.)

2 MR. JETTER: I have some redirect.

3 REDIRECT EXAMINATION

4 BY-MR.JETTER:

5 Q. I guess I'm going to just start working backwards a
6 little bit through a couple of the questions that were asked by
7 the Company and ask you a little clarification.

8 Would you please turn to 1.2 SR, which is the chart
9 of the--

10 A. Yes.

11 Q. --recent rate case decision.

12 Can you tell me the return on equity approved in
13 the last two rate case decisions?

14 A. 9.72 and 9.08.

15 Q. Okay. And so depending on what period we
16 choose, if we look at a short-term trend, would it be fair to say
17 that the short-term trend is significantly downward--

18 A. Yes.

19 Q. --through probably the last month or two?

20 A. Yes, it would.

21 Q. Okay. Do you think that that very short-term trend
22 is enough to make an assumption about the overall market
23 direction?

24 A. No, I don't.

25 Q. Okay. Thank you.

1 With respect to the textbook that you have in front
2 of you, I believe we're on page 239, and this textbook article or
3 section, 11.9, is describing CAPM, firm size adjustments.

4 Is there anything that--and I'll give you a second to
5 look through that. Is there anything that would suggest that this
6 is a firm size adjustment for regulated utilities or would it be
7 more accurate to say that this is just an introduction to CAPM
8 and firm size and that these adjustments are for the market as a
9 whole and not specifically regulated utilities?

10 A. This has just been presented to me. I don't know.
11 It's hard to say what it is, but I
12 would--

13 Q. If you want to take a minute to read that, we can--
14 just see if you find anything that indicates that these are for
15 regulated utilities. I see Exxon Mobil is mentioned in here.

16 THE HEARING OFFICER: We'll be off the record
17 for a moment.

18 (A recess was taken.)

19 THE HEARING OFFICER: On the record.

20 THE WITNESS: In reviewing this very quickly, what
21 I've been asked to look at is--Section 11.9 was what I was asked
22 to read. If I look at 11.8, it says, "Next, we turn to the
23 real-world example to estimate the CAPM of regular utilities in
24 Central America."

25 So it looks like we're not even dealing with U.S.

1 companies.

2 BY MR. JETTER:

3 Q. Okay. Thank you.

4 Now, I'd like you to maybe turn--I'm not sure where
5 you're going to find this in this book. Could you maybe turn to--

6 MR. JETTER: Can I have a brief moment to look at
7 that book?

8 THE HEARING OFFICER: We'll be off the record.

9 (Discussion held off the record.)

10 THE HEARING OFFICER: On the record.

11 BY MR. JETTER:

12 Q. Mr. Wheelwright, I've opened that to the discounted
13 cash flow chapter of that book.

14 Could you briefly look through that chapter and see
15 if you can find the method used by Mr. Curtis in that chapter?

16 A. I don't think I need to look. I don't believe it's
17 there.

18 Q. Okay. Thank you. That was my last question
19 related to that book.

20 I'd like you to now turn to what's been marked as
21 Questar Gas Company Cross Exhibit 2, and this is the published
22 article entitled, "Estimates Too High on the Low? Check the
23 Calendar."

24 A. Okay.

25 THE HEARING OFFICER: Is this 1 or 2?

1 MR. JETTER: This is 2. It should be marked at the
2 top, unless I've marked it wrong.

3 THE HEARING OFFICER: I have it as 1, but just to
4 make sure we're all on the same page.

5 MR. MONSON: This one's 1.

6 MR. JETTER: I have marked them the opposite, I
7 apologize. So we are looking at Questar Gas Company Cross
8 Exhibit 2.

9 THE HEARING OFFICER: One.

10 MR. JETTER: Okay. Let's try this again.

11 BY MR. JETTER:

12 Q. We are looking at Questar Gas Company Cross
13 Exhibit 1. If you'll turn to the third page of this, it shows a chart
14 with a couple of downward sloping lines. In explaining this
15 above, in the first paragraph at the top of this page, would you
16 read the last sentence which starts with, "At the end."

17 A. I'm not sure I know where--

18 THE HEARING OFFICER: Just for the record, I
19 don't think there are page numbers on--

20 THE WITNESS: Yeah, I'm not sure I know where
21 you are.

22 THE HEARING OFFICER: We're looking at Exhibit
23 2--

24 MR. JETTER: Yes--

25 THE HEARING OFFICER: --and "Quarterly PS

1 Growth Estimates," is that--

2 MR. JETTER: Yes, that's correct.

3 THE HEARING OFFICER: Okay.

4 BY MR. JETTER:

5 Q. And I'll just read it and you can tell me if this is
6 correct.

7 A. Tell me which page you're on again.

8 Q. It's the page with Exhibit 2, which I believe is the
9 third page of the document.

10 A. Okay. Yeah, I have that.

11 Q. And it states that at the end of the quarter,
12 beginning of earning season growth estimates were most
13 accurate. And this chart below shows a trend from about 20
14 percent positive down to a near 0 mark.

15 Would you say that the indication of that is that as
16 the analysts come closer to a particular end of a quarter, they
17 get more accurate, and so the further out they are, the less
18 accurate they are?

19 A. Yes, I believe that's correct.

20 Q. Thank you.

21 MR. JETTER: I think that's all the questions that I
22 have for redirect. Thank you.

23 THE HEARING OFFICER: Thank you, Mr. Jetter.

24 Questions from the Commission? Thank you, Mr.--

25 MR. MONSON: Excuse me. I do have one brief

1 cross question. I'm sorry--

2 THE HEARING OFFICER: That's fair enough.

3 That's all right.

4 MR. MONSON: All right. And I've got another
5 exhibit. May I approach?

6 THE HEARING OFFICER: Yes. That's actually
7 from the book, so--

8 RE-CROSS EXAMINATION

9 BY-MR. MONSON:

10 Q. Mr. Wheelwright, you were asked whether this book
11 was dealing with setting returns for regulated utilities.

12 Could you look at the second sentence under
13 Section 11.5 and just read that sentence.

14 A. "Determining appropriate rates of returns," is that
15 the one you want?

16 Q. That's the one.

17 A. "Determining appropriate rates of return for
18 regulated utilities, however we are concerned with the future,
19 that is, we need a forward-looking estimate of Beta."

20 Q. Thank you. That's all.

21 MR. MONSON: I offer this as QGC Cross 3.

22 THE HEARING OFFICER: Any objection?

23 It's received.

24 (QGC Cross Exhibit 3 received into evidence.)

25 MR. JETTER: Can I ask one quick redirect?

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THE HEARING OFFICER: Yes.

MR. JETTER: Actually, I'll skip it. Thank you.

THE HEARING OFFICER: All right. You're excused, Mr. Wheelwright. Thank you.

THE WITNESS: Okay.

THE HEARING OFFICER: Mr. Coleman?

MR. COLEMAN: The Office is prepared to call Mr. Danny Lawton.

Do we need a break for the--okay.

THE HEARING OFFICER: We've only been going about 40 minutes.

MR. COLEMAN: I had to check with our court reporter.

DANIEL LAWTON, called as a witness for and on behalf of the Office of Consumer Services, being first duly sworn, was examined and testified as follows:

THE HEARING OFFICER: Please be seated.

THE WITNESS: Thank you.

DIRECT EXAMINATION

BY-MR.COLEMAN:

Q. Mr. Lawton, could you state your name and business address for the record.

A. Yes. My name is Daniel Lawton, L-A-W-T-O-N, and my business address is 12600 Hill Country Boulevard, Austin, Texas, 78738.

1 Q. What is the nature of your participation in this
2 docket?

3 A. I was asked to review the Company's cost of capital
4 request in this docket by the Office.

5 Q. The Office of Consumer Services?

6 A. Of Consumer Services, I forgot the rest of the
7 name. Thank you.

8 Q. And under that charge, did you have the
9 opportunity to provide direct testimony, dated October 30, 2013,
10 composed of 41 pages of testimony and Exhibits OCS 2.1
11 through OCS 2.12?

12 A. I did.

13 Q. Did you also have the opportunity to produce
14 surrebuttal testimony, dated January 7, 2014, consisting of ten
15 pages, with attached Exhibits OCS SR 2.1 through OCS SR 2.8?

16 A. I did.

17 Q. Do you have any corrections or changes?

18 A. None that I'm aware of.

19 Q. You adopt that testimony as your testimony before
20 this proceeding today?

21 A. I do adopt it as true and correct.

22 Q. Do you have a summary of the Office's position
23 with respect to this matter today?

24 A. I do, and I'll be brief.

25 Commissioners, I filed testimony in this case

1 supporting a 9.3 percent return on equity relative to the
2 Company's request of 10.35. And in my testimony, both direct
3 and surrebuttal, I believe that the market data, both the market
4 data from pre-October 30, when I filed my direct, and the market
5 data up through the first part of December, supports a 9.3
6 percent return on equity for this firm.

7 The market data was applied to four generally
8 accepted models, very similar to models employed by the
9 Company and by the department; those models being the
10 discounted cash flow, being the constant cash flow model. I
11 also employed a two-stage discounted cash flow model. I
12 employed an empirical capital asset pricing model and a risk
13 premium model.

14 The application of these generally accepted
15 models, not only in the financial literature but in regulatory
16 commissions around the country, applying these models to
17 current market data and updated market data supports a 9.3
18 percent return on equity.

19 I applied these models and this data to a
20 comparable group of proxy companies. It's the same, the very
21 same comparable group that was employed by Company witness
22 Curtis who was up here earlier this morning.

23 So we don't have any differences in terms of the
24 comparable group. Where the differences are, and you've heard
25 them earlier and I point them out in my surrebuttal testimony,

1 the differences are in the growth-rate calculation, what you
2 employ, and in the capital asset pricing model that I'll talk about
3 in a minute, concerning the size premium.

4 Most analysts, most regulatory authorities, most
5 financial theory and textbooks, when evaluating the discounted
6 cash flow model, will generally look to the forecasted estimates
7 of earnings, dividends, or book value per share.

8 Historical information provides little help in
9 estimating what investors expect in the future, unless you truly
10 believe what's happened over the past five or ten years is going
11 to be replicated on into the future into perpetuity, as has been
12 discussed earlier.

13 There is no basis, I believe, and I've pointed out in
14 my testimony, for employing historical growth rates. So the
15 major difference between the parties, and I've pointed out in my
16 testimony, is, do we give any weight to the historical growth
17 rates?

18 The other difference in the capital asset pricing
19 model that was just being discussed a few minutes ago with the
20 last witness, Mr. Wheelwright, is the size premium. Should we
21 employ an adder for company size?

22 And as I point out in my testimony and in the cited
23 financial literature as well, there is a historical difference
24 between large firms and small firms. Small firms generally have
25 a higher return on equity, but that's not necessarily true for

1 regulated firms. And you can see the differences between a
2 regulated and a nonregulated firm.

3 If I lose my largest customer as Questar, my
4 earnings don't suffer so long as I come in for a rate increase.
5 And I have what's called a billing determinants case with this
6 Commission. My prices and rates are increased and there's no
7 harm. For a nonregulated firm, clearly, they've got no place to
8 go but the market.

9 So the application of the size premium, you need to
10 recognize the difference between a regulated and a
11 nonregulated firm. And I cited an article from the financial
12 literature that addresses that point. There is a difference.

13 The other point I make in my testimony is that the
14 market data and the modelling performed by Mr. Curtis does not
15 support his 10.35 percent recommendation. No matter how you
16 look at his numbers, how you add them or average them, 10.35
17 is not supported. And it's only because the Company got 10.35
18 three years ago that they want it again. And that's not an
19 estimate of investor expectations, that's a number that this
20 Commission authorized and those facts and circumstances over
21 three years ago.

22 Now, there's been a great deal of discussion in all
23 the testimonies and in the hearing this morning with regard to
24 authorized rates of return around the country. You
25 Commissioners are going to evaluate all this evidence that the

1 witnesses have written. The authorized rates of return are
2 trending down, there's no question about it, around the country.
3 It has been trending down for some time.

4 That's just one point or a point of guidance for any
5 regulatory authority that they employ in evaluating the evidence,
6 what's happening around the country, but clearly, I think the
7 evidence in this case supports a return much lower than the
8 10.35 percent requested by the Company, whether or not the
9 equity returns around the country are declining.

10 Lastly, I address financial integrity and financial
11 metrics. The evidence in this case presented by the Company,
12 Questar's rebuttal testimony, applies the return on equity I
13 recommend of 9.3 percent, as well as the DPU return on equity.
14 And it applies them to the financial metrics that will result.

15 You can see from the Company's own financial
16 testimony and from mine that I present in my direct testimony
17 that a 9.3 percent return on equity will not cause the bond rating
18 to fall. Actually, the Company's own testimony shows it to be
19 the same result as authorizing a 10.35.

20 So if you're looking at financial metrics and bond
21 rating, there's no reason to raise consumers' rates
22 unnecessarily to 10.35. For all those reasons, I believe a 9.3
23 percent return on equity is appropriate in this case, again
24 supported by the market data and supported by the evidence
25 that's presented to you today.

1 Thank you for your time.

2 MR. COLEMAN: At this time, the Office would
3 move for admission into the record of Mr. Lawton's direct
4 testimony identified as Exhibit No. OCS-2D Lawton, as well as
5 Exhibits OCS 2.1 through 2.12; and Mr. Lawton's surrebuttal
6 testimony, Exhibit OCS-2SR Lawton and attached Exhibits OCS
7 SR 2.1 through OCS SR 2.8.

8 THE HEARING OFFICER: Any objection?

9 They're received.

10 (Exhibits OCS-2D Lawton, OCS 2.1 through 2.12, OCS-2SR
11 Lawton, and OCS SR 2.1 through OCS SR 2.8 received into
12 evidence.)

13 MR. COLEMAN: Mr. Lawton is available for
14 cross-examination.

15 THE HEARING OFFICER: Okay.

16 Mr. Jetter?

17 MR. JETTER: I have no questions.

18 THE HEARING OFFICER: Lieutenant Colonel Fike?

19 MR. FIKE: I have no cross-examination.

20 THE HEARING OFFICER: Mr. Monson?

21 MR. MONSON: I have some cross.

22 CROSS EXAMINATION

23 BY-MR.MONSON:

24 Q. Mr. Lawton, good morning.

25 A. Good morning. Is it Mr. Monson?

1 Q. Yes.

2 A. Okay, sir. Thank you.

3 Q. I was trying to remember if we've ever been in this
4 position before. I guess we haven't.

5 A. I just met you today, right now.

6 Q. Okay, because you've testified in a lot of Rocky
7 Mountain Power rate cases on cost of capital; right?

8 A. I have indeed, but I don't remember you from any of
9 those cases.

10 Q. I think none of them went to hearing probably.
11 Well, some of them did go to hearing, so I don't know.
12 Anyway...

13 A question came up earlier about whether you
14 would include Questar Gas's projection of its own expected
15 growth rate in a calculation. If you were a witness in a general
16 rate case involving Northwest Natural Gas, wouldn't you include
17 Northwest Natural Gas in your list of proxy companies?

18 A. It would depend on the population of proxies I had
19 available. And if it was another data point and it was
20 reasonable, then I may, in fact, use it. It would depend on the
21 facts and circumstances. Generally, the company you're
22 evaluating you typically don't include in your proxy group, but
23 separate it out and perform the analyses on the separate
24 company.

25 And lastly, there is no forecast of Questar's

1 earnings per share. That was the predicate to your question,
2 and there's none in evidence and there's none filed at the SEC
3 that I've found.

4 Q. I don't think I said earnings per share, but anyway,
5 leaving that aside.

6 Okay, but I mean if you're trying to evaluate the
7 cost of capital for a utility and it is traded--

8 A. Yes, sir.

9 Q. --on the market, you obviously would consider that
10 utility's own results, dividend, estimate of growth rate stuff in
11 your analysis. Maybe to say it's in a proxy group is overstating
12 it, but you'd certainly consider it, wouldn't you?

13 A. Yes. I always or generally calculate when a utility
14 is publicly traded. I will show it as an additional line item above
15 and beyond the proxy group--

16 Q. Okay.

17 A. --where there's market data to do that.

18 Q. Right.

19 You acknowledge in your testimony--and this is in
20 your direct testimony, if you want to look at it on line 191 and
21 192.

22 A. Okay. Give me a moment. I'm there.

23 Q. Okay. It's a generally accepted premise that
24 utility's cost of equity capital is a risk-free return, plus the
25 premium required by investors for accepting the risk of investing

1 in equities. That's what you say; right?

2 A. Yeah. That's straight out of financial theory.

3 Q. Right. Now, let's turn now for a minute to your
4 surrebuttal, Exhibit 2.1.

5 A. I'm there.

6 Q. Okay. Now, if I look at the first column--well,
7 column A, that's the yield or the interest rate on 30-year
8 Treasury bonds; right?

9 A. It's the current yield--reported yield on U.S.
10 Treasury bonds, 30 years.

11 Q. Right.

12 And if I look at that, in 2009, it was 3.13 and then it
13 started going up, and it went up until about--it looks like about
14 mid-2010; is that right?

15 A. That is correct. You can see a break-off, April 1,
16 2010, following that.

17 Q. Right.

18 And then it started declining again for a few
19 months, but it kind of hovered around that area until early 2011,
20 is that right--

21 A. Well, it would back up--

22 Q. --up and down?

23 A. I'm sorry, I don't mean to talk over you, sir.

24 Q. Yeah. I'm sorry, too.

25 So anyway, it went down, then it went back up

1 again; right?

2 A. It did. That's what the numbers say.

3 Q. Okay. And then starting in--well, the low point on
4 this, as you've shown in the exhibit, is actually in July of 2012;
5 right?

6 A. It is for columns A, B, C, and D, but not for column
7 E.

8 Q. Okay. And focusing in on column A, so it was 2.59
9 percent in July of 2012, and then it's 3.80 percent in November
10 of 2013; right?

11 A. That's correct.

12 Q. And that's an increase of--let's see, that's an
13 increase of 121 basis points; right?

14 A. It is.

15 Q. And that would be about a 45 percent increase in
16 the interest rate?

17 A. If calculating it that way, the percent increase in
18 the overall yield, then, yes, it is approximately 45 percent, but,
19 of course, these interest rates weren't employed for setting your
20 return, Questar's, your client's.

21 Q. I'm sorry. I didn't understand what you just said.

22 A. Well, you pointed out the low point of 2.59 occurred
23 in July of 2012.

24 Q. Right.

25 A. That has nothing to do with setting the return on

1 equity for Questar Gas. That last return on equity was--an order
2 came out sometime in 2010. So when you're referring to the
3 percent increase and all that on interest rates, you have to
4 make sure you're measuring apples to apples and--

5 Q. Okay. I understand what you're saying. You're
6 saying that when the rates were set in the prior rate case, that
7 was actually before this low point?

8 A. It was.

9 Q. Right, but in the last, what is it, how many months--
10 in the last about 13 months--

11 A. Yes.

12 Q. --the interest rate on a 30-year Treasury bond has
13 increased substantially, hasn't it?

14 A. It has from the levels it was at.

15 Q. Okay.

16 A. And, again, that doesn't translate to a concomitant
17 increase in the return on equity. Interest rates don't go up
18 linearly with the return on equity or equity costs.

19 Q. Do you know how long it takes to do a rate case in
20 Utah?

21 A. I've been involved in a few over the years and I'm
22 trying to recall. I'm in Utah today. I think it's six to nine
23 months, somewhere around there.

24 Q. Eight months, I think.

25 A. I was close.

1 Q. Would you accept that?

2 A. I would accept it. Most jurisdictions are a year or
3 under. And I recalled Utah was a bit shorter, which means you
4 have less regulatory lag, which enhances your financials.

5 Q. So if rate cases take eight months or a year or in
6 that timeframe, roughly, then wouldn't you expect that there
7 would be a lag between changes in interest rates and authorized
8 ROEs?

9 A. It depends. For example, in this case now, as we
10 sit here today, we're talking about relatively current interest
11 rates, yet you filed your case back in July. So this Commission,
12 when its making its order, is considering the interest rates that it
13 sees now.

14 Q. Okay.

15 A. So there's not as much of a lag as you would
16 presume.

17 Q. Okay. Let's turn, for a minute, to the growth rate in
18 the DCF model.

19 A. Okay. Do you have a cite you want me to look at?

20 Q. You've got a table in your direct testimony, I guess,
21 where you list a whole bunch of information about growth rates.
22 I think it's--

23 A. Five?

24 Q. Let's see. Yeah, it's Exhibit 2.6, OCS 2.6.

25 A. Yes, there's two pages. First page?

1 Q. Yeah. That's what I'm looking at right now, the first
2 page. If I'm reading this correctly, you've got five-year,
3 ten-year, five-year, five-year, these are all historic; right?
4 You've got historical average?

5 A. Yes. Those are the historical growth rates as
6 reported by Value Line.

7 Q. So why did you put in your testimony information
8 about historical growth rates?

9 A. Because that's something that you always want to
10 look at and consider, is it going to--are those historical growth
11 rates representative of the future? And in this case, in
12 examining those growth rates, it does not appear to me that--
13 there's no evidence that investors are looking at historical
14 growth rates, but you'll find every testimony that I put together
15 and evaluate for any Commission, I put out both the historical
16 and the forecasted data.

17 Q. So you think it's important to at least consider
18 them?

19 A. Sure. You can't ignore it. Investors certainly look
20 at it, but then you have to take the next step and ask yourself,
21 what evidence is there to suggest that this history, these
22 historical growth rates, will repeat themselves in the future?
23 And investors think that's important.

24 Q. On lines 619 and 620 of your direct testimony--

25 A. Yes, sir. Give me a moment.

1 Q. Yeah, I'll give you a moment.

2 A. I am there.

3 Q. Okay. You say Mr. Curtis abandoned his
4 forecasted growth estimates in favor of historical growth for
5 estimating his DCF capital costs.

6 Do you see that?

7 A. Yes, sir.

8 Q. Isn't it true that Mr. Curtis reported the results of
9 his analyst forecast projected growth rates? Is that correct?

10 A. Yeah, he did. I should have said Mr. Curtis
11 abandoned all his analysis and just relied on the 10.35 they got
12 last time.

13 Q. Okay. And isn't it also true that his 10.35 is
14 actually between the result he got using the analyst growth
15 forecasts and the historical growth rates, plus Company
16 projections of growth and earnings?

17 A. It's in the range, but the basis for selecting it is--
18 that's what we got last time.

19 Q. I just was trying to understand why you said he
20 abandoned it.

21 A. Well, he abandoned them in that his testimony
22 points out that he believes that analyst forecasts are
23 systematically biased. You heard your witness, Mr. Curtis, say
24 this morning that you would want to use reasonable and rational
25 data. And if something is systematically biased, you would

1 abandon it.

2 Q. So--

3 A. That was my presumption from reading his
4 testimony.

5 Q. All right. Thank you.

6 You also make the point in your testimony that all
7 of your DCF results, you excluded results less than 7.5 percent;
8 is that right?

9 A. 7.5 or 8 percent. I used one of those cutoff
10 numbers because it was unreasonable.

11 Q. Yeah. And if you look at lines 633 and 636 of your
12 direct--

13 A. Yeah. I use seven and a half percent here.

14 Q. Okay. And you say you did that because no
15 regulatory authorities are considering or authorizing equity
16 returns below 7.5 percent, investment alternative returns will
17 likely keep investors from seeking returns below 7.5 percent; is
18 that right?

19 A. That's what I said.

20 Q. Okay. If we look at your exhibits, 2.7 and 2.8--can
21 you look at those for a minute?

22 A. Sure.

23 Q. Have you got them?

24 A. I'm at 2.7.

25 Q. Okay. Look at the comparable group forecasted

1 growth--

2 A. I got a letter at the top. Which column?

3 Q. Column G.

4 A. Yes, sir.

5 Q. Is there any results there that are under 7.5?

6 A. No.

7 Q. Now, look at 2.8. And, in fact, the difference
8 between column K and column L, if I read the footnotes
9 correctly, is that column L excludes results below 7.5; is that
10 right?

11 A. No. It's based on using a different growth rate.
12 Column E is--are you on 2.7?

13 Q. 2.8.

14 A. Oh, 2.8. I'm sorry.

15 On 2.8, the difference between column K and
16 column L, in this case, they were the same because nothing was
17 below seven and a half percent.

18 Q. Right. So although you say in your testimony that
19 you excluded results below 7.5 percent, there actually were no
20 results?

21 A. Right, but that's something that I do. And the model
22 is built, as you see, both columns K and L, in instances when
23 there's a result below seven and a half percent, these two
24 columns would be different.

25 Q. Okay. Isn't it true that no regulatory authority has

1 approved a rate below 8.8 percent in the last three years?

2 A. I don't know that that's true. I haven't investigated
3 them all, but there are regulatory decisions out there that
4 sometimes a utility gets itself in trouble and does have a
5 problem with its regulator.

6 Q. Did you look at Mr. Wheelwright's exhibit that
7 showed the authorized rates of return for the past three years?

8 A. I did, but I don't know that that is every rate of
9 return. Those are the returns reported by SNL, and they may
10 not have every authorized return from around the country in
11 every jurisdiction in every case.

12 Q. Okay, but at least on that exhibit, there's no returns
13 below 8.8, is there?

14 A. I can check it quick, but I can accept that subject to
15 check.

16 Q. Thank you.

17 If you excluded returns below 8.8 percent from your
18 DCF analyses, you actually would have excluded some results,
19 wouldn't you?

20 A. Sure. You know, if I use 9 percent, I would have
21 excluded even more.

22 Q. Okay. Now, you updated your analysis in your
23 surrebuttal testimony; right?

24 A. I did.

25 Q. And it showed an increase of six basis points in

1 your DCF result; is that right?

2 A. I think so. It should be on table 1 on page 2.

3 Yeah.

4 Q. Okay. And--

5 A. I think you said six basis points. If you look
6 midpoint to midpoint, it's actually ten.

7 Q. Okay. And how much did it increase on your
8 two-stage DCF? Maybe that's what you're talking about.

9 A. Well, the midpoint went from 9.2 to 9.3, so that's
10 10.

11 Q. Ten. Okay.

12 And how about your ECAPM?

13 A. It went from 9.1 to 9.2.

14 Q. I must have been looking at something different.
15 Where are you looking?

16 A. I'm looking on table 2 of my surrebuttal testimony.

17 Q. Okay. Table 2?

18 A. Table 1, I'm sorry, page 2. Table 1, page 2.

19 Q. Okay. And you're comparing the midpoints?

20 A. Yes, sir.

21 Q. Okay. I guess I was looking at your exhibit and
22 comparing the averages. In any event, they all went up; right?

23 A. No. Risk premium didn't go up. The basic midpoint
24 to midpoint is still 9.9.

25 Q. Okay. All right, but you didn't increase your

1 recommended ROE based on increase in the updates that you
2 made?

3 A. No. As a matter of fact, I recommended 9.3, then I
4 point out in my testimony that the DCF and the two-stage DCF
5 still support a 9.3, because that's where they come out.

6 Q. Also, in your testimony, you said that Questar Gas
7 has a lower risk as a result of mechanisms, such as the forecast
8 test year, the conservation enabling tariff, and the infrastructure
9 replacement tracker; is that right?

10 A. I think I said both lower risk and I think I might
11 have used the phrase "regulatory enhancement" and was traded
12 well by the Utah Public Utility Commission.

13 Q. You haven't provided any evidence of whether the
14 other companies that you considered in your comparable
15 company group have these same mechanisms, have you?

16 A. No. I think I stated as such, that many of the
17 companies have the same mechanisms. Did I put a table
18 together showing you the mechanisms? No.

19 Q. You reviewed, I assume, Mr. Curtis's rebuttal
20 testimony?

21 A. I did.

22 Q. Did you review the table on page 9 of his rebuttal
23 testimony?

24 A. I believe I did. What's the cite?

25 Q. Page 9.

1 A. I don't have his rebuttal. Do you have an extra
2 copy, sir?

3 Q. I'd be happy to share mine with you.

4 A. Thanks.

5 Yes, I've seen this testimony.

6 Q. Okay. And you don't have any basis to disagree
7 with his presentation there, do you?

8 A. No, other than his characterization. If you're
9 assuming that these rate stabilization and infrastructure
10 replacement programs are the same as what Questar has and is
11 requesting in this case, then I would differ with you. That they
12 have something they call an infrastructure replacement, that's
13 true.

14 Q. Okay. Thank you.

15 Okay. You talk about the fact that your
16 recommended ROE would not impact the financial integrity of
17 the Company; is that right?

18 A. Yes.

19 Q. Okay. Can we turn to--you don't have this either, I
20 guess, so maybe I need to give it to you.

21 And you refer to Mr. Curtis's exhibit?

22 A. Right, I think it's his last schedule in his testimony.

23 Q. Right.

24 A. And he runs the financial metrics for his
25 recommendation, as well as the department's and mine. I'll need

1 it.

2 Q. Okay.

3 A. Yes, this is the schedule I was referring to.

4 Q. Okay. And can you just look with me at some of
5 these credit metrics and what the rating indications are. For
6 example, on line--

7 THE HEARING OFFICER: Mr. Monson, can we
8 identify it by exhibit number or--

9 MR. MONSON: Oh, I'm sorry. Yeah, sure. It's QGC
10 Exhibit 2.3 R. I'm sorry.

11 THE HEARING OFFICER: Thank you.

12 BY MR. MONSON:

13 Q. And let's just look at, for example, line 26. And
14 this is based, in column B, on Questar's proposed 10.35; right?

15 A. Column B? Yes.

16 Q. Okay. And what's the indicated credit rating?

17 A. BAA.

18 Q. Okay. And then if you go down to line 30, based on
19 Questar's recommended ROE, what's the indicated credit rating?

20 A. What line were you on?

21 Q. Thirty.

22 A. Thirty? Oh, that would again be BAA.

23 Q. And if you go down to line 36, what is the indicated
24 rating, given Questar's requested ROE?

25 A. BAA.

1 Q. And if you go down to line 40, what is the indicated
2 credit rating?

3 A. BBB.

4 Q. And are each of those indicated credit ratings lower
5 than Questar's current credit rating?

6 A. Yes, but, again, this is only 40 percent of the
7 overall makeup of the evaluation of the bond credit rating.
8 There's much more that goes into it than just this.

9 Q. Okay. Isn't one of the things that rating agencies
10 consider the authorized ROE?

11 A. No. For example, I cited in my testimony that
12 Moody's, which is a rating agency, says that a high ROE should
13 not be--authorized ROE should not be focused on. What should
14 be focused on is regulatory earnings mechanisms, such as the
15 infrastructure program and those kinds of mechanisms. That
16 comes right out of Moody's evaluations.

17 Q. So you don't think that when a rating agency is
18 looking at the credit rating of a utility, you don't think it looks at
19 the authorized ROE to determine if there's a healthy and a
20 favorable regulatory climate in that state?

21 A. It may look at it, but it looks at the earned rate of
22 return. There's a very big difference between the authorized
23 rate of return and what's actually earned. Many utility
24 commissions can come up with a high authorized rate of return.
25 And that utility, given the rate structure, may not have a chance

1 of earning it.

2 So the ratings agencies will want to look at the
3 ability to earn it. And how do you earn it? Through the
4 ratemaking mechanisms. And that's what Moody's and S&P
5 focus on, and I cite it in my testimony.

6 Q. Okay. And if a company has a higher authorized
7 ROE, would you agree with me that they have a higher
8 opportunity of having a higher earned ROE as well--

9 A. No.

10 Q. --since their rates will be higher?

11 A. No. You cannot say that in a vacuum. Because you
12 have a high authorized rate of return does not necessarily
13 translate that you have the ability to earn that authorized rate of
14 return. You have to look at a lot more than just what was
15 authorized.

16 Q. In determining the earned rate of return, isn't it
17 important to know what the revenues of the Company are?

18 A. It is.

19 Q. And aren't the revenues higher if the Commission
20 sets the rates based on a higher authorized rate of return than a
21 lower authorized rate of return?

22 A. Revenues are higher, but also expenses and the
23 ability to recover certain expenses. You have to look at the
24 complete order. And just looking at the authorized rate of return
25 gets you nowhere. You would not want to invest your money

1 that way.

2 Q. That's all my questions. Thank you, Mr. Lawton.

3 A. Thank you, Mr. Monson.

4 THE HEARING OFFICER: Thank you.

5 Redirect?

6 MR. COLEMAN: I have nothing. Thank you.

7 THE HEARING OFFICER: Thank you, Mr. Lawton.

8 THE WITNESS: Hey, thank you, Commissioners.

9 You have a good day. It's good being back in Utah.

10 THE HEARING OFFICER: Is there anything
11 further?

12 Lieutenant Colonel Fike, you raised a question
13 yesterday of summation; is that--

14 MR. FIKE: Yes, Mr. Commissioner. I just wanted
15 to know if we were going to have the opportunity to summarize.
16 Again, the Federal agencies are not putting testimony in this
17 case, some are the other intervenors, and I didn't want to break
18 ranks and advocate for a ten-page final brief, but if we have the
19 opportunity to provide a closing summary of our position, I
20 would welcome that opportunity.

21 THE HEARING OFFICER: Is there any objection to
22 using sort of the same process we did yesterday? Take a brief
23 break and then allow each counsel to point out the facts and
24 opinions that have been offered that they consider to be most
25 important, most salient? Is there--

1 MS. BELL: If I could address that, I think Questar's
2 position is that our witness's summary has really done an
3 excellent job of summarizing the Company's position, but we
4 would not oppose letting Lieutenant Colonel Fike put on a
5 summary, especially since he did not have a witness, if that's
6 what he intends to do, but from the Company's perspective, we
7 believe our witness's summary suffices.

8 THE HEARING OFFICER: Mr. Jetter, Coleman, do
9 you have a position to express on this question?

10 MR. JETTER: I think the Division would be fine
11 either way. We're happy to provide whatever the Commission
12 thinks would be helpful. We're happy to let Mr. Fike provide a
13 statement, if you would like, or I'll do whatever the Commission
14 would prefer.

15 MR. COLEMAN: I would say similar to the
16 Company's position, I have certainly no concerns letting the
17 Federal agencies present a summary. My summary would
18 probably sound much like my witness's summary.

19 THE HEARING OFFICER: Lieutenant Colonel Fike,
20 are you prepared to do that now?

21 MR. FIKE: Yes, I am. I could do that now before
22 we break, if you'd like.

23 THE HEARING OFFICER: I think we'll go forward,
24 if you're ready.

25 MR. FIKE: Thank you, Mr. Commissioner,

1 Commissioners.

2 When intervening in various utility rate cases
3 across the United States, my colleagues and I are often asked,
4 why is the Air Force, you know, at a utility rate case? And it's
5 really because the tax dollars that are appropriated by Congress
6 and used to pay utility bills at a Federal or military installation
7 particularly come from the installation's operations and
8 maintenance budget.

9 This O&M budget is often called an O&M budget.
10 No one pays for the utility bills. It is also the same pot of
11 money that is used to fund the day-to-day operations of a
12 military installation. Therefore, at the end of the day, every
13 additional tax dollar that is spent by the DOD on utilities is a
14 dollar that is not available to spend on flying the jets, take care
15 of the troops, and protecting our nation.

16 It may come as no surprise that the majority of the
17 Federal Executive Agency's interest in this case is due to Hill
18 Air Force Base. And even though all of Hill Air Force Base
19 accounts represent only a subset of Questar's total customer
20 list, the impact that Hill Air Force Base has on protecting our
21 nation and the local Salt Lake City and Ogden communities in
22 terms of employment, job creation, cannot be understated.

23 So that is why the Air Force is here at this
24 proceeding. The goal is to make sure that the utility is providing
25 a reliable service at fair and reasonable rates to ensure that Hill

1 Air Force Base is able to continue its mission.

2 To that end, the FEA requests the Commission give
3 strong weight to the expert witness testimony of the Office and
4 the Division in arriving at their ROE determination. The FEA
5 believes that the ROE recommendation of 9.3 percent by the
6 Office's expert, Mr. Lawton, and 9.45 percent by the Division's
7 expert, Mr. Wheelwright, are more credible than the 10.35
8 percent recommendation by the Company's witness, Mr. Curtis.

9 The flaws in Mr. Curtis's testimony, especially his
10 Company growth estimate used in his discounted cash flow
11 analysis, have been well documented through cross-examination
12 this morning.

13 Additionally, Mr. Curtis has stated that he believes
14 the Commission should approve a 10.35 percent ROE because
15 that was the same rate that was approved by the Commission in
16 the last rate case.

17 However, by Mr. Curtis's own admission this
18 morning, the financial conditions during the last rate case were
19 drastically different than they are now. During the last rate
20 case, the U.S. was still in the midst of a significant recession,
21 the greatest one since the Great Depression. National
22 unemployment was above 10 percent, and credit markets were
23 very tight.

24 Since 2009, financial conditions have improved.
25 Additionally, Questar's profit and long-term debt has been

1 reduced from 6.25 percent in 2009 to 5.16 percent at the end of
2 2014--we'll be into 2014, for a reduction of 17 percent.

3 This reduction of profit and long-term debt alone
4 justifies reduction of the Company's ROE from the 2009 levels.
5 However, when considering the current improved financial
6 market conditions and the more realistic discounted cash flow
7 model presented by Experts Lawton and Wheelwright, the FEA
8 maintains that there is overwhelming evidence for the
9 Commission to support an ROE closer to the 9.3 percent and
10 9.45 percent recommended by Witnesses Lawton and
11 Wheelwright.

12 In summary, every dollar of increased utility costs
13 passed on by Questar to their customers is \$1 less that Hill Air
14 Force Base can spend on flying operations and training, as well
15 as, at least for Hill Air Force Base, the critical logistic center
16 maintenance facilities.

17 When costs go up, somebody has to give. The FEA
18 respectfully requests the Commission to approve an ROE closer
19 to the 9.3 or 9.45 percent levels recommended by the Division
20 and the Office.

21 Thank you.

22 THE HEARING OFFICER: Thank you.

23 Anything further before we adjourn the hearing?

24 We're adjourned. Thank you all very much.

25 MR. COLEMAN: Mr. Commissioner, just to be

1 clear, we still have the public hearing section of the proceedings
2 this evening at 5:00; correct?

3 THE HEARING OFFICER: We do have it at 5:00
4 tonight, a public witness hearing. It's important that we all
5 remain mindful of that.

6 We'll be here, and you're all welcome to be here as
7 well. Thank you very much.

8 MR. FIKE: Mr. Commissioner, could I be excused
9 from that portion of the hearing?

10 THE HEARING OFFICER: Yes. You're all free to
11 exercise your discretion, except for the Applicant. The
12 Applicant should be here.

13 (Recess taken until 5:00 p.m.)

14 THE HEARING OFFICER: Good evening, ladies
15 and gentlemen. This is the scheduled time and place for a
16 hearing in Docket No. 13-057-05, In the Matter of the
17 Application of Questar Gas Company to Increase Distribution
18 Rates and Charges and Make Tariff Modifications.

19 This is our public witness hearing, a time that we've
20 designated to hear from members of the public.

21 I'm David Clark, one of the commissioners. To my
22 left is the chairman of the Commission, Chairman Ron Allen. To
23 his left is Commissioner Thad LeVar. And together, the three of
24 us comprise the Public Service Commission.

25 We welcome you this evening. We have circulated

1 a signup list, I believe, and invited any who desire to make
2 statements to the Commission this evening to sign their names
3 on the list.

4 So if you intend to speak and haven't noted your
5 name on the list, now would be a good time to indicate that.

6 Thank you. We also have counsel for parties that
7 have been participating in the evidentiary hearings associated
8 with this matter, and we'd like them to identify themselves and
9 enter their appearances at this time.

10 We'll begin with the Applicant.

11 MS. BELL: Colleen Larkin Bell and Jennifer
12 Nelson Clark for Questar Gas Company.

13 THE HEARING OFFICER: Thank you.

14 MS. SCHMID: Justin Jetter for the Utah Division of
15 Public Utilities.

16 MR. COLEMAN: Brent Coleman with the Utah
17 Attorney General's Office on behalf of the Office of Consumer
18 Services.

19 THE HEARING OFFICER: Thank you. We'll be off
20 the record.

21 (Off the record.)

22 THE HEARING OFFICER: On the record, please.

23 Let me just explain that there are two forms of
24 statement that members of the public can make to the
25 Commission.

1 Our rules allow members of the public to offer
2 unsworn statements, which are not subject to
3 cross-examination, or members of the public can offer sworn
4 statements to the Commission and those statements and those
5 witnesses are subject to cross-examination by the counsel who
6 are present.

7 So if there's anyone who simply wants to make an
8 unsworn statement, now is the time.

9 We'll be off the record.

10 (Off the record.)

11 THE HEARING OFFICER: What we propose is to
12 excuse ourselves, leave a staff member or two or three here.
13 They'll come and summon us if somebody arrives who wants to
14 address us, we'll be happy to hear their testimony.

15 And I think it's appropriate we have representation
16 from the Applicant, from the Office, and I don't know what duties
17 command you, Mr. Jetter, but whatever they are, act
18 accordingly. And we'll reconvene if someone arrives to give a
19 statement. Thank you.

20 In any event, we'll reconvene just a minute or two
21 before 6:00 to conclude. Thank you.

22 (A recess was taken.)

23 THE HEARING OFFICER: We'll be on the record.

24 Let me note as we begin Chairman Allen's absence.
25 A personal matter arose suddenly, he had to depart, so we have

1 a quorum of the Commission present and we're ready to hear
2 from Mr. Steven Haddock, if you're here, if I'm pronouncing that
3 correctly.

4 MR. HADDOCK: You are.

5 THE HEARING OFFICER: Okay. Thank you. Let
6 me just explain. I think you missed the first part of the hearing.

7 You may choose to address the Commission in an
8 unsworn statement or you can be sworn and offer testimony. If
9 you do so, you'll be subject to cross-examination by the counsel
10 who are present here for the Company, for the Division of Public
11 Utilities and the Office of Consumer Services.

12 MR. HADDOCK: Okay. I think I prefer unsworn.

13 THE HEARING OFFICER: That's fine. Why don't
14 you come forward.

15 MR. HADDOCK: Sure.

16 THE HEARING OFFICER: Would you be
17 comfortable just sitting in that chair and--

18 MR. HADDOCK: That would be fine.

19 THE HEARING OFFICER: If you want to turn on a
20 microphone. Either that or you can come to the lectern here.
21 Whatever would make you most comfortable.

22 MR. HADDOCK: Okay. Thank you. I am--I'm here
23 tonight because I--

24 THE HEARING OFFICER: Mr. Haddock, let me just
25 ask you to state your name for the record, spell your surname

1 and--

2 MR. HADDOCK: My name is Steven Haddock,
3 H-A-D-D-O-C-K, and I am a partner in SimTek Fence. We are a
4 rotationally--we are a fence manufacturer located in Utah
5 County and we rotationally mold polyethylene fences and then
6 sell them throughout North America. And so I appreciate the
7 opportunity to be here tonight.

8 The case that is being discussed is of significant
9 concern to our company because the process that we use for
10 manufacturing is highly reliant on gas-burning ovens. Our
11 process involves putting polyethylene into molds and then they
12 rotate into ovens where they reach temperatures over 700
13 degrees.

14 And we're a small company of--we currently have
15 about 45 employees, but we're growing. We've had--we've been
16 fortunate to have some growth and success over the last couple
17 of years and we are optimistic that that can continue and
18 hopeful that it will.

19 We have estimated that if the--if the full increase--
20 the full rate increase is passed that it would impact us to the
21 tune of about two to three percent on our bottom line, our pretax
22 bottom line, so it's going to decrease our profit significantly.
23 And, you know, and so we are evaluating how--if it is passed,
24 what measures we would need to take.

25 And some of those that we've considered, you

1 know, we have a facility in the East and we would have to
2 evaluate the benefits of shifting manufacturing to that facility, or
3 at least a portion of our manufacturing to that facility. We
4 would also have to consider the benefits of raising our prices
5 and passing on the increase, but that can be obviously very
6 tricky because our product we feel is--there's a great deal of
7 elasticity in the pricing of our product. And so when you raise
8 prices, you can--you can decrease sales as opposed to increase
9 sales.

10 We feel like we would--here. So we're just
11 concerned about the potential of what for us would be a
12 significant increase and to our costs and could potentially slow
13 the momentum of growth that we've experienced over the last
14 couple of years.

15 And I'm happy to answer any questions I'm able to
16 if you have any for me.

17 THE HEARING OFFICER: I do have a question.
18 Do you know under what schedule or tariff you
19 receive service?

20 MR. HADDOCK: We are--this is not my area of
21 expertise, but we are buying on a transportation rate. Is that--
22 does that answer your question or is that--if it doesn't, then I
23 don't think I know exactly.

24 THE HEARING OFFICER: Okay. Thank you. Thank
25 you very much for taking the significant effort to come and

1 address us this evening. We appreciate it.

2 MR. HADDOCK: I'm glad that I could be heard.
3 Thank you.

4 THE HEARING OFFICER: Thank you.

5 Anyone else while we're on the record? Okay.
6 Then we'll go off the record and back into the wait-and-see
7 mode. Thank you.

8 (A recess was taken.)

9 THE HEARING OFFICER: We'll be on the record. I
10 understand we have an additional public witness, Mr. Bruce
11 Rigby.

12 Mr. Rigby, in our practice, you have the opportunity
13 to either make an unsworn statement or to be sworn and testify
14 as a witness and be cross-examined, potentially, at least, by the
15 counsel who are present. So we'll leave it to you to decide.

16 MR. RIGBY: I'll leave it up to you. Let me tell you
17 what the situation is, Mr. Commissioner, and you can tell me if
18 they want to cross-examine. I don't know if it would be
19 appropriate.

20 My name is Bruce Rigby, I'm with Utility Cost
21 Management Consultants, I'm the natural gas manager for our
22 company. I have in attendance also Floyd Rigby, who's the
23 CEO of UCMC.

24 We've represented different customers through this
25 process and we have been very impressed with what's

1 happened, the attorneys on both sides, and it was a pleasant
2 surprise for us being new to this process to see how well things
3 flowed. And I just wanted to acknowledge that we do support
4 the outcome of this process, but I do have one customer who
5 has requested that I read their statement. And they e-mailed it
6 to the Public Service Commission yesterday. You may have that
7 on file.

8 THE HEARING OFFICER: We do have it. You're
9 welcome to read it, however, if you would like to. It's
10 reasonably brief, as I'm understanding.

11 MR. RIGBY: It's very brief.

12 THE HEARING OFFICER: Yeah.

13 MR. RIGBY: Merit Medical, and this is from Kent
14 Stanger, who is the CFO, S-T-A-N-G-E-R, Kent Stanger.

15 He says, "Dear Public Service Commission, upon
16 learning about the sudden increase to the transportation service
17 fees, Merit Medical strenuously objects to these cost increases.

18 "The administration fees affect the smaller
19 transportation customers the most. By raising the first tier to
20 ten times more than what the bottom tier pays and leaving the
21 administration fees as a flat rate, we are being impacted twice
22 as much as other gas customers. It appears that the cost
23 increases are being unjustly carried by the smaller-volume
24 customers.

25 "It is our understanding that these significant

1 increases will go into effect in a matter of weeks. We have
2 budgeted for this year based on the current fee structure.

3 "If there needs to be an increase at all, please
4 consider additional time before implementing the increases. We
5 are already being impacted adversely by the medical device tax
6 imposed on us by the Affordable Care Act, and this just adds
7 another unjustified increase to our expenses."

8 Sorry, I was reading fast. I'm not used to court
9 reporters.

10 And then I would just like to add one thing that he
11 asked me to mention, and that is that they just recently spent
12 \$15,000 installing the telemetry equipment on their gas meters.
13 And now, seeing that he's going to have to most likely go back
14 to the utility rate, the standard utility rate, the GS rate, and we'd
15 like that to be considered, you know, that investment, however
16 Questar or the Commission would see fit to at least consider
17 customers in that position who have put in that telemetry
18 equipment, should they have to go back to the standard utility
19 rate what measure would be taken. Maybe Questar could use
20 that equipment somewhere else, I don't know, but--I'd be happy
21 to take any questions. I don't know--

22 THE HEARING OFFICER: Thank you.

23 Commissioner LeVar has a question.

24 COMMISSIONER LEVAR: Mr. Rigby, you may not
25 know the answer to this, but do you know if your clients at Merit

1 Medical, particularly their comments in the first paragraph of the
2 statement, are based on the case as filed or the case as
3 stipulated? Because there were some--the stipulation had
4 addressed the TS rate.

5 MR. RIGBY: Yes, on the case as stipulated.

6 THE HEARING OFFICER: Okay. Thank you. And
7 it's now 6:02. This is the last call for any public statements.

8 Thank you very much for your participation. Thank
9 you, Mr. Rigby, especially for being here. We always appreciate
10 statements from members of the public.

11 And so we're adjourned. Thank you all very much
12 for your participation.

13 (Concluded at 6:02.)

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CERTIFICATE

This is to certify that the proceedings in the foregoing matter were reported by me in stenotype and thereafter transcribed into written form;

That said proceedings were taken at the time and place herein named;

I further certify that I am not of kin or otherwise associated with any of the parties of said cause of action and that I am not interested in the event thereof.

Teena Green, RPR, CSR, CRR, CBC