

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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IN THE MATTER OF THE APPLICATION  
OF QUESTAR GAS COMPANY FOR  
AUTHORITY TO CHANGE ITS  
DEPRECIATION RATES

Docket No. 13-057-19

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**DIRECT TESTIMONY OF KELLY B. MENDENHALL  
FOR QUESTAR GAS COMPANY**

December 16, 2013

**QGC Exhibit 1.0**

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**I. INTRODUCTION**

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

A. Kelly B. Mendenhall, 333 South State Street, Salt Lake City, Utah 84111.

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

A. I am employed by Questar Gas Company (Questar Gas, QGC or Company) as the Director of Regulatory Affairs. My qualifications are detailed in QGC Exhibit 3.1.

**Q. What general areas will your testimony address?**

A. My testimony will provide some historical background about the depreciation rates, I will introduce the depreciation study that was recently performed by Gannett Fleming, and I will summarize the impact that the proposed rate changes will have on the revenue requirement.

**II. BACKGROUND**

**Q. When was the Company's first depreciation study performed?**

A. The Company's first study was conducted in 2005 and was based on 2004 investment. Gannett Fleming was hired to perform the study and it was introduced as part of Docket 05-057-T01. In that docket, the depreciation rates were adopted in a rate reduction stipulation. The proposed depreciation rates resulted in a reduction of \$8.5 million to Questar Gas customers. As part of the stipulation, the Company agreed it would complete and file with the Commission its next depreciation study no later than December 31, 2008, using 2007 year-end data.<sup>1</sup> This was reaffirmed in the settlement stipulation filed May 16, 2013, in Docket 07-057-13 when the parties agreed that "Pursuant to the Stipulation and Order Approving Settlement in Docket No. 05-057-T01, the Company will perform a depreciation study by the end of 2008. The Company agrees to perform new depreciation study every five years on a going-forward basis."<sup>2</sup>

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<sup>1</sup> Docket No. 05-057-T01 Rate Reduction Stipulation filed May 10, 2006, 18.a.

<sup>2</sup> Docket No. 07-057-13 Revenue Requirement Stipulation filed May 16, 2008, paragraph 13.a.

25 **Q. Did the Company perform a 2007 depreciation study?**

26 A. Yes. Gannett Fleming performed another study based on 2007 data. The results of this  
27 study were included as a part of Docket 09-057-16. In this docket the parties agreed to  
28 amortize the reserve variance over a ten year period instead of the remaining life of the  
29 assets. The overall decrease to depreciation expense was \$3,252,000.

30 **Q. Did the Company prepare a 2012 study as agreed to in Docket 07-057-13?**

31 A. Yes. The Company hired Gannett Fleming to conduct a study based on 2012 accounting  
32 data. The entire study is attached in QGC Exhibit 1.2.

33 **Q. Is this the same study you refer to in your testimony in Docket 13-057-05?**

34 A. Yes. In my direct testimony in Docket 13-057-05, I said, “The Company has hired  
35 Gannett Fleming to conduct a depreciation study on its 2012 investment. The study is  
36 currently not complete but we anticipate that the study will be complete sometime in the  
37 4<sup>th</sup> quarter of 2013. At that time I will supplement my testimony with the new  
38 depreciation rates.”<sup>3</sup> The study was completed in October and the parties in Docket 13-  
39 057-05 determined that there was not enough time remaining in that case to fully review  
40 the depreciation study. The parties agreed that the study would be treated in a separate  
41 docket to allow adequate time for review.

42 **Q. Is that agreement set forth in the Partial Settlement Stipulation in Docket No. 13-**  
43 **057-05?**

44 A. Yes. The Partial Settlement Stipulation provided, among other things, that Questar Gas  
45 would seek approval of new depreciation rates in this docket. Page 13, paragraph 29 of  
46 the stipulation states that “for purposes of settlement that the Company will file, in a  
47 separate docket, the depreciation study and will seek approval of new depreciation rates  
48 to become effective as ordered by the Commission. The Parties agree that upon approval  
49 of the new depreciation rates, these rates and reserve variance will be applied to the rate  
50 base in this Partial Settlement Agreement and the rate spread consistent with the results  
51 of the Settlement Model, and the revenue requirement and rates in this docket will be

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<sup>3</sup> Docket No. 13-057-05, QGC Exhibit 3.0, lines 244-247.

52 adjusted accordingly.”

53 **III. DEPRECIATION STUDY RESULTS**

54  
55 **Q. Please describe the results of the study.**

56 A. QGC Exhibit 1.3 shows the impact of the study on the proposed rates and expense. The  
57 exhibit takes the 2014 forecasted rate base accounts as originally filed in Docket 13-057-  
58 05, and compares the rates from the 2012 study with the rates in the 2007 study. The  
59 overall impact of using the proposed rates would be a \$1,929,105 increase to depreciation  
60 expense.

61 **Q. Please summarize the major drivers causing this increase in the expense.**

62 A. There were three changes that I would deem to be material. First, the depreciation rate  
63 for mains was increased slightly from 2.10% to 2.14%, resulting in an increase to  
64 expense of \$457,810. Second, the depreciation rate for structures and improvements  
65 (Account 390) was reduced from 3.14% to 2.14%, resulting in a decrease in depreciation  
66 expense of \$610,726.33. Finally, the reserve variance was reduced by \$2.2 million per  
67 year. These three changes, along with the other minor adjustments to the rates, results in  
68 the \$1.9 million increase to depreciation expense.

69 **Q. What is the reserve variance and how is it calculated?**

70 A. The reserve variance is the difference between the accumulated depreciation on the  
71 Company’s books and the accrued depreciation calculated in the study. In other words, it  
72 is a comparison of what the Company has depreciated for a particular asset class,  
73 compared to what should have been depreciated using the rates in the study. For  
74 example, if a \$400 computer had been depreciated using a four year life, at the end of the  
75 third year the Company would have depreciated \$100 per year, the accumulated  
76 depreciation would be \$300 and the net book value would be \$100. Assume a  
77 depreciation study was performed and it was determined that the Company should have  
78 been depreciating the computer over a five year life. Going forward, the Company would  
79 depreciate the computer at \$80 per year, and it would calculate a reserve variance. That  
80 reserve variance would be calculated by comparing the amount of booked accumulated

81 depreciation (\$300) with what should have been depreciated over the last three years  
82 (\$240). The difference would be the reserve variance of \$60. This amount would be  
83 amortized over a period of time. In this example, the reserve variance would be a  
84 reduction to depreciation expense.

85

86 While this is a simple example, it illustrates the kind of calculation that was performed in  
87 the depreciation study. The study shows that as of December 2012 the booked  
88 accumulated depreciation was \$688,369,086 and the accrued depreciation was  
89 \$612,652,322 for an over depreciated amount of \$75,716,764. The Company is  
90 proposing to amortize this amount over 10 years for an overall reduction to expense of  
91 \$7,572,000 per year.

92 **Q. If the reserve variance amortization is a reduction to expense, then why is the**  
93 **Company proposing an overall increase in depreciation expense?**

94 A. While the reserve variance will reduce depreciation expense by \$7.6 million per year, the  
95 reserve variance in the last study was \$9.8 million. The Company will be amortizing a  
96 smaller over collection, thus increasing depreciation expense.

97

#### **IV. SUMMARY**

98 **Q. Please summarize your recommendations to the Commission.**

99 A. This depreciation study for 2012 was put together using the same accounting and  
100 engineering principles that were used in the 2007 and 2004 depreciation studies that were  
101 previously approved by the Commission. I recommend that the Commission approve the  
102 depreciation rates and reserve amortization amounts.

103 **Q. Does that conclude your testimony?**

104 A. Yes.

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

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

\_\_\_\_\_  
Kelly B. Mendenhall

SUBSCRIBED AND SWORN TO this \_\_\_\_ day of December, 2013.

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