

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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**REBUTTAL TESTIMONY IN SUPPORT OF THE SETTLEMENT  
OF KELLY B. MENDENHALL  
FOR QUESTAR GAS COMPANY**

May 15, 2014

**QGC Exhibit 1.0R**

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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. Have you filed previous testimony in this docket?**

A. Yes. I filed direct testimony in this docket on December 16, 2013.

**Q. What is the purpose of your rebuttal testimony?**

A. My testimony will provide additional support for the Settlement Stipulation that was filed April 28, 2014. I will also provide comments addressing the Utah Public Service Commission's (Commission) Notice of Filing of Stipulation and Comment Period issued on May 5, 2014.

**II. STIPULATION SUPPORT**

**Q. On April 28<sup>th</sup>, the Division of Public Utilities (Division) submitted the prefiled direct Testimony of Artie Powell in support of the Settlement Stipulation. Have you read this testimony?**

A. Yes. I reviewed the testimony and the underlying data. The Parties discussed much of the information contained in the testimony in detail during the course of discovery in this docket.

**Q. Do you agree with Mr. Powell's assertion that the approval of the Settlement Stipulation will lead to just and reasonable rates and that it is in the public interest?**

A. Yes. While Questar Gas Company (Questar Gas or the Company) and the Division may disagree on the specific service lives or salvage values to use in any specific account, the Company agrees that the Settlement Stipulation as a whole would result in just and reasonable rates.

**Q. Please describe the adjustments discussed in the Stipulation?**

A. The adjustments in the Settlement Stipulation can be characterized as corrections to rate

27 base, changes to service lives, and adjustments to net salvage value. I will discuss each  
28 of these three categories in more detail and provide additional information where  
29 necessary.

30 **Q. Please describe the corrections to rate base.**

31 **A.** There were two adjustments made to rate base as a result of the Division's review. These  
32 adjustments are shown on lines 4 and 5 of the Settlement Stipulation Exhibit 1. The first  
33 adjustment was a removal of asset retirement obligations. These obligations are booked  
34 to plant accounts but because they represent future obligations and not actual plant  
35 amounts, these balances should be removed from rate base so that the Company does not  
36 earn a return on them. The second adjustment was an adjustment to accumulated reserve  
37 related to buildings. This adjustment was necessary because the accumulated  
38 depreciation had been overstated in the general account and understated in the Utah  
39 Distribution account. The overall effect was an overstatement of net rate base in Utah.  
40 The accumulated depreciation has since been corrected on Questar Gas' accounting  
41 books and this adjustment is the corresponding correction on the regulatory books.

42 **Q. Do you believe the depreciable lives set forth in the Settlement Stipulation are**  
43 **appropriate?**

44 **A.** Yes. Table 1 in Mr. Powell's testimony shows the historical service lives of three  
45 accounts, along with the Division's proposal and the service lives set forth in the  
46 Settlement Stipulation. Mr. Powell indicated that Gannett Fleming provided survey data  
47 for the service lives seen by other companies in the industry. The data included both  
48 settled and commission-ordered service lives of 78 companies in the United States. I  
49 have provided a summary of this data in the table below:

	<b>Average</b>	<b>Mean</b>	<b>High</b>	<b>Low</b>	<b>Settlement</b>
380 - Services	46	46	70	28	54
381.01 - Meters	35	36	50	20	31
383 - House Regulators	37	36	60	15	31

50 As the table shows, the agreed-upon service lives are within industry norms.

51 **Q. Do you agree with the Division’s position regarding net salvage value for service**  
52 **lines?**

53 A. Not entirely. The Company does not believe that -85% of the retirement amount is the  
54 optimal choice for net salvage value for this account. However, the -85% falls within a  
55 range of reasonableness and will not materially or adversely impact the depreciation  
56 expense calculation. The Company believes it is a reasonable compromise and that  
57 together with the other aspects of the Settlement Stipulation will result in just and  
58 reasonable rates.

59 **III. SETTLEMENT IMPACT**

60  
61 **Q. In the Settlement Stipulation the Company provided the impact on the revenue**  
62 **requirement. If approved what impact would the Settlement Stipulation have on**  
63 **the typical customer?**

64 A. A summary of the impact on a typical GS customer using 80 Dths per year is shown in  
65 the table below:

	<b>Proposed Rate Design @ 60% class cost spread</b>	<b>Proposed Rate Design @ 72% class cost spread</b>
Typical Bill Docket 13-057-05 approved rates	\$716.34	\$715.98
Typical Bill Docket 13-057-19 settled rates	\$715.44	\$715.07
Difference	(\$0.90)	(\$0.91)

66 **Q. In the table you refer to a 60% class cost spread and a 72% class cost spread. Why**  
67 **have you made two typical bill calculations?**

68 A. In Docket 13-057-05, the Parties agreed<sup>1</sup> that on March 1, 2014 the rates would be  
69 calculated based on 60% of the difference between the test period revenue collected and  
70 the test period revenue that would be collected under the result of the Settlement Model.  
71 It was further agreed that in 2015, coincident with the effective date of the Company’s

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<sup>1</sup> Docket No. 13-057-05, Partial Settlement Stipulation dated December 13, 2013, paragraph 14.

72 first fall Infrastructure Rate-Adjustment Mechanism filing, the difference between test  
73 period revenue and test period revenue that would be collected would move to 72%. The  
74 typical bill calculation reflects those changes.

75 **Q. The Company attached a settlement model with the Settlement Stipulation that**  
76 **calculated the revenue requirement, cost of service and rate design. On May 9,**  
77 **2014, the Division filed a corrected model with the Commission. Do you agree with**  
78 **the corrections reflected in the Division’s model?**

79 A. Yes. On May 1, 2014, the Commission issued an action request to the Division. In its  
80 action request it raised three issues related to the model. First, the model did not  
81 replicate the original revenue requirement ordered in Docket 13-057-19. Second, the  
82 model yielded the same revenue requirement for the proposed depreciation study and the  
83 settled depreciation study. Last, the Commission requested an explanation of the “Filed  
84 Depreciation Study: Utah Allocated Amount” identified on Line 2 of Exhibit 1. The  
85 Division addressed the first and second issues when it corrected the model.

86 **Q. How did the Division address those two issues in the corrected model?**

87 A. The model that was originally filed in the stipulation had some hard coded depreciation  
88 rates in the “108\_111 Projection” tab which caused the results of the model to remain  
89 unchanged when different scenarios were chosen. These hard coded numbers have been  
90 corrected in the Division’s model.

91 **Q. What is the Company’s position relating to the third issue?**

92 A. The Commission wanted an explanation of Exhibit 1, line 2 that states “Filed  
93 Depreciation Study: Utah Allocated Amount.” Depreciation expense is calculated on a  
94 systemwide basis for all jurisdictions. The \$1,559,691 shown on line 2 simply represents  
95 the impact that the filed depreciation study had on the Utah jurisdiction’s revenue  
96 requirement. A part of the depreciation expense adjustment is allocated to Wyoming and  
97 was removed from the calculation.



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

126       **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 15th day of May, 2014.

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