Witness CCS - 3R

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of	**:**	**Docket No. 02-057-02**
Questar Gas Company for	**:**	**PRE-FILED REBUTTAL TESTIMONY**
an Increase in	**:**	**OF DONNA DERONNE**
Rates and Charges	**:**	**FOR THE COMMITTEE OF**
	:	**CONSUMER SERVICES**

October 4, 2002

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. I am Donna DeRonne, a Certified Public Accountant licensed in the State of Michigan. I am a regulatory consultant in the firm Larkin & Associates, PLLC, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

Q. ARE YOU THE SAME DONNA DERONNE WHO PREVIOUSLY FILED DIRECT TESTIMONY IN THIS CASE?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of this rebuttal testimony is to specifically address two adjustments sponsored by Division of Public Utilities (DPU) witness Mary Cleveland in her direct testimony filed on August 30, 2002.

Q. HAVE YOU REVIEWED MS. CLEVELAND'S TESTIMONY AND EXHIBITS?

A. Yes, I have. It is obvious from Ms. Cleveland's testimony that she has done an in-depth review of many of Questar's 2001 operating expenditures, including those costs allocated or charged to Questar Gas Company (QGC or the Company) from its parent company and affiliates. She has made numerous recommendations in her testimony that are based on her detailed analysis. While the majority of Ms. Cleveland's recommendations appear appropriate and/or consistent with past Commission decisions, there are two specific adjustments she proposes that I wish to address.

Q. WHAT ADJUSTMENTS ARE THOSE?

A. The first is Ms. Cleveland's adjustment to base direct charges from Questar Regulated Services (QRS) on a five-year average amount. This adjustment was presented on Exhibit No. DPU 3.16 and increases test year expenses by $151,179. The second adjustment is Ms. Cleveland's recommendation that property insurance expense be increased significantly to reflect estimated insurance cost increases that may go into effect in November 2002. Ms. Cleveland has increased operating expenses by $1,051,623 for estimated property insurance cost increases.

Q. WOULD YOU PLEASE DISCUSS THE ADJUSTMENT FOR DIRECT CHARGES FROM QUESTAR REGULATED SERVICES?

A. Yes. Most of QRS' cost centers are allocated between QGC and its sister company, Questar Pipeline Company (QPC), based on the Distrigas formula. According to Ms. Cleveland's testimony, at page 23, the engineering cost centers are allocated based on direct charges to each entity. At page 25 of her testimony, Ms. Cleveland indicates that QRS' engineering cost centers are allocated based on the percent of engineering costs directly charged to QGC and QPC. She also indicates that the engineering costs directly charged to each of the entities fluctuates with its relative portion of construction activity. Ms. Cleveland recommends that QRS' engineering cost centers be reallocated using a five-year average of direct charges to normalize the percentage of engineering costs allocated to QGC. I disagree with this adjustment.

Q. WHY DO YOU DISAGREE WITH THIS ADJUSTMENT?

A. No evidence has been provided to demonstrate that the level of engineering costs directly charged from QRS to QGC in the 2001 test period is not reflective of current or on-going circumstances. Ms. Cleveland is proposing that the expenses charged from QRS to QGC for engineering cost centers be based on the five-year average percentage split of such engineering costs between QGC and QPC. The level of engineering services provided to both QGC and QPC is not dependant one upon the other. In other words, there has been no direct showing that the level of engineering services provided by QRS to QPC in a particular year impacts the level of engineering services provided to QGC in that same year. Over time, both QGC's and QPC's operations have changed. For example, in 2001, QGC merged with Utah Gas Service Company. Additionally, QPC placed its new Main Line 104 in service in 2001 and its Southern Trails pipeline in service in 2002.

In calculating her adjustment on Exhibit No. DPU 3.16, at page 4, Ms. Cleveland applies a five-year average direct charge allocation (which she calculates at 53.19%) and applies it to the total QRS' expenses allocated based on direct charges. This results in her recommended increase in expenses of $151,179. I disagree with this methodology and recommend that the $151,179 expense increase not be adopted by the Commission.

Q. PLEASE DISCUSS THE ADJUSTMENT TO INCREASE PROPERTY INSURANCE COSTS.

A. At page 27 of her testimony, Ms. Cleveland recommends that operating expenses be increased by $1,051,623 to reflect estimated future increases in property insurance expense. According to Ms. Cleveland, she has had discussions with the Company and reviewed information received from its Insurance Department. Her adjustment reflects an expected increase in property insurance expense. She indicates that: "The Company expects to receive rate quotes in mid-October 2002, and will receive the actual billing by mid-November 2002. This adjustment will be trued-up to reflect the actual property insurance costs prior to the rate effective date in this Docket."

Q. WHY DO YOU DISAGREE WITH THIS ADJUSTMENT?

A. I disagree for several reasons. First, the Committee's primary position is that the revenue requirement should be calculated based on an average 2001 test year. Clearly a projected cost increase that may be effective near the end of 2002 goes way beyond that test period.

Additionally, this adjustment is not known and measurable. It is not based on actual invoices. Also, it would result in the insurance costs based on 2003 (November 2002 through October 2003) levels and the actual property used to serve customers during that time. The apparent remedy offered for the not known and measurable problem is to "true-up" the amount prior to hearings. To allow such last minute true-up would set an improper precedent which would be harmful to ratepayers. For the most part, the Company's projected 2002 expenses are based on actual 2001 expenses, with a few exceptions. It is not based on the Company's 2002 budget, or its projected 2002 expenses. Thus, the Committee and the DPU have reviewed and audited the actual 2001 expenses instead of the Company's 2002 budget. It is inappropriate to selectively adjust for a few specific expense items that may increase 2002 expenses. There may be other costs that decline or are projected to decline during that same period that have not been given equal consideration. When using a projected test period, risk shifts to ratepayers because the auditors are somewhat dependant on the Company to identify the projected cost increases

and decreases. Obviously, there would be a tendency to make parties aware of projected cost increases, while not pointing out the potential cost decreases. Consequently, I recommend that the adjustment to reflect the projected November 2002 property insurance cost increase, along with the proposed subsequent true-up, not be adopted.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.