

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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

Docket No. 07-057-13

DIRECT TESTIMONY OF
ALAN K. ALLRED
FOR
QUESTAR GAS COMPANY

December 19, 2007

QGC Exhibit 2.0

TABLE OF CONTENTS

I. INTRODUCTION.....	1
II. QGC PERFORMANCE.....	2
III. AFFILIATE TRANSACTIONS.....	7
IV. THE NEED FOR A GENERAL RATE INCREASE.....	10
V. CONCLUSION	13

1

I. INTRODUCTION

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

3 A. Alan K. Allred, President and CEO of Questar Gas Company (Questar Gas). My
4 business address is 180 East 100 South, Salt Lake City, Utah.

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

6 A. My testimony, together with the testimony of John J. Reed, will show that Questar Gas
7 Company is one of the top performing natural gas utilities in the nation. We provide safe,
8 reliable reasonably-priced natural gas service to our customers. In order to continue
9 providing high-quality service to our customers, we need to make critical system
10 investments now and be allowed a reasonable opportunity to earn a return that reflects
11 our top-level performance. The growth in the number of customers and the
12 corresponding growth in peak-day demand, along with maintaining our infrastructure,
13 requires annual capital investment of \$130 to \$140 million. Investors require a sufficient
14 and fair return in order to provide the needed capital. Without an adequate rate of return,
15 we cannot meet our customers' or our shareholders' expectations. Our customers expect
16 and are entitled to safe, reliable, reasonably-priced natural gas service. Our shareholders
17 expect and are entitled to a sufficient and fair rate of return. The continued success of
18 Questar Gas requires meeting both expectations.

19 **Q. Is meeting both expectations consistent with the meaning of just, reasonable and**
20 **adequate rates as found in the Utah Public Utility Code, which governs this**
21 **proceeding?**

22 A. Yes. The definition of just, reasonable and adequate in Section 54-4a-6(4) of the Public
23 Utility Code for purposes of guiding the activities of the Division, encompasses, but is
24 not limited to, the following criteria:

25 (a) maintain the financial integrity of public utilities by assuring a
26 sufficient and fair rate of return;

27 (b) promote efficient management and operation of public utilities;

- 28 (c) protect the long-range interest of consumers in obtaining continued
29 quality and adequate levels of service at the lowest cost consistent
30 with the other provisions of Subsection (4);
- 31 (d) provide for fair apportionment of the total cost of service among
32 customer categories and individual customers and prevent undue
33 discrimination in rate relationships;
- 34 (e) promote stability in rate levels for customers and revenue
35 requirements for utilities from year to year; and
- 36 (f) protect against wasteful use of public utility services.

37 **Q. Does Questar Gas' proposed rate increase meet these criteria?**

38 A. Yes.

39 **II. QGC PERFORMANCE**

40 **Q. What are the measurements and indicators that can be relied on by the Company,**
41 **regulators and analysts to determine how well you are serving customers?**

42 A. Several of the most important measurements or indicators that I will discuss are:

- 43 1. Meeting demands for natural gas;
44 2. Providing timely service to new customers;
45 3. Serving customers efficiently;
46 4. Charging reasonable prices; and
47 5. Achieving high customer service and customer satisfaction levels.

48 **Q. Can you describe Questar Gas' performance in meeting customers' daily and peak**
49 **demands?**

50 A. We have met our firm customers' demand for reliable natural gas service, especially
51 during cold weather, without a major service disruption for nearly 80 years. Meeting
52 customers' energy demands requires comprehensive planning, extensive natural gas
53 supplies, capacity on upstream interstate pipelines, storage services, and a well-
54 engineered and maintained distribution system. It requires dedicated, trained employees
55 who understand and operate these systems and facilities. Our customers' demand for
56 natural gas can vary from about 90,000 Dth per day in hot summer weather to 1,163,000

57 Dth per day in below-zero peak-day conditions. QGC Exhibit 2.1 shows these extremes
58 for the July 2006 through June 2007 period. The dashed line represents firm sales
59 customers' actual daily demand. The solid line shows the expected daily firm sales
60 demand assuming normal temperatures as well as the peak demand during extreme winter
61 weather conditions. In January 2007, firm sales customers' demand combined with firm
62 transportation and interruptible loads approached peak-day conditions. Firm deliveries
63 during this period were above the previous one-day record for four consecutive days. On
64 the day of highest send-out, we delivered 952,121 Dth to firm sales customers, 59,713
65 Dth to firm transportation customers and 79,454 Dth to interruptible customers for total
66 deliveries of 1,091,288 Dth, compared to a projected peak day of 1,163,000 Dth. During
67 this period of extreme weather, we met all customers' demands for natural gas. This
68 required around-the-clock dedication of our gas supply and gas control employees. It
69 required our facilities to be well maintained and in top working condition. It took the
70 combined effort of hundreds of Questar Gas, Questar Pipeline and Wexpro employees
71 working in the field in sub-zero weather. Our performance during this period kept vital
72 energy supplies flowing to our customers.

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

79 **Q. How many new customers annually request service from Questar Gas?**

80 A. Recently the number of customers served by Questar Gas has grown by 25,000 to 30,000
81 each year. Our goal is to provide natural gas service to each of these customers on a
82 timely basis. The bars in QGC Exhibit 2.2 show the number of customers added each
83 year for the past five years and projections for 2007. The line shows the number of
84 complaints we have received because gas was not available when needed. The number of
85 complaints of this type fell from 23 in 2002 to 3 in each of the last two years. The small

86 number of complaints concerning timely connections and the reduction in those
87 complaints over the past five years show how well we are meeting new customer needs.

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

89 A. We know customers want reliable, reasonably priced natural gas service. To keep service
90 as economical as possible, we strive to operate efficiently. Today Questar Gas is serving
91 91 percent more customers than we served in 1985 with 29 percent fewer employees .
92 QGC Exhibit 2.3 depicts customers per employees from 1985 through 2006. This
93 efficiency reduces the price customers pay for natural gas service. John Reed's testimony
94 in this case presents a benchmarking study confirming Questar Gas' top efficiency
95 performance compared to other gas distribution companies. Very few gas utilities
96 operate in areas where the geography and population distribution is as diverse as Questar
97 Gas' service territory. This makes Questar Gas' top level efficiency even more
98 remarkable.

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

101 A. The U. S. Department of Energy's Energy Information Administration (EIA) maintains
102 an online data base of energy statistics at <http://www.eia.doe.gov/>. It includes the
103 average residential natural gas price by state. Traditionally Utah natural gas customers
104 pay nearly the lowest prices in the nation, and Questar Gas serves nearly all gas
105 customers in Utah. For the past three years, only Alaska, where they have plenty of gas
106 and no way to get it to other markets, had lower residential prices than Utah. QGC
107 Exhibit 2.4 shows Utah's ranking in the EIA data. Utah's price for both commercial and
108 industrial customers is also near the lowest in the country. The cost-of-service Wexpro
109 production, which has saved customers over \$1.5 billion since 1981, is a major reason for
110 these lower prices. Efficient Questar Gas operations also help keep our prices lower than
111 other areas of the country.

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

114 A. Yes. Questar Gas files detailed quarterly reports with Utah regulators showing our
115 performance in many areas of customer service including call handling, meter-reading
116 accuracy and emergency response times. Our goals were established with input from
117 regulators. Our performance consistently exceeds almost every goal and the trends are
118 positive. I have prepared QGC Exhibit 2.5 that summarizes these service levels for
119 selected areas. We have worked hard to manage expenses and operate efficiently. At the
120 same time, we remain focused on providing high levels of service in areas customers
121 value most.

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

123 A. Yes. Every quarter Dan Jones and Associates surveys a random sample of customers who
124 have called Questar Gas for service, as well as customers who have had in-home service.
125 Customers who have not called or had a service person in their homes are also surveyed.
126 This survey includes detailed questions seeking customer satisfaction with the service
127 they received on the telephone and in their home. It also includes questions on their
128 overall satisfaction. QGC Exhibit 2.6 shows quarterly survey results since 2002 for the
129 question concerning their overall satisfaction with the products and services they receive
130 from Questar Gas. The results show customer satisfaction is high. Data for the third
131 quarter of 2007 show that on a five-point scale where "five" is "totally satisfied" and
132 "one" is totally dissatisfied, 82 percent of our customers rate our overall service as a four
133 or five. Only 8 percent rate our overall service as a one or two. 11 percent give us a 3
134 rating or do not respond to the question. The dip in customer satisfaction shown in the 4th
135 quarter of 2005 occurred right after a significant gas-cost rate increase. After the
136 publicity about the rate increase ended, the ratings rebounded. The survey also includes
137 questions about many specific areas of service such as call center, in-home services and
138 Ask-A-Tech services. Customer opinion of our service in each of these areas is also
139 high.

140 **Q. Mr. Allred, you indicated that Questar Gas customer satisfaction is high. However,**
141 **the J.D. Powers 2007 report shows Questar Gas about average nationally and below**
142 **average in the western region. Would you please explain this discrepancy?**

143 A. Yes. The J.D. Powers survey measures residential customer satisfaction with gas utility
144 companies across six factors or areas: company image, communications, billing and
145 payment, price and value, customer service and field service. Only 10 percent of the total
146 J.D. Powers score is based on customer and field service, which are the key areas covered
147 in the Dan Jones survey. Over 50 percent of the JD Powers survey results reflect the
148 customer's opinion of the image of the Company and the communications they have
149 heard about the Company. I believe the Dan Jones survey provides us with better
150 information about customer opinions concerning our telephone, Ask-A-Tech, and in-
151 home service than the J.D. Powers survey.

152 **Q. Is Questar Gas taking actions which should improve the J.D. Powers results?**

153 A. Yes. According to the J.D. Powers report, customers who recalled receiving energy
154 conservation information from their utility reported increased satisfaction with their
155 utility company's concern for the environment and commitment to the local community.
156 Additionally, the report stated "helping customers manage their energy costs by
157 educating them about lowering their consumption adds considerable value to the
158 relationship a gas utility has with its customers." This is precisely the message the
159 Company is sending to customers by implementing the Conservation Enabling Tariff and
160 Demand-Side Management Pilot Program. The response to our energy-efficiency
161 programs has been positive. We believe our J.D. Powers scores in the company image,
162 communications, and price and value categories will improve significantly as more
163 customers understand and utilize our energy-efficiency programs.

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

165 A. Questar Gas is among the top performing natural gas utilities in the nation. We continue
166 to deliver safe, reliable, low-priced natural gas service to our customers, and they are
167 very satisfied with the service they receive. Even with the rate increase we are asking for

168 in this case, our customer prices for natural gas service will be nearly the lowest in the
169 nation.

170 **III. AFFILIATE TRANSACTIONS**

171 **Q. You have provided testimony regarding Questar Gas' high level of performance.**
172 **Does Questar Corporation's organization provide benefits to Questar Gas and its**
173 **customers?**

174 A. Absolutely. Questar Corporation is a natural gas-focused energy company with three
175 major lines of business—retail gas distribution, interstate gas transmission, and gas and
176 oil exploration and production—which are conducted through its three principal
177 subsidiaries:

- 178 1. Questar Gas Company provides retail natural gas distribution services to
179 more than 861,000 residential, commercial and industrial customers in
180 Utah, Wyoming and Idaho.
- 181 2. Questar Pipeline Company provides interstate natural gas transportation
182 and storage and other energy services regulated by the Federal Energy
183 Regulatory Commission (FERC).
- 184 3. Questar Market Resources Inc. is a sub-holding company that operates
185 through four principal subsidiaries. Questar Exploration and Production
186 Company acquires, explores for, develops and produces natural gas and
187 oil. Wexpro Company manages, develops and produces cost-of-service
188 reserves for Questar Gas. Questar Gas Management Company provides
189 midstream field services including natural gas gathering and processing
190 services for affiliates and third parties. Questar Energy Trading Company
191 markets equity and third-party natural gas and oil, provides risk-
192 management services and owns and operates an underground gas-storage
193 reservoir.

194

195 **Q. Why are affiliate costs an area of focus for regulators?**

196 A. Affiliate transactions have always been scrutinized to determine whether goods or
197 services purchased from affiliates result in higher costs. I will show that our affiliate
198 transactions result in lower costs for customers.

199 **Q. Please provide an example of an affiliate transaction that results in lower costs for**
200 **customers?**

201 A. Wexpro provides 40-45 percent of the gas consumed by Questar Gas firm sales
202 customers under the terms and conditions of the 1981 Wexpro Stipulation and Agreement
203 (Wexpro Agreement), which was approved by the Utah Public Service Commission and
204 ratified by the Utah Supreme Court. Wexpro's costs are recovered in gas cost pass-
205 through cases. These annual costs are currently about \$191 million. A similar volume of
206 purchased gas would cost \$280 million (if purchased at the average projected cost of
207 \$5.44 per Dth used in the most recent pass through case in Docket 07-057-09). Using
208 similar comparisons for prior years, this affiliate transaction has saved Questar Gas
209 customers an estimated \$1.5 billion dollars since 1981. Since the cost of this gas is
210 determined by the Wexpro Agreement, much of this savings would accrue to Questar Gas
211 customers regardless of our organization structure. However Wexpro achieves
212 significant cost efficiencies through its affiliation with Market Resources.

213 **Q. How does Questar Gas account for affiliate transactions?**

214 A. First, Questar Gas and other affiliates keep separate books and records. This allows
215 affiliate transactions to be identified and tracked. Second, we directly assign costs where
216 practical to do so. Third, common costs are allocated using methods that reflect both cost
217 causation and benefits received.

218 **Q. What affiliate costs are included in general rates?**

219 A. The costs included in general rates fall into two categories: services provided by the
220 corporation whose cost is shared among all affiliates; and services shared by Questar Gas
221 and other affiliates.

222 **Q. Please explain the Questar corporate costs that are directly billed to Questar Gas.**

223 A. We are directly billed for corporate services performed directly for Questar Gas.
224 Examples are corporate employees working directly on Questar Gas projects or issues
225 such as legal issues or internal audits for Questar Gas. Another class of costs that are
226 directly billed to Questar Gas is directly identifiable costs that are part of a corporate
227 activity—income taxes are an example. Questar Corporation files consolidated tax
228 returns. The income taxes attributable to each affiliate are determined and billed directly
229 to that affiliate. Two other examples are pension costs, including post-retirement
230 benefits, and employee health and dental plans. The participants in these plans are
231 identifiable by company and the costs are billed directly to that company.

232 **Q. Please explain the Questar corporate costs that are allocated to Questar Gas.**

233 A. The Commission approved the Distrigas method for allocating common corporate costs
234 in the Docket No. 89-057-15. The Distrigas formula allocates costs to each affiliate
235 based on revenues net of gas costs, labor costs, and net plant. Corporate costs allocated
236 using this method include corporate governance, legal, finance and internal audit. About
237 86 percent of Questar Corporation's common costs billed to affiliates are allocated to all
238 Questar affiliates using a "Distrigas" allocation factor. For the test year, Questar Gas'
239 share of the Distrigas allocated costs will be about 27 percent. Over time, with the
240 growth of the other corporate entities, Questar Gas' share of these costs has declined. For
241 example, in 1991, the first year the Distrigas allocation was used, Questar Gas' share was
242 about 44 percent. The remaining 14 percent of corporate costs allocated to affiliates are
243 the costs of administering employee benefit programs. These costs are allocated
244 according to the number of employees in each affiliate.

245 **Q. Now let's discuss activities or services shared by Questar Gas and other affiliates.**
246 **How are these costs reflected in Questar Gas rates?**

247 A. Questar Gas provides engineering, accounting, legal, and administrative functions such as
248 purchasing, environmental-and-safety, fleet services, information technology and
249 communications to Questar Pipeline and other affiliates. Where possible, these costs are

250 directly assigned. Common costs are allocated to each company based on allocation
251 factors that reflect cost causation and benefits received.

252 **Q. Does sharing support services result in lower costs for Questar Gas?**

253 A. Yes. This shared-service practice, including the cost allocations, was examined in the
254 2002 Questar Gas general rate case, Docket No. 02-057-02. In 2004, the FERC was
255 considering rules that would have prevented Questar Gas and Questar Pipeline from
256 sharing such services. Questar Gas and Questar Pipeline submitted an estimate of the
257 added costs to both Questar Gas and Questar Pipeline if such sharing was not allowed. As
258 a result of the efforts of many participants who recognized the cost benefits of shared
259 services, the FERC modified its proposed rules so cost saving shared services could be
260 retained. QGC Exhibit 2.7 is an exhibit filed with the FERC in 2002 that shows an
261 estimate of the cost of additional employees and facilities that would be required if
262 Questar Gas and Questar Pipeline operated with no shared services. The upper section
263 shows the estimated number of additional employees that would be required in different
264 areas. The last two columns show the added costs for both companies. The lower
265 portion of the exhibit shows the cost of additional facilities and systems that would be
266 required. Finally, an estimate of the cost-of-service impact on Questar Gas and Questar
267 Pipeline is shown along with the ultimate impact on Questar Gas since we are a major
268 customer of Questar Pipeline. As shown in this exhibit, Questar Gas' cost would be
269 higher but for these shared support services.

270 **IV. THE NEED FOR A GENERAL RATE INCREASE**

271 **Q. The last Questar Gas general rate case was in 2002. How have you been able to**
272 **defer a general rate case until now?**

273 A. Since 2002, we have successfully balanced customer growth, increasing operating costs,
274 and growth in rate base without requesting a general rate increase. The number of
275 customers has grown from 750,128 customers at the end of 2002 to 861,000 at the end of
276 October 2007. QGC Exhibit 2.8 shows that, from 2002 to 2006, rate base growth was
277 moderate. The dramatic increase beginning in 2007 is driven by increased high pressure

278 feeder line replacement and lower depreciation rates. DNG revenues flattened beginning
279 in 2006 as a result of the \$9.7 million rate reduction in mid-2006 and the annual growth
280 of new customers falling from the 30,000 level back to about the 25,000 level. At the
281 same time operating expenses, which include O&M, depreciation, other taxes, and
282 income taxes have continued to increase. Efficient operations and increased revenues
283 from new customers have helped avoid a general rate case until now.

284 **Q. What is driving the need for a general rate increase at this time?**

285 A. Utah's customer growth has outpaced the ability of efficient operations to offset growing
286 costs of operations. Our ability to earn our allowed return will be compromised by the
287 growth in our rate base. This growth is driven by the costs of our ever-expanding system;
288 replacing, reinforcing and extending high pressure feeder-lines; and lower depreciation
289 expense. The high-pressure feeder line replacement projects are designed to replace aging
290 pipelines with pipe sized to meet growing customer demand. This will allow us to
291 continue to operate safely while also adding needed capacity to serve Utah's growing
292 peak-day load. Generally the feeder lines that need to be replaced have been in service
293 since the late 1940's and 1950's. Much of this pipe was originally manufactured in the
294 late 1920's and 1930's. Due to steel shortages, pipe was reconditioned after WWII and
295 then reused in pipeline service, which was the industry practice at that time. The age of
296 this pipe, along with growth in peak-day demands on our system, requires feeder-line
297 replacements. In most cases, we are replacing existing lines with larger diameter pipe to
298 increase delivery capacity. Our assessment of this pipe's integrity, more stringent
299 Department of Transportation pipeline safety requirements and the need for increased
300 capacity has led us to significantly accelerate the pace of feeder line replacement. The 38
301 mile Feeder Line 26 replacement in Utah County from Payson to Orem started in 2002
302 and took six years. In 2007, we replaced 18 miles of Feeder Line 7 under State Street in
303 Salt Lake County running from 33rd South to the Point of the Mountain. In 2008, we will
304 replace 16 miles of feeder line running across the Salt Lake Valley under 33rd South and
305 35th South. Our annual budget for replacing Feeder Line 26 was \$6-8 million. Feeder line
306 replacement will run about \$45 million annually for the next five years. As a result of this
307 significant increase and growth in other capital requirements, our total capital budget will

308 increase from about \$95 million to about \$135 million each year for at least the next five
309 years. This increase of over 40 percent will continue to increase our plant investment and
310 rate base. The increase in rate base is a principal driver of the need for a general rate
311 increase.

312 **Q. What is the projected impact of these higher costs on your earned returns?**

313 A. Since 1994, Questar Gas has provided Utah regulators with a semi-annual Results of
314 Operations Report. These reports show the earned Return on Equity (ROE) using the
315 Commission-ordered adjustments. QGC Exhibit 2.9 shows that since the last general rate
316 case, reported Questar Gas ROE has been below the allowed 11.2 percent ROE. The
317 exhibit also shows the earned ROE of 10.78 percent for the 12 months ended June 2007,
318 7.52 percent projected for 2008, and 7.01 percent for the 12 months ending June 2009.
319 These projections reflect higher capital spending for feeder lines and the resulting growth
320 in rate base. Even with continued efficient operations and successful management of
321 non-gas costs, the investment required to maintain the distribution system, connect new
322 customers, and replace high-pressure feeder lines overwhelms our ability to earn a
323 reasonable return.

324 **Q. Why does the Company need to request a rate increase now when you expect to**
325 **nearly earn your allowed return in 2007?**

326 A. General rate cases are an eight-month process. We must look forward to 2008 returns to
327 determine the need for a general rate case. As shown in QGC Exhibit 2.9, without rate
328 relief, 2008 returns will fall to 7 percent. Conducting a rate case now will result in lower
329 long-term costs to customers than waiting until after the actual returns fall. If Questar
330 Gas' ROE falls to the 7 percent level, we risk higher debt costs and a shortage of equity
331 capital. Higher debt cost will result in higher costs for customers. If Questar Gas is
332 unable to make the needed investments to replace aging feeder lines, our ability to
333 continue to serve customers could be jeopardized.

334

V. CONCLUSION

335 **Q. Would you please summarize your testimony?**

336 A. As my testimony and the testimony of Mr. Reed show, Questar Gas is one of the top
337 performing utilities in the nation. We hold ourselves accountable to meet or exceed the
338 expectations of our customers—and we do. We have a unique corporate structure that
339 contributes to the lowest rates in the lower 48 states. We hold the line on costs and
340 continually look for more efficient ways to operate. We contribute to the well being and
341 economies of the communities and states we serve. Our goal in filing this case is to
342 continue maintaining and enhancing one of the nation's most reliable distribution
343 systems. I believe Questar Gas is without peer in providing reasonably-priced, adequate,
344 reliable and safe service to customers.

State of Utah)

) ss.

County of Salt Lake)

I, Alan K. Allred, 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.

Alan K. Allred

SUBSCRIBED AND SWORN TO this ____ day of December 2007.

Notary Public