**Witness CCS –1**

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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| | ) | **Docket No. 02-057-02** |
| **In the Matter of the Application of** | ) | |
| **Questar Gas Company for an** | ) | **DIRECT TESTIMONY** |
| **Increase in Rates and Charges** | ) | **OF ERIC ORTON** |
| | ) | **FOR THE COMMITTEE OF** |
| | | **CONSUMER SERVICES** |

**3 September, 2002**

Q. **PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Eric Orton. My business address is 160 East 300 South Salt Lake City, Utah.

Q. **BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?**

A. I am employed as a Regulatory Analyst for the Committee of Consumer Services (Committee).

Q. **WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS DOCKET?**

A. My purpose is to present a summary of the Committee's testimony and recommendations for this rate case.

***Witness Summary***

Q. **PLEASE SUMMARIZE THE WITNESSES WHO HAVE PREPARED AND FILED TESTIMONY ON BEHALF OF THE COMMITTEE IN THIS RATE CASE.**

A. Certainly.

- I am Witness CCS 1 and I give a brief overview of the Committee's recommendations in the areas of revenue requirement, rate spread, and rate design.
- Witness CCS 2 is Mr. Larkin. His testimony addresses the issue of the appropriate Test Year for this rate case and two revenue requirement issues.

- Witness CCS 3 is Ms. DeRonne. Her testimony addresses the vast majority of revenue, expense and rate base issues in the area of revenue requirement.
- Witness CCS 4 is Mr. Parcell. His testimony addresses issues in the area of cost of capital.
- Witness CCS 5 is Mr. Yankel. His testimony addresses issues in the area of cost of service and rate design.
- Witness CCS 6 is Mr. McFadden. His testimony addresses issues in the areas of cost-of-service and rate design, extension policy, and recovery and spread of CO2 processing expense.
- Witness CCS 7 is Ms. Francone. Her testimony addresses Questar Gas's proposed Basic Service Fee (i.e., customer charge).

***Test Year***

Q. **COMMITTEE WITNESS GIMBLE EARLIER IN THIS PROCEEDING RECOMMENDED THAT THE COMMISSION ADHERE TO ITS TEST YEAR POLICY OF USING A HISTORICAL (2001) AVERAGE TEST YEAR FOR THE PURPOSES OF SETTING NEW DISTRIBUTION NON-GAS RATES FOR QUESTAR GAS IN THIS DOCKET. HAS THE COMMITTEE CHANGED ITS RECOMMENDED 2001 AVERAGE TEST YEAR BASED ON ITS AUDIT OF BOTH 2001 AND 2002 TEST YEAR INFORMATION?**

A. No. Based on its review of 2001 and 2002 test year information, the Committee continues to strongly recommend that the Commission adopt a 2001 average test year as the basis for setting the revenue requirement level in this case. In his testimony, Mr. Larkin provides additional reasons for relying on a 2001 average test year.

***Revenue Requirement***

Q. **WHAT OVERALL REVENUE REQUIREMENT DOES THE COMMITTEE RECOMMEND IN THIS PROCEEDING?**

A. The Committee's primary recommendation is that a 2001 average test year be used for establishing new base rates for Questar Gas in this proceeding. Using a 2001 average test year the Committee recommends a revenue requirement <u>decrease</u> of approximately $14.2 million. Since test-year remains an open issue, the Committee also audited 2002 accounts and records. Based on a 2002 average test year, the Committee calculates a revenue requirement <u>decrease</u> of about $11.9 million. Committee witness DeRonne sponsors a set of exhibits supporting the Committee's recommendations for both test years.

***Cost of Capital/Return on Equity***

Q. **WHAT IS THE COMMITTEE'S RECOMMENDATION RELATING TO THE RETURN ON COMMON EQUITY (ROE) FOR QUESTAR GAS?**

A. Relying on three standard methodologies for estimating ROE, Committee witness Parcell concludes that the cost of common equity for the gas distribution industry is a range of 9.5 percent to 11.0 percent. His analysis of Questar Gas's business and financial risks indicates that Questar Gas has below-average risk compared to other local distribution companies. His recommendation therefore is that a fair and reasonable ROE for Questar Gas lies within a range of 9.5 percent to 10.5 percent. Mr. Parcell's point estimate is the mid-point of the above range, or 10.0 percent.

Q. **DOES THE COMMITTEE RECOMMEND ANY CHANGES TO THE COMPANY'S PROPOSED CAPITAL STRUCTURE?**

A. Yes. Questar Gas has consistently used short-term debt in recent years as a means of financing its operations. Questar Corporation provided short-term debt to Questar Gas at a 2001 test-year cost of 2.27 percent. Committee witness Parcell has correspondingly modified the adjusted test-year capital structure of Questar Gas to include short-term debt using the actual 2001 test-year cost of 2.27 percent.

Q. **BASED ON THE COMMITTEE'S RECOMMENDATIONS IN THE AREAS OF RETURN ON EQUITY AND CAPITAL STRUCTURE, WHAT IS THE RESULTING WEIGHTED COST OF CAPITAL FOR QUESTAR GAS?**

A. The Committee's recommendations on ROE and capital structure result in a range of 8.09 percent to 8.56 percent, with a mid-point of 8.32 percent (Parcell, CCS Exhibit 4.13).

***Cost-of-Service, Rate Spread and Rate Design***

**Q. PLEASE SUMMARIZE THE COMMITTEE'S TESTIMONY AND RECOMMENDATIONS IN THE AREAS OF COST ALLOCATION METHODOLOGY, RATE SPREAD AND RATE DESIGN?**

<u>Cost Allocation Methodology, Rate Spread and Rate Design</u>

A. Two Committee witnesses –Anthony J. Yankel and Michael J. McFadden-- address issues in these areas. Based on their respective analyses, they conclude that there are significant problems with the Company's cost allocation and rate design methodologies. In particular, the use of a flawed and outdated cost allocation methodology results in the GS-1 class incurring a disproportionately large share of distribution system costs. The Committee's key findings and recommendations in these areas are as follows:

1. The GS-1 class is currently contributing revenues at a level that exceeds both the existing system average rate of return and the rate of return sought by Questar Gas in its filing. If the Commission authorizes a revenue requirement increase, none of the increase should be allocated to the GS-1 class. If the Commission authorizes a revenue requirement decrease, all of the decrease should be distributed to the GS-1 class. (Yankel)
2. The current FT-1 (large industrial bypass) rate is substantially below cost-of-service. This rate should be eliminated and there should be a phase-in to special contract rates that would allow Questar Gas to

address the circumstances and costs associated with each individual customer's bypass situation. The purpose of this recommendation is to minimize the amount of rate discounts given to large industrial customers to avoid system bypass, while maximizing the amount of load retention that benefits all other customers on QGC's system. (McFadden)

3. Customers taking service under the Company's Interruptible Transportation (IT) and Sales (IS) Tariffs should be allocated a portion of peak day capacity costs. The basis for this Committee recommendation stems from the fact that interruptions are infrequent and customers are essentially receiving what amounts to firm service. The Committee proposes to allocate peak day costs to these interruptible tariffs using average daily usage. This proposal increases IT rates by 22.2 percent and IS rates by 16.5 percent. (McFadden)
4. The present rate design (steeply declining) for the GS-1 class is flawed and needs to be addressed more fully in a task force setting. Given a closer examination of load characteristics and usage patterns within the GS-1class, it may be appropriate to divide GS-1 customers into a residential class and a commercial class. (McFadden, Yankel) As an interim step, the Committee recommends increasing the current GS-1 tailblock by 33 percent to move toward a more flat rate structure for

this class. The extra revenues generated by this increase should be used to lower the rate for the first block. (Yankel)

5. A task force should be initiated in early 2003 to identify and address significant issues pertaining to Questar Gas's cost allocation and rate design methods. A report identifying issues, conclusions and recommendations should be filed with the Commission by August 1, 2003. (Yankel)
6. Questar Gas should be required to file a cost-of-service (only) case by November 1, 2003 so that the Commission can further redistribute the Company's revenue requirement in a manner that more directly reflects cost causation. (Yankel, McFadden)

<u>Recovery and Spread of CO2 Costs</u>

Q. **PLEASE PROVIDE AN OVERVIEW OF THE COMMITTEE'S RECOMMENDATION ON THE RECOVERY AND SPREAD OF CO2 PROCESSING COSTS?**

A. Committee witness McFadden sponsors a recommendation to move the recovery of CO2 processing costs from general rates to a uniform per-decatherm rider. If adopted by the Commission, this approach spreads the CO2 costs equally among all classes.

<u>Basic Service Fee (Residential Customer Charge)</u>

Q. **ARE THERE ANY OTHER RATE DESIGN ISSUES THAT THE COMMITTEE ADDRESSES IN ITS TESTIMONY?**

A. Yes. The Company proposes to increase its monthly Basic Service Fee (customer charge) from $5 to $6. Committee witness Ms. Francone has prepared responsive testimony recommending that the Basic Service Fee remain at its current monthly level of $5.

<u>Extension Policy</u>

Q. **IN TESTIMONY, QUESTAR GAS PROPOSES SEVERAL CHANGES TO ITS EXTENSION POLICY. WHAT RECOMMENDATIONS DOES THE COMMITTEE HAVE RELATING TO CHANGES INVOLVING THE NEW PREMISE FEE (NPF) AND CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)?**

A. Committee witness McFadden closely examined the Company's proposals in this area and recommends the following:

- The Committee agrees with the Company's proposal to eliminate the NPF;
- The Committee agrees with the Company that the accounting treatment of Contributions in Aid of Construction ("CIAC") should be changed from an increase in revenue to a reduction to rate base; and
- The Company's proposal to increase the current level of CIAC by $100 for new customers is too small. The Company's proposal leaves a significant

shortfall of $728, which fosters an intergenerational subsidy. To eliminate this subsidy of new customers by existing customers, the Commission should establish a construction allowance for mains, service lines, meters and regulators that reflects the costs embedded in rates approved in this case. Alternatively, the Committee offers a phased-in approach over three years to eliminate the current subsidy.

Q. **HAS THE COMPANY PROPOSED ADDITIONAL CHANGES IN THE AREA OF EXTENSION POLICY THAT WERE NOT ADDRESSED IN ITS TESTIMONY?**

A. Yes. In his testimony, Committee witness McFadden addressed several issues related to proposed changes that QGC included in its tariff, but did not address in its testimony. These issues are:

- Calculation of the default payment for mains extensions;
- Construction allowance for firm commercial customers' mains extensions;
- The breakdown of the service line, meters and regulators extensions; and
- Excess construction costs of service line, meters and regulators extensions.

Q. **DOES THAT CONCLUDE YOUR TESTIMONY?**

A. Yes.