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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Questar
Gas Company for a General Increase in Rates
and Charges

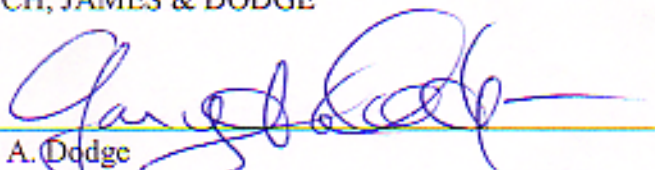
DOCKET NO. 02-057-02

PREFILED REBUTTAL TESTIMONY OF
THE UAE INTERVENTION GROUP
AND THE UNITED STATES
EXECUTIVE AGENCIES

The UAE Intervention Group and the United States Executive Agencies hereby submit the
Prefiled Rebuttal Testimony of Kevin C. Higgins in this docket.

DATED this 4th day of October, 2002.

HATCH, JAMES & DODGE



Gary A. Dodge
Attorneys for UAE

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was mailed, postage prepaid, this 4th day of October, 2002, to the following:

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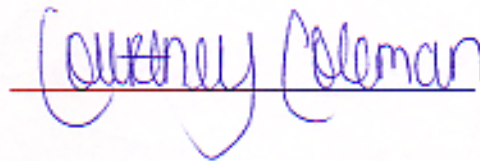
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A handwritten signature in blue ink that reads "Courtney Coleman". The signature is written in a cursive style and is positioned above a horizontal red line.

PREFILED REBUTTAL TESTIMONY

Of

KEVIN C. HIGGINS

On behalf of the UAE Intervention Group and the United States Executive Agencies

In the Matter of the Application of Questar Gas Company for a General Increase in Rates and
Charges

Utah Public Service Commission Docket No. 02-057-02

October 4, 2002

1 **Introduction**

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

3 A. Kevin C. Higgins, 39 Market Street, Suite 200, Salt Lake City, Utah, 84101.

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

5 A. I am a Principal in the firm of Energy Strategies, LLC.

6 **Q. On whose behalf are you testifying in this proceeding?**

7 A. My testimony is being sponsored by the Utah Association of Energy Users
8 Intervention Group (UAE) and the United States Executive Agencies (USEA).

9 **Q. Did you file direct testimony in this proceeding?**

10 A. Yes, I did.

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

12 A. I will rebut aspects of the direct testimony offered by Division of Public Utilities
13 (Division) witness Darrell S. Hanson, Committee of Consumers Services (Committee)
14 witnesses Anthony J. Yankel and Michael J. McFadden, and Utah Energy Office (UEO)
15 witness David Nichols. In addition I will correct a citation I made in my direct testimony
16 concerning the adoption of the weather normalization adjustment mechanism.

17 **Q. What topics are covered in your rebuttal testimony?**

18 A. The topics addressed in my rebuttal are: (1) design of charges to recover CO2
19 processing costs (Mr. Hanson and Mr. McFadden), (2) rate spread (Mr. Yankel and Mr.
20 McFadden), (3) cost-of-service (Mr. Yankel), and (4) rate design (Mr. McFadden and Mr.
21 Nichols).

22 **Q. What are the primary conclusions of your rebuttal testimony?**

1 A. (1) The proposals by Mr. Hanson and Mr. McFadden to discard the stipulation in
2 99-057-20 and instead recover CO2 removal costs on a volumetric basis should be
3 rejected. Instead, the allocation used in the stipulation should be adopted, as proposed by
4 QGC. If the stipulation allocation is not used, then CO2 removal costs should be
5 recovered via a flat charge per customer with no relationship to volume.

6 (2) Mr. Yankel's proposal that GS-1 customers should receive no portion of any
7 rate increase (but 100 percent of any rate decrease) fails to consider the regulatory
8 principal of gradualism and ignores one of the main drivers of QGC's requested rate
9 increase, namely growth in GS-1 customers. His proposal should be rejected.

10 (3) Mr. McFadden's proposal that interruptible customers should be allocated a
11 share of peak day capacity costs unreasonably shifts costs to interruptible customers that
12 are not causally related to interruptible service. This cost shift is not supportable, would
13 have a significant negative impact on interruptible customers, and should be rejected.

14 (4) Mr. Yankel's "transitional" proposal to reallocate the costs associated with
15 mains should be rejected and QGC's updated analysis of network costs should be used in
16 its stead.

17 (5) Mr. Yankel grossly mischaracterizes the situation of customers served on
18 feeder lines that have only a few customers on them, and his proposal to assign additional
19 costs to these customers is unjust and unreasonable, and should be rejected.

20 (6) Mr. McFadden's proposal to eliminate the FT-1 rate schedule in favor of a
21 time-consuming and costly administrative process is a step backward and should be
22 rejected.

1 (7) Mr. Nichols' proposal to eliminate declining blocks in the DNG rates would
2 instantly create winners and losers affecting virtually every customer on the system,
3 causing serious economic dislocations for the larger consumers of natural gas, a
4 consequence he fails to consider. Moreover, his proposal inappropriately attempts to use
5 DNG pricing to carry out a commodity pricing policy. For these reasons, his proposal
6 should be rejected.
7

8 **Design of charges to recover CO2 processing costs**

9 **Q. What are the proposals of Mr. Hanson and Mr. McFadden regarding the design of**
10 **charges to recover CO2 processing costs?**

11 A. Both Mr. Hanson and Mr. McFadden recommend that any CO2 removal costs be
12 recovered on a volumetric basis. In contrast, in its filing, Questar Gas Company (QGC)
13 proposed that CO2 processing costs be recovered in accordance with the rate spread
14 developed for that express purpose by stipulation in Docket 99-057-20. That stipulation
15 was signed in the prior proceeding by many of the parties to this proceeding, including
16 the Division and a number of UAE members. The stipulation provided for recovery of
17 CO2 processing costs on a uniform percentage-of-rates basis, with the exception that IT
18 and FT-2 would be assigned a double-weighting.

19 **Q. What are the impacts of Mr. Hanson's and Mr. McFadden's proposals?**

20 A. The impacts are summarized in Exhibit UAE/USEA 1R.1. Both the Division's
21 and the Committee's proposals would significantly shift cost responsibility for recovering
22 CO2 processing costs onto transportation customers. Mr. Hanson's proposal would shift

1 some \$1.1 million (of a total of \$5 million) in costs onto FT-1, FT-2, and IT customers
2 relative to the stipulation. Mr. McFadden's proposal would shift some \$1.3 million onto
3 these same rate schedules. (Because Mr. Hanson's proposal exempts the last two FT-1
4 blocks from this charge, and Mr. McFadden's does not, the proposals are not identical in
5 their impacts.)

6 On a stand-alone basis – that is, assuming no rate increases are granted to QGC –
7 Mr. Hanson's proposal would raise IT rates 23.8 percent. Taken in combination with
8 QGC's requested rate increase, Mr. Hansen's proposal would raise IT rates by 45.4
9 percent.

10 On a stand-alone basis, Mr. McFadden's proposal would raise IT rates 22.2
11 percent, and FT-1 rates by 33.5 percent. Taken in combination with QGC's requested
12 rate increase, and applying QGC's gradualism proposal, Mr. Hansen's CO2 spread
13 proposal would raise IT rates by about 43.8 percent.

14 **Q. Do you believe these proposed cost shifts are reasonable?**

15 A. No. While I do not believe it is appropriate to allocate these costs to retail
16 customers in the first instance, I indicated in my direct testimony, and in Docket 99-057-
17 20, that if any CO2 processing costs are allocated to QGC customers, the most
18 appropriate allocation mechanism is on a per-customer basis, without regard to volume.
19 Here is why. QGC is incurring these CO2 removal costs in order to promote customer
20 safety. The introduction of untreated coal seam gas into the QGC system would have
21 required the immediate re-orificing of small end-users' gas appliances throughout QGC's
22 distribution territory. Clearly, re-orificing is a cost that would have been incurred on a

1 per-customer basis, with no relationship to gas volume, for hundreds of thousands of
2 residential and small commercial customers. QGC has justified the CO2 removal plant as
3 an alternative that was faster and cheaper than re-orificing. Simply because CO2 removal
4 may be cheaper and faster than re-orificing does not change the basic fact that re-orificing
5 costs are costs incurred for each customer without relationship to volume; consequently,
6 the use of QGC's faster, lower-cost alternative should also be recovered on the same
7 basis: a flat charge per customer, with no relationship to volume.

8 Mr. McFadden acknowledges that QGC is being permitted to recover CO2
9 removal costs in order to address safety concerns – and he states that “costs should be
10 evenly apportioned among all customers.”¹ I agree: this suggests a flat charge per
11 customer. It is erroneous to begin with an appliance-safety-related rationale and then
12 conclude that the proper recovery mechanism is volumetric.

13 **Q. Does Mr. Hansen provide a reasonable justification for using a volumetric basis for**
14 **spreading CO2 processing costs?**

15 A. No. Mr. Hansen justifies his approach by claiming the CO2 processing plant is
16 needed because of FERC's open access policy, the benefits of which allegedly accrue on
17 a volumetric basis. In citing FERC as the cause of the CO2 plant, Mr. Hansen
18 completely sidesteps the fundamental question as to whether, under the terms of open
19 access, the gas producers should be the ones responsible to pay for CO2 removal. This
20 issue was vigorously contested in 99-057-20, and the Division wound up relinquishing
21 this argument by agreeing to a stipulation under which customers are held responsible for

¹ Direct testimony of Michael J. McFadden, p. 18, line 7.

1 \$5 million per year in CO₂ processing costs (although through Mr. Hansen’s testimony
2 the Division now wishes to discard the companion stipulation that allocated these costs).
3 Once it is accepted that customers – and not producers – are primarily responsible for
4 these costs, as the Division has done and the Commission has accepted, then it is
5 impossible to escape the fact that the reason these costs are being incurred is customer
6 safety. And once it is acknowledged that customer safety is the reason for these costs, it is
7 simply not credible to escape the conclusion that cost causation is occurring at the
8 customer-by-customer level.

9 **Q. Do you have other concerns about the Division’s position on this matter?**

10 A. Yes. At a broad policy level I believe it is inappropriate for the Division to
11 orchestrate a five-year settlement that places responsibility on customers to fund CO₂
12 processing costs, enter into a companion stipulation to allocate these costs, and then turn
13 around and abandon the second stipulation to the severe disadvantage of certain
14 stipulating parties half-way through the five-year period. From a transportation customer
15 perspective, this tactic has the appearance of “bait and switch.” I strongly encourage the
16 Commission to reject the Division’s approach to this matter.

17 **Q. What policy do you recommend the Commission adopt?**

18 A. While I continue to believe that CO₂ processing costs should be the responsibility
19 of gas producers, if customers are going to be charged, then the charges should be those
20 which were negotiated by the parties and adopted by the Commission in Docket 99-057-
21 20. This is the proposal made by QGC in this proceeding, and I recommend that the
22 Commission adopt it. If the stipulation in 99-057-20 is discarded, and the issue of cost

1 causation is addressed on its merits, then cost recovery should be spread on the basis of
2 an equal charge per customer.

3
4 **Rate spread**

5 **Q. Please identify the rate spread proposals to which you wish to respond.**

6 A. I will respond to two non-CO2-related rate spread proposals which I believe are
7 unreasonable: (1) Mr. Yankel's proposal that GS-1 customers should receive no portion
8 of any rate increase (but 100 percent of any rate decrease), and (2) Mr. McFadden's
9 proposal that interruptible customers should be allocated a share of peak day capacity
10 costs.²

11 **Q. Why do you disagree with Mr. Yankel's proposal that GS-1 customers should**
12 **receive no portion of any rate increase?**

13 A. Mr. Yankel's proposal appears to derive from his conclusion that GS-1 customers
14 are paying above the system average rate of return, as well as concerns he has with
15 QGC's cost-of-service analysis. However, I do not agree that his conclusion regarding
16 relative rate-of-return from GS-1 customers is correct; nor do I agree that updating the
17 Company's cost-of-service analysis will have the significant impact on cost allocation
18 that Mr. Yankel seems to anticipate it will. Moreover, even if Mr. Yankel was correct on
19 both his relative rate-of-return and cost-of-service points, it would still not justify
20 exempting GS-1 from any rate increase: both the principal of gradualism and

² Strictly speaking, Mr. McFadden's proposal is made in the context of cost allocation, not rate spread. However, he advocates adoption of his cost allocation proposal directly into rates, which, consequently has implications for rate spread.

1 consideration of the root causes of QGC's proposed rate increase should be taken into
2 account in spreading any rate increase, and both of these considerations would call for
3 GS-1 to bear a fair share of the increased costs.

4 **Q. On what basis do you disagree with Mr. Yankel's conclusion that GS-1 customers**
5 **are paying above the system average rate of return?**

6 A. Mr. Yankel's conclusion on this point is consistent with the cost-of-service
7 analysis prepared by QGC. That analysis shows that after an equal percentage increase is
8 applied to non-CO2 revenue requirements, GS-1 and GSS customers would be paying
9 rates that were some \$423 thousand, or 0.19 percent above their cost-of-service.³
10 However, the Company's cost-of-service analysis does not take account of the value of
11 the call option credit, which is discussed in my direct testimony. As can be seen in
12 UAE/USEA Exhibit 1.3, line 1, when the value of the call option credit is taken into
13 account, GS-1 and GSS customers are paying rates that are significantly *below* cost-of-
14 service.⁴ Moreover, even if the value of the call option credit were not taken into account,
15 it is simply not reasonable to exempt the GS-1 class from any part of a \$23 million
16 proposed rate increase on the grounds that an equal percentage increase to that class
17 would cause a 0.19 percent relative over-recovery.

18 **Q. How should the principal of gradualism be taken into account?**

19 A. The principal of gradualism is applied to ensure that the impact of a rate increase
20 does not fall significantly more heavily on some customer classes relative to others.

³ Exhibit QGC 5.7, line 1, col. (g)/ col. (f).

⁴ Exhibit UAE/USEA 1.3, line 1. Compare col. (f) [\$228.3 million] with col. (d) [\$224.9 million].

1 Instead, rate increases to classes that are paying below system average rate of return may
2 be designed to move such classes *toward* full cost-of-service recovery, without
3 necessarily moving them there in a single leap, as such a large step may be too harsh in
4 its impact. Gradualism is particularly important when we consider that cost-of-service
5 analysis is not an exact science, and that consequently, adhering lockstep to cost-of-
6 service results in every rate proceeding, irrespective of potentially harsh impacts on
7 customer classes, is not a useful or sound policy.

8 In its direct testimony, QGC proposed a rate spread mechanism that recognizes
9 the need for gradualism; specifically, QGC proposed that any rate increase (on non-CO2-
10 related costs) be spread across all rate schedules first on an equal percentage basis,
11 followed by a one-third movement toward cost-of-service (up or down, depending on
12 whether the rate schedule is below or above cost-of-service). CO2-related costs would be
13 treated separately and spread pursuant to the stipulation in 99-057-20.

14 **Q. Do you believe that QGC's rate spread proposal is reasonable?**

15 A. Yes I do, in the context of QGC's proposed revenue requirement increase. In fact,
16 I used the Company's rate spread approach in my direct testimony when I illustrated the
17 impact on rates of recognizing the call option credit. In that instance, applying the
18 principal of gradualism inured to the benefit of GS-1 customers.⁵ The Company's
19 approach to gradualism is also endorsed by the Division with respect to non-CO2 costs.⁶

⁵ See UAE/USEA Exhibit 1.3, line 1.

⁶ Direct testimony of Darrell S. Hanson, p. 8, lines 12-15. Unfortunately, the Division wholly ignores the principle of gradualism in proposing a volumetric allocation of CO2 costs.

1 In contrast, I can find no attempt to recognize gradualism in either Mr. Yankel's or Mr.
2 McFadden's testimony.

3 **Q. Are there additional considerations besides the one-third movement to cost-of-**
4 **service that should be added to QGC's gradualism proposal?**

5 A. Yes. In addition, I recommend that no rate schedule be required to absorb more
6 than twice the average system rate increase. Such a rate spread requirement promotes
7 gradualism and constitutes good public policy. It is commonly used in rate cases, as it
8 prevent results in which certain rate schedules are forced to bear rate increases that are
9 out of keeping with the overall rate change.

10 QGC's original rate spread was within this guideline, without having it as an
11 explicit requirement. However, to the extent that the Company's requested revenue
12 requirement is adjusted downward as a result of this proceeding, the resulting rate spread
13 may very well violate this guideline, absent an explicit requirement. Consequently, I am
14 recommending that the Commission explicitly mandate that no rate schedule be required
15 to absorb more than twice the average system rate increase.

16 **Q. Why does consideration of the root causes of QGC's proposed rate increase call for**
17 **including GS-1 customers in the spreading of any rate increase?**

18 A. One of the principal drivers behind QGC's request for higher rates is the cost of
19 serving new customers, the overwhelming majority of whom are in the GS-1 class. On
20 these grounds alone, GS-1 customers should be required to bear a fair share of any rate
21 increase. This is accomplished in part by using QGC's rate spread approach, which I have
22 endorsed above.

1 **Q. Let us turn now to Mr. McFadden’s proposal to allocate a share of peak day**
2 **capacity costs to interruptible customers. What is your assessment of his proposal?**

3 A. It is fundamentally inappropriate to allocate peak day capacity costs to customers
4 taking interruptible service. Customers who take this service are using spare capacity on
5 the system when it is available. Of course, as the system is designed to meet the peak day
6 requirements of firm customers during a design year, i.e., a particularly cold winter, it is
7 not necessary to interrupt service to interruptible customers very often. Nevertheless, by
8 virtue of their willingness to subordinate their priority of use to firm customers,
9 interruptible customers are performing an important DSM function for the system. In
10 order to accommodate interruptions, interruptible customers typically invest in facilities
11 that allow them to use alternative fuel during periods of interruption. Alternatively, these
12 customers suffer consequences and costs stemming from disruption of service –
13 consequences that firm customers are not willing to suffer. For the system as a whole, it
14 is economically efficient for these alternative fuel facilities to be put in place to tide
15 interruptible customers through interruptible periods, rather than have QGC over-build
16 the system to accommodate them on a firm basis.

17 Mr. McFadden’s proposal is to change the rules in the middle of the game, and to
18 start allocating “firm-service-like” costs to interruptible customers; if these kinds of costs
19 are going to be allocated to today’s interruptible customers, they may as well take firm
20 service – a service which, due to capacity constraints, may not even be generally
21 available to interruptible transportation customers today, or which would be very
22 expensive for QGC to accommodate.

1 **Q. What would be the impact of adopting Mr. McFadden's proposal?**

2 A. According to Mr. McFadden's testimony, his proposal would result in a rate
3 increase to IT customers of 22.2 percent and IS customers of 16.5 percent.⁷ However, he
4 calculates these percentage increases using QGC's proposed new revenue requirements
5 as the baseline. With respect to current revenue requirements, Mr. McFadden's proposal
6 would raise IT rates 29.8 percent and IS rates 21.5 percent. Clearly, this is not a proposal
7 of minor consequence to interruptible customers. When his proposal to allocate peak day
8 capacity costs is considered in combination with his recommendation on allocating CO2-
9 related costs, Mr. McFadden is proposing to raise IT rates 52 percent – before any QGC
10 rate increase is even taken into account.

11 **Q. What is your recommendation to the Commission regarding Mr. McFadden's**
12 **proposal to allocate peak day capacity costs to interruptible customers?**

13 A. The proposal is theoretically unsound. It would result in an unreasonable shift in
14 costs to interruptible customers that are not causally related to interruptible service; this
15 cost shift would have a significant negative impact on interruptible customers and the
16 Utah economy, and should be rejected.

17

18 **Cost-of-service**

19 **Q. What aspects of QGC's cost-of-service analysis does Mr. Yankel propose to modify?**

20 A. Mr. Yankel makes a number of proposals to modify the Company's cost-of-
21 service analysis, but I will only comment on two of his suggestions here: (1) his proposal

⁷ Direct testimony of Michael J. McFadden, p. 15, lines 8-9.

1 to reallocate certain costs associated with network service, and (2) his proposed cost
2 treatment of feeder lines that serve only a few customers.

3 **Q. What is Mr. Yankel’s proposal concerning the reallocation of certain costs**
4 **associated with network service?**

5 A. Mr. Yankel is critical of the study QGC used to allocate network costs. The QGC
6 study used to support the allocation of network costs is 17 years old. Mr. Yankel asserts
7 that the study is outdated, and he proposes a methodology change for allocating the costs
8 of mains (for this proceeding only) as a “transitional step” while the Company’s
9 allocation procedures and cost-of-service studies are thoroughly reviewed by a new task
10 force.⁸

11 **Q. What is your main area of disagreement with Mr. Yankel on this point?**

12 A. First of all, I don’t disagree that the 17-year-old study used for allocating network
13 costs should be updated. And, it is my understanding that QGC has, in fact, completed
14 such an updated analysis. That updated study indicates that a somewhat smaller share of
15 network costs should be allocated to GS-1 customers. Even though this updated study
16 was apparently not available when QGC filed its initial case, I still think it would be
17 appropriate to use the updated study for the purpose of allocating network costs.

18 My objection is with the use of the “transitional” methodology proposed by Mr.
19 Yankel for the allocation of the costs of mains, which are QGC’s low-pressure pipes, 6"
20 or less in diameter. Mr. Yankel proposes to discard any measurement of customer density
21 in the allocation of the cost of mains, proposing instead to allocate all of the costs of

⁸ Direct testimony of Anthony J. Yankel, p. 28, lines 5-11.

1 mains on a volumetric basis. In doing so, Mr. Yankel is ignoring the reality that the cost
2 of laying gas lines through miles of residential subdivisions is much more a function of
3 physical length than of throughput. Mr. Yankel's proposal is simply a device for shifting
4 the burden of paying for the thousands of miles of smaller-diameter pipe running through
5 Utah subdivisions to the higher-volume commercial and industrial customers. His
6 proposal for reallocating the cost of mains is unsound and unfair and should be rejected.
7 The Company's updated study for allocating network costs should be used instead.

8 **Q. What is your objection to Mr. Yankel's proposed cost treatment of feeder lines that**
9 **serve a limited number of customers?**

10 A. Mr. Yankel identifies three examples of industrial customers who are served off
11 of feeder lines that have relatively few other customers on it, including ATK Thiokol
12 Propulsion, a member of the UAE Intervention Group sponsoring my testimony. Mr.
13 Yankel asserts that "it is inappropriate for the costs of these facilities to be picked up by
14 the rest of the system," but he goes on to rule out directly assigning the book costs of
15 these facilities to the customers using them because "it would be an injustice now to take
16 this dedicated, but fully depreciated, plant and assign it to customers that have not
17 historically paid for the Return, O&M, and Depreciation reserves associated with this
18 plant."⁹ Instead, Mr. Yankel proposes something far more hard-hitting: to allocate the
19 costs of such facilities by (1) determining the distances of all dedicated feeders and
20 mains, (2) calculating the ratio of dedicated facilities to total feeders and mains, and (3)
21 using that ratio to determine a direct assignment charge that would be levied on the

⁹ Direct testimony of Anthony J. Yankel, p. 30, lines 13-14; and p. 30, line 22 – p. 31, line 2.

1 customers using these facilities.

2 This proposal is nothing short of outrageous. Mr. Yankel's premise that the
3 customers on these facilities have somehow been free riders on the rest of the system is
4 simply wrong. Thiokol, for example, contracted in 1987 with Mountain Fuel Supply to
5 build the gas line and main extension service lines cited by Mr. Yankel. The cost of these
6 facilities was several million dollars, and under the terms of Mountain Fuel's line
7 extension policies, Thiokol had to agree to accept responsibility to cover 100 percent of
8 the cost of the facilities through cash payments and/or gas purchase volumes, a
9 commitment which Thiokol met fully within 30 months. Mr. Yankel's proposal would do
10 more than double assign these costs – he would saddle these customers with a perpetual
11 charge that would not even depreciate over time. Mr. Yankel's proposal should be
12 soundly rejected.

13
14 **Rate design**

15 **Q. What is your objection to Mr. McFadden's proposal regarding the FT-1 rate**
16 **schedule?**

17 A. Mr. McFadden is proposing that the FT-1 rate schedule, which is available to
18 transportation customers who are bypass candidates, be eliminated and replaced by
19 special contracts. QGC would be required to file confidential supporting documentation
20 for each customer wishing to take service under a rate that recognized its bypass
21 opportunity.

1 While I do not have any general objection to special contracts, forcing today's
2 eleven FT-1 customers to apply on a case-by-case basis for special contract status does
3 not appear to be a useful administrative exercise. Access to the current FT-1 rate schedule
4 is limited by qualifying criteria to target customers that are bona fide bypass candidates.
5 These criteria, which include distance from an interstate pipeline, load factor, and
6 volumes, were developed in a multi-party stipulation approved in Docket 99-057-20. Mr.
7 McFadden has provided no evidence that these criteria are not serving their intended
8 function. Moreover, for customers who meet the criteria, the service is available on a
9 non-discriminatory basis. Mr. McFadden's proposal to abandon the current arrangement
10 in favor of a time-consuming and costly administrative process is a step backward and
11 should be rejected.

12 **Q. Let us turn now to the rate design proposals put forward by Mr. Nichols. Do you**
13 **have any comments on his proposals?**

14 A. Yes. Mr. Nichols has put forward a number of rate design proposals, including a
15 proposal to eliminate declining block rates in all rate schedules in this proceeding, and
16 replace them with inclining block rates in the next proceeding. Mr. Nichols' stated
17 intention is to send price signals that would lead to greater conservation.

18 There are at least two significant problems with this proposition. First, it would
19 turn virtually every customer on the system instantly into a winner or a loser, resulting in
20 enormous economic dislocation for the bigger losers, who would naturally be the larger
21 customers on the system. Carrying out a policy of this sort, without regard for the
22 significant economic consequences on customers, is simply reckless.

1 The second significant problem is that Mr. Nichols is, in effect, proposing to
2 “hijack” the DNG rates and use them to promote his policy objectives with respect to
3 commodity usage. Yet commodity and gas distribution facility usage are two different
4 products. The Commission has gone through significant lengths to segregate these
5 products – and with good reason. DNG rates purchase gas distribution facility usage. The
6 commodity that Mr. Nichols is targeting for conservation is priced and sold separately;
7 indeed, many business customers who are buying DNG service from QGC are buying
8 their commodity from someone else. DNG pricing should be designed to fairly recover
9 costs associated with usage of gas distribution facilities, and should not be turned into a
10 vehicle for carrying out Mr. Nichols’ proposed commodity pricing policy.

11
12 **Date of implementation of the weather normalization adjustment mechanism**

13 **Q. What is the correction to your direct testimony regarding the date of**
14 **implementation of the weather normalization adjustment mechanism?**

15 A. In my direct testimony I incorrectly stated that QGC’s weather normalization
16 adjustment mechanism was adopted in 2000 in Docket 99-057-20,¹⁰ when in fact it was
17 adopted in 1995 in the prior rate case, Docket 95-057-20.

18 **Q. Does this correction change any of your conclusions or recommendations?**

19 A. No, it does not.

20 **Q. Does this conclude your rebuttal testimony?**

21 A. Yes, it does.

¹⁰ Corrected direct testimony of Kevin C. Higgins, p. 2, line 19 and p. 6, line 16.

IMPACT OF PROPOSED CHANGES TO CO2 STIPULATION ADOPTED IN 99-057-20

Ending December 2002 Test Year
(QGC Exhibit 5.7 modified to isolate DPU & CCS CO₂ spread impact)
\$(000)s

Utah Division of Public Utilities (DPU) Proposal					
	(a)	(b)	(c)	(d)	(e)
	Current Revenues	Stipulated CO ₂ Spread (QGC Proposed)	DPU Recommended CO, Spread	DPU Recommended Cost Shift to Transportation Customers	Percent Change in Total Revenues by Rate Schedule Resulting from DPU Change to CO, Spread
1 GS1 & GSS	\$199,018	\$4,657	\$3,255		-0.70%
2 F1	\$3,088	\$72	\$188		3.76%
3 F3	\$167	\$4	\$0		-2.34%
4 FT-1 Credit	\$1,220	\$0	\$132	\$132	10.84%
5 FT-2 COS	\$1,960	\$94	\$325	\$231	11.81%
6 FTE	\$111	\$0	\$5		4.75%
7 MT	\$4	\$0	\$0		1.61%
8 NGV Sales	\$349	\$0	\$5		1.52%
9 NGV Lease	\$360	\$0	\$0		0.00%
10 I Sales	\$906	\$21	\$187		18.32%
11 I Trans.	\$3,151	\$151	\$901	\$750	23.79%
12 487,488, IC	\$7,538	\$0	\$0		0.00%
13 Total	\$217,872	\$5,000	\$5,000	\$1,113	0.00%

Utah Committee of Consumer Services (CCS) Proposal					
	(a)	(b)	(c)	(d)	(e)
	Current Revenues	Stipulated CO ₂ Spread (QGC Proposed)	CCS Recommended CO, Spread	CCS Recommended Cost Shift to Transportation Customers	Percent Change in Total Revenues by Rate Schedule Resulting from CCS Change to CO, Spread
14 GS1 & GSS	\$199,018	\$4,657	\$3,071		-0.80%
15 F1	\$3,088	\$72	\$178		3.42%
16 F3	\$167	\$4	\$0		-2.34%
17 FT-1 Credit	\$1,220	\$0	\$409	\$409	33.52%
18 FT-2 COS	\$1,960	\$94	\$307	\$213	10.87%
19 FTE	\$111	\$0	\$5		4.48%
20 MT	\$4	\$0	\$0		1.52%
21 NGV Sales	\$349	\$0	\$5		1.43%
22 NGV Lease	\$360	\$0	\$0		0.00%
23 I Sales	\$906	\$21	\$177		17.15%
24 I Trans.	\$3,151	\$151	\$850	\$699	22.18%
25 487,488, IC	\$7,538	\$0	\$0		0.00%
26 Total	\$217,872	\$5,000	\$5,001	\$1,321	0.00%

Data Sources:

DPU CO₂ spread extracted from DPU witness Darrell Hanson's Direct Testimony, Exhibit 7.4.

CCS CO₂ spread derived by multiplying 3.65¢/dth (Michael McFadden's Direct Testimony, page 17, line 11) by the decatherm usage per rate schedule per QGC Exhibit 4.6, page 3A.