BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Joint Application of Questar Gas Company, the Division of Public Utilities, and Utah Clean Energy for the Approval of the Conservation Enabling Tariff Adjustment Option and Accounting Orders	Docket No. 05-057-T01

REBUTTAL TESTIMONY OF BARRIE L. MCKAY

TO SUPPORT THE CONTINUATION OF THE CONSERVATION ENABLING TARIFF FOR QUESTAR GAS COMPANY

August 8, 2007

TABLE OF CONTENTS

Q. Please state your name and business address.

A. My name is Barrie L. McKay. My business address is 180 East First South Street, Salt Lake City, Utah.

Q. Have you previously filed testimony in this case?

A. Yes, I have filed four rounds of testimony previously. I will describe that testimony further below.

Q. Do you have any general thoughts or statements concerning this case and the matters that are before this commission?

A. Yes. I recently returned from the summer NARUC meetings where I attended a joint committee meeting on "Policy Options for Energy Efficiency Programs: Decoupling, Incentive and Third Party Administrators." It was the most highly attended panel of the conference. The six presenters were thorough and covered many if not all aspects of the current issues before this Commission. As the panel concluded the thought occurred to me that nothing new had been presented. In fact, there are really no new arguments presented in this One-Year-Review proceeding that the parties and this Commission have not analyzed in task forces; reviewed and discussed in technical conferences; or read and heard in reports, exhibits and testimony. The Utah Commission, the Division of Public Utilities (Division), the Committee of Consumer Services (Committee), Questar Gas Company (Company or Questar Gas) and other interested parties participated in a very thorough and complete process before we implemented the Conservation Enabling Tariff (CET) and initiated our energy-efficiency programs. Participating in conferences, reading articles and papers and hearing what national agencies and other jurisdictions are doing only validates what we have done in the state of Utah. We are nearly a year into the Pilot Program and there have been no surprises. There are no new issues that justify changing course. We should continue the CET. There is overwhelming evidence, including experience from this first year, that indicates we are on the right path.

Q. You referred to evidence that has already been presented in this docket. Have you prepared a Roadmap Exhibit that summarizes the issues and the evidence that has been provided in this case?

A. Yes. I have prepared QGC Exhibit 1-YR 2.1. This exhibit summarizes, by issue, the testimony filed previously in this docket by me and the testimony filed in behalf of Questar Gas by Ralph Cavanagh of the Natural Resources Defense Council. I will make specific reference to the prior rounds of testimony in this rebuttal testimony. I hope that using the Roadmap Exhibit has enabled me to reduce the amount of repetition in this testimony and that it will be a useful tool for the Commission as it reviews the evidence.

Q. What is the purpose of this rebuttal testimony?

A. The purpose of my testimony is to address the issues raised by various parties regarding the continuation or modification of the CET. Committee witness, Dr. David Dismukes has offered specific alternative proposals for Commission consideration. I address the reasons his proposals should be rejected. I demonstrate why the CET should continue, why the Commission should adopt the Company's recommendations and why it is good public policy.

1. Background

a. National and State of Utah Momentum

Q. Over the course of this proceeding the Company has referred to the national and local momentum that demonstrates the importance of pursuing energy efficiency and supports mechanisms such as the Conservation Enabling Tariff that remove the barrier to the advancement of energy efficiency by natural gas utilities. Dr. Dismukes has tried to convey the opposite view. Has the national and local momentum continued since the Joint Application was filed?

A. Yes. The momentum has continued to build. In addition to the joint statement issued by the AGA and NRDC in 2004, NARUC's 2005 Resolution, the Energy Policy Act of 2005, and Governor Huntsman's state energy-efficiency policy, all of which encourage the removal of regulatory barriers to the adoption of energy-efficiency programs, other agencies have also recently issued similar statements. The US Environmental Protection Agency's National Action Plan for Energy Efficiency enunciates five recommendations:

- Recognize energy efficiency as a high-priority energy resource.
- Make a strong, long-term commitment to implement cost-effective energy efficiency as a resource.
- Broadly communicate the benefits of and opportunities for energy efficiency.
- Promote sufficient, timely, and stable program funding to deliver energy efficiency where cost effective.
- *Modify policies to align utility incentives with the delivery of cost-effective energy efficiency and modify ratemaking practices to promote energy-efficiency investments.* (Emphasis added.)

Q. Does Governor Huntsman continue to advocate a 20% improvement in energy efficiency by 2015?

A. Yes. I would like to quote from Dr. Philip Powlick's, Manager, Utah State Energy Program statement that was offered during the public witness hearing in this Docket on September 25, 2006. He stated on behalf of the Governor's Office:

> Broadly speaking, we view the joint application before you today as consistent with two of Governor Huntsman's major policy initiatives in energy efficiency and climate change.
>
> *Energy Efficiency*
> On April 26th of this year, Governor Huntsman announced the Utah Policy to Advance Energy Efficiency and signed an accompanying Executive Order on May 30 implementing the policy into state government activities. The Policy,

> developed in conjunction with a wide variety of energy stakeholders, sets a statewide goal of increasing energy efficiency across all sectors in Utah by 20 percent by 2015. Achieving this goal will provide direct economic benefits to the state and its citizens and will also improve our state's competitiveness in the global economy. While a variety of specific measures are included in the policy that apply to the operations of state government, energy efficiency in the private sector is also targeted. This includes the goal of "Collaborat[ing] with Utilities, Regulators, and the Private Sector to, a) Identify and remove barriers, b) To create or expand efficiency programs, and c) To assist utilities in ensuring that efficiency programs are effective, attainable, and feasible to implement."
>
> In order to meet the Governor's goal, significant actions within the private sector will be needed and the Joint Application and Questar's efforts to date to develop a series of demand side management programs represent important means to achieve the Governor's goal.

I believe that the Conservation Enabling Tariff and the DSM programs are necessary to help the state achieve these energy-efficiency goals.

b. Other Jurisdictions

Q. Mr. McKay, on QGC Exhibit 1-YR 1.5 attached to your One-Year Review Direct Testimony, you provided a map showing growing support for decoupling or other similar mechanisms in numerous jurisdictions across the country. Yet, Dr. Dismukes' testimony attempts to indicate that this is not the case. Would you please comment on this?

A. Yes. Many other jurisdictions are looking at regulatory mechanisms to remove the barrier for natural gas utilities to support energy efficiency. Dr. Dismukes takes issue with how and what these jurisdictions have done. Mr. Russell A. Feingold, an expert in utility ratemaking and regulatory matters retained by the Company, provides rebuttal testimony that presents a balanced perspective of what is happening in other jurisdictions. As can be seen, other jurisdictions are supporting full decoupling as a means of encouraging utilities to pursue energy-efficiency programs. However, the issue before this Commission is how the CET is operating in the state of Utah and there has been no evidence presented that the CET is not working as intended.

c. Three-Year Process

Q. What led to the filing of the Joint Application in this docket?

A. The Joint Application provides a detailed discussion of the three-year process that led to the Joint Application and the selection of the Conservation Enabling Tariff Pilot Program. (Joint Application, pp. 4-8.) In summary, in the Company's last rate case, Docket No. 02-057-02 (2002 Rate Case) the parties in that case entered into four separate Stipulations and Settlements on four major issues: Revenue Requirement; Allocation and Rate Design; Demand-Side Management; and Service Standards. In the Allocation and Rate Design, Demand-Side Management and Service Standards Stipulations, the parties to the Stipulations recommended to the Commission that task forces be established to further consider issues raised during the 2002 Rate Case and to make recommendations in final reports filed with the Commission on how to proceed in future cases with regard to these issues.

In the Demand-Side Management (DSM) Stipulation and Settlement, the settling parties agreed that the Commission should approve the DSM Stipulation and should order Questar Gas to examine DSM alternatives for resource planning in its Integrated Resource Plan (IRP) proceedings and further should schedule an initial meeting for all parties interested in the development of natural gas DSM in Utah to form a collaborative working group. The working group was to address DSM issues raised by the Utah Energy Office (UEO) and other interested parties in the 2002 Rate Case. The working group was known as the Natural Gas DSM Advisory Group (Advisory Group) and was co-chaired by representatives from Questar Gas and UEO. The Advisory Group engaged GDS Associates, Inc. to conduct a study of demand-side management options and to prepare a report (GDS Report). Item 4 of the Findings and Recommendations from the Executive Summary of the GDS Report states: "The Advisory Group has identified several barriers to the successful implementation of

Natural Gas DSM. It is recommended that the Commission address the policy issues that act as barriers. The primary example is the issue of Questar's economic sensitivity to the loss of gas load that increased DSM would foster."

In the Allocation and Rate Design Stipulation and Settlement, the settling parties agreed that several issues raised during the proceedings in the 2002 Rate Case required further study and consideration by a collaborative task force made up of the Company, the Division of Public Utilities (Division), the Committee and other interested parties. In the Stipulation, the parties requested the Commission to direct in its final order that a task force engage in a study in 2003 regarding ten issues concerning the Company's rate-design and allocation methodologies. On December 30, 2002, the Commission entered a final order in the 2002 Rate Case approving the Allocation and Rate Design Stipulation and Settlement and directing that a collaborative task force (Allocation and Rate Design Task Force) be established and chaired by a representative of the Division.

Additionally, the settling parties agreed in the Allocation and Rate Design Task Force to study separately the possible development of a tracker mechanism for usage per customer**.** While the issue of how to address the problems created from declining usage per customer was discussed in several task force meetings, no specific consensus was reached. However, "the Task Force felt it was important to continue discussions in this area into the future after the task force conclude[s]." Final Task Force Report at page 6. At the conclusion of the Allocation and Rate Design Task Force, the Division, the Committee, and the Company continued to meet to discuss various alternative regulation options. In November 2004, the Company circulated a draft "white paper" that presented an overview and analyzed five options that could potentially address decline in customer usage. The November 2004 White Paper provides an in-depth overview of how customer usage can impact a utility's revenues. As pointed out in the 2004 White Paper, "since Questar Gas is in the circumstance of having a very high saturation of both furnace and water heating customers in the service territory and is located in an area which has a high number of degree days per year, it feels the full effects of conservation in both of these areas." See Joint Application Exhibit 1.6, p.1.

As discussions with the Division, Committee, and Company progressed, three important goals were proposed with regard to the alternatives being analyzed: 1) to remove disincentives for the Company to promote DSM; 2) to reduce contention between regulators and the Company by using new rate design concepts; and 3) to provide the Company the opportunity to earn its allowed rate of return during periods of declining usage (regardless of the reasons for the change in usage). In the course of these discussions, the Company, Division, Committee and other interested parties explored various options for addressing these three goals.

Over the course of several months, the Company, with the input of the Division and Committee, analyzed the following six alternatives: 1) the Company could use the provisions of recent legislation to file forecasted test years 20 months into the future; 2) the Company would file annual, abbreviated rate cases using projected test years; 3) the Company could include in rate case proceedings a calculation of "lost revenues" associated with reductions in usage; 4) the Company could implement rate design changes designed to recover a higher percentage of the fixed costs through fixed charges and/or higher low volume initial blocks in a declining block rate structure; 5) the Company could implement a decoupling mechanism; and 6) the Company could file annual rate cases with a banded rate of return on equity (ROE) with quarterly monitoring and automatic rate changes when the actual ROE falls outside the band.

In November 2005, Questar Gas refined the 2004 White Paper to include in-depth analysis of three preferred alternatives: 1) Revenue Stabilization Alternative: This alternative would require annual rate cases, banded ROE and quarterly reviews; 2) Rate Design Alternative: This alternative would use the collection of fixed costs through an up front monthly delivery charge; and 3) Conservation Enabling Tariff Alternative: This alternative would decouple

DNG revenue collection from volumetric sales. The 2005 White Paper listed the pros and cons of each alternative and analyzed them in detail. Ultimately, through continued discussions and analysis, the parties agreed that the Conservation Enabling Tariff Alternative was the preferred alternative and should be implemented as a pilot program.

In summary, in an effort to deal with declining usage per customer, the Company, Division and Committee considered many alternative approaches, including straight-fixed-variable rate design (SFV), partial decoupling (lost revenue adjustments were considered), annual mini rate cases, and revenue-stabilization approaches. The list of alternative approaches was pared down to the three that held the greatest promise, SFV, full decoupling and revenue stabilization. After further discussion and a technical conference held on November 9, 2005, full decoupling emerged as the best alternative to deal with both declining usage and increasing the Company's involvement with the promotion of energy efficiency.

2. Committee Alternatives before the Commission

Q. Would you please describe the alternatives proposed by the Committee?

A. Yes. Committee witness Dr. Dismukes primary argument is that the CET should not be continued and his recommendation has three parts: 1) the CET should be discontinued; 2) the Commission should adopt a Lost-Revenue Adjustment (LRA) mechanism; and 3) the Company's financial challenges created by decreases in use per customer should be addressed in the next general rate case through the use of a forecasted test year or some known and measurable adjustment if a historic test year is used. If the Commission desires to continue the CET, he then offers an alternative recommendation with two parts: 1) modify the CET to eliminate revenue from new customers and 2) recognize the potential risk shift through an adjustment to ROE in the Company's next general rate case.

a. CCS Primary Recommendation Should be Rejected

Q. Have you reviewed Dr. Dismukes' primary recommendation?

A. Yes. Dr. Dismukes' primary recommendation calls for replacement of the Conservation Enabling Tariff with a Lost-Revenue Adjustment mechanism and suggests that the Company can file a rate case to fix any residual problems not adequately handled by LRA. I discussed at length the advantages of the CET in my direct testimony filed on June 1, 2007. I will now address Dr. Dismukes' arguments for discontinuing the CET. Dr. Dismukes provides three main arguments for the discontinuance of the CET. He claims the CET shifts risk, the CET is overly broad and the CET is unnecessary to promote DSM. (Dismukes Direct Testimony, lines 1217-1247.)

(1) The CET should be continued

(a) The CET does not unreasonably shift risk

Q. Dr. Dismukes asserts that the CET shifts risk from the Company to its customers. Do you believe that risks the Company has traditionally managed have been shifted to customers as a result of the CET?

A. No. Dr. Dismukes' argument is a theoretical position that has been espoused by some parties around the country. However, he provides no study or evidence to support this theoretical position. In contrast, DPU witness Dr. Daniel Hansen of Christensen Associates Energy Consulting, LLC, prepared a company-specific report (Hansen Report) and concluded there is no significant risk shifting as a result of the CET. The Summary and Conclusions section of the report states:

> The primary concern regarding decoupling is that it shifts risk from the utility to its customers. … [W]hile decoupling does shift risks due to economic conditions and commodity prices to consumers *in theory*, the magnitude of the risk shift in practice is unclear. Utility-specific estimates of this risk should be conducted to assess whether it is worthwhile to mitigate this risk (or compensate customers through a reduction in the utility's allowed rate of return). *An analysis of this kind conducted for Questar Gas did not discover the potential for a shifting of economic or commodity price risks due to the*

> *Conservation Enabling Tariff*. (Hansen Report, page 25, emphasis added.)

Dr. Hansen's QGC specific evidence shows Dr. Dismukes' general assertion and theory do not apply in the Company's case.

Q. Does the Company agree with the conclusions of the report?

A. Yes. The report concludes that there is no basis to reduce the allowed return on equity because of the CET.

> In summary, the findings indicate that … economic and commodity price risks do not appear to exist based on the analysis of the available data. Therefore, in this case there is no need to consider … a reduction in Questar's allowed rate of return …. (Hansen Report, page 24)

Additionally, many other circumstances that potentially increase risk for the Company have taken place since the last adjudicated general rate case. These include the adoption of a new depreciation study which significantly extended asset lives, changes in capital structure, and the significant cost inflation in the construction and construction-material markets. Each of these factors can arguably be said to have increased the Company's risk. The entire calculus of risk and return should be handled in a general rate case.

Q. Dr. Dismukes asserts that the CET provides no benefit to customers. Do you agree?

A. No. Dr. Dismukes' arguments are one-sided. The first-year results of the CET show that it is symmetrical in nature—which is how the Joint Applicants designed it. When usage per customer went up in the first year and the Company collected more than its allowed DNG revenue, the CET credited $1.7 million back to customers. This actual result stands in stark contrast to Dr. Dismukes theoretical assertion that customers receive no benefits from the CET. Dr. Dismukes is looking at only one side of a symmetrical issue and considering it in isolation.

Furthermore, my direct testimony filed on June 1, 2007, on lines 149 through 213, describes real and substantial benefits customers have received as a result of the CET and DSM Pilot Program. Dr. Dismukes acknowledges the benefits of the DSM program to customers, but apparently assumes that the DSM benefits are unrelated to the CET in taking the position that customers receive no benefit from the CET, I strongly disagree. The Company would not have engaged in the current DSM programs, including the Market-Transformation initiatives, in the absence of the CET.

(b) The CET is not overly broad

Q. Dr. Dismukes claims that the CET is overly broad because it compensates the Company for declines in revenue regardless of the cause. Do you agree?

A. No. The CET was designed to allow the Company to collect its Commission-allowed revenues regardless of customer usage. The CET is a simple mechanism that is effective in dealing with all forms of changes in use per customer. The CET also has the benefit of recognizing the potential for over collection of revenue if use per customer increases, as it did in 2006. It appears that Dr. Dismukes, or perhaps the Committee, wants to forget what brought us to this point. From the start of the Allocation and Rate Design Task Force, a primary objective was to determine the best method for allowing the Company to collect its Commission allowed revenues. Full decoupling was chosen as the preferred method to resolve the Company's issue of declining customer usage. The DSM Task Force, among other things, focused on removing the barrier to the Company promoting energy efficiency. The reality is that the **combination** of the CET and the Company's promotion of DSM was the culmination of a long process. The **combination** of the CET and the Company's involvement in promoting energy efficiency was a pragmatic step to move both task force initiatives forward. We believe our customers are well served by the Conservation Enabling Tariff and Demand-Side Management Pilot Program and, as a result, have done everything possible to make the **combination** of the CET and DSM work.

(c) The CET is necessary for the Company to support energy efficiency

Q. Dr. Dismukes argues that the CET is unnecessary for the promotion of DSM programs. Do you agree?

A. No. While the Company has periodically engaged in promoting energy-efficiency efforts over the past 35 years, the efforts have been short lived. These efforts were not part of a broad effort to change customer behavior and were not the subject of a long-term management commitment. While Dr. Dismukes opines that the CET is unnecessary, his supporting evidence is limited to the assertion that other utilities have promoted energy efficiency without decoupling. The Company promoted energy efficiency without decoupling too, but with mixed motivation. The Company offered programs promoting energy efficiency while at the same time promoting increased sales. What is needed today and in the future is a consistent message and sustained efforts to affect substantial change in customer-consumption behavior. The CET removes barriers to such actions and it should continue.

(2) The CET should not be replaced by a Lost-Revenue Adjustment mechanism

Q. Does an LRA fairly compensate the Company for declines in usage?

A. No. An LRA is intended to capture those reductions that can be tied specifically to DSM programs, which are only one component of the overall decline in revenues. An LRA makes no attempt to capture the revenue loss from any of the other approaches the Company employs to encourage energy efficiency. An LRA utterly fails to achieve the objective of allowing the Company the opportunity of collecting its Commission-allowed DNG revenue. I discussed the problems with LRAs in my Surrebuttal Testimony filed August 14, 2006 at lines 956-1025.

Q. Dr. Dismukes argues that the Company should only be compensated for declines specifically attributed to quantified DSM program savings. Do you agree?

A. No. The Company has embarked on a major effort to influence customer behavior. The measurable effects of the Company's DSM programs are only a fraction of the influence the Company will exert. The logic Dr. Dismukes is relying upon seems to be that the Company is only due compensation if the Company's DSM programs directly caused the decline in usage **and** that decline is measurable. Unfortunately he does not take full account of the Company's efforts. The Company is pursuing many different approaches to encourage increased energy efficiency. The results from a number of these approaches are difficult to track. Some of these efforts include the ThermWise awareness campaign including efforts aimed at modifying customer behavior, building codes training in conjunction with the Utah State Energy Program, work with market actors to modify product offerings, the ThermWise Website and the many other instances when the Company and its employees have contact with customers.

Q. Does an LRA provide an incentive to the Company to send mixed signals to its customers?

A. Yes. An LRA fails to provide one of the most important benefits of full decoupling. The Company would continue to be subject to the mixed signal that we will only receive fair treatment when savings attributable to DSM programs are verified, while at the same time we would have the incentive to stop every other energy-efficiency activity and in fact reverse course by promoting sales. The Company would benefit from sending mixed signals to our customers. Under this scenario, when customers participate in a DSM Program, we would want them to be efficient, but at the same time we would also have the perverse incentive to encourage customers to increase their usage. This mixed signal does not support the overwhelming public policy trend of utilities becoming central figures in the push for improved energy efficiency. In an effort to limit recovery of lost revenues solely to those attributable to specific and easily measurable programs, Dr. Dismukes' recommendation undercuts the goal of increasing energy efficiency.

Q. Does an LRA result in a contentious and controversial process?

A. Yes. There is virtually universal agreement that an LRA will result in a contentious and controversial process. Dr. Dismukes recognizes this when he states that "the fundamental challenge in estimating lost revenues is measuring and verifying the actual amount of savings." (Dismukes Direct at line 958.) But he then proceeds to give the impression that monitoring and verification is a straight forward activity, free of controversy. This has not been the case. Even when utilities engage in programs that have benefits that are supposedly easy to measure, it has been a contentious process. Additionally an LRA leads to programs that do not attempt to transform the market, which is what the Company's programs are attempting to accomplish. Finally, I find it interesting the Committee staff during the task force process agreed that an LRA should be rejected for all these reasons.

Q. In your surrebuttal testimony you quoted from the Christensen Associates report on the Northwest Natural pilot. Does Division Witness Dr. Hansen continue to have problems with LRA?

A. Yes. The Hansen Report briefly addressed LRA. The report stated on page 15,

> Based on the evaluation presented here, LRAs are inferior to decoupling in a number of ways. With respect to conservation, LRAs have the fatal flaw of preserving the utility's strong incentive to grow load outside of the DSM programs. When the additional problems of administrative complexity and the utility's incentive to game the mechanisms are also taken into account, decoupling appears to be a superior method for addressing utility conservation incentives.

Q. Do energy-efficiency advocates prefer LRA to full-decoupling approaches?

A. No. As Dr. Dismukes points out at lines 934-941 of his direct testimony, energy-efficiency advocates dislike LRA for two reasons. First, they recognize LRA mechanisms are exceptionally difficult to implement in practice, and second, LRA does not remove the disincentive to promote DSM. I believe there is a third reason energy-efficiency advocates dislike LRA. They recognize that placing excessive focus on measuring lost revenues will take resources away from the pursuit of broad energy efficiency. These facts argue for the rejection of LRA.

Q. Would an LRA mechanism have the same benefits for the state of Utah, the Company and its customers as the Conservation Enabling Tariff?

A. No. Mixed signals to customers on energy consumption will not help the state of Utah meet the Governor's goal to reduce usage by 20% by 2015. An LRA would not fairly compensate the Company for the decline in usage. Finally, an LRA will not align the customers' and the Company's interests.

(3) The challenges of declining usage cannot be reasonably addressed through the use of a forecasted test year

Q. Dr. Dismukes proposes that the Company can pursue any financial challenges created by declining use per customer through the traditional rate case process. Was this approach considered by the Task Force?

A. Yes. This approach was considered but was not chosen as one of the three preferred alternatives. (See Exhibits 1.6 and 1.7 attached to the Joint Application.) This is the approach the Company and Utah regulators have used for at least 35 years. However, it was the recognition that traditional ratemaking was not satisfactorily resolving the issues that led the parties to agree and the Commission to order the study of other approaches and alternatives in the Allocation and Rate Design Task Force. In addition the DSM Task Force recognized that the traditional ratemaking approach was flawed because it does not break the link between volumetric sales and fixed cost recovery – the Company would still benefit from increased sales.

Q. Should the Commission reject the CET, adopt an LRA and allow periodic rate cases to be the ultimate solution for the Company as the Committee's witness suggests?

A. No. The Committee's recommendation fails to achieve any of the three objectives identified in the Joint Application. Adoption of Dr. Dismukes' recommendation would hamper the pursuit of energy efficiency. Adoption of his recommendation would fail to align the interests of the Company and customers in the promotion of energy efficiency. The Company would have the perverse incentive of promoting easily measured energy-efficiency efforts while simultaneously promoting increased consumption. Finally, adoption of his recommendation would increase contentiousness by placing an inordinate emphasis on a new source of potential conflict, the verification of lost revenues. The Commission should reject the Committee's primary recommendation. It is contrary to creating an environment conducive to the aggressive promotion of energy efficiency.

b. Committee's Alternative Recommendation

Q. Dr. Dismukes offered an alternative two-part recommendation in the event the Commission rejects his primary recommendation. Does his alternative recommendation have merit?

A. No.

Q. Dr. Dismukes describes his first alternative as a modified CET using base-year customers as opposed to actual customers. Please describe why the Commission should reject the first component of Dr. Dismukes' alternative recommendation.

A. Unfortunately Dr. Dismukes has either erred in the application of this modification, or he is intentionally proposing a modification that is not only unfair, but confiscatory.

Q. Please explain what you mean when you say Dr. Dismukes has either erred or intentionally proposed an unfair modification to the CET.

A. Dr. Dismukes states at lines 888-891, "However, the current formulation of the CET ... also allows for revenue recovery associated with customer growth." Apparently he believes the Company should receive no revenue from the new customers added between general rate cases, totally ignoring the capital and operating costs required to serve these customers. As

Dr. Dismukes has acknowledged on more than one occasion, the cost to serve new customers is greater than the cost to serve existing customers. (Dismukes at lines 853-876 of his direct testimony.) To acknowledge the higher cost of new customers and then devise a mechanism that allows **no revenue collection** from those new customers is patently unfair. Dr. Dismukes has essentially disguised a hard revenue cap as a modification of the CET. Under his proposal, regardless of how many new customers the Company serves, the Company would only be allowed to collect on an annual basis from GS customers the exact revenue requirement for the GS customer class from its last general rate case. Revenue from new GS customers would be returned pro-rata to all GS customers.

Q. What is your recommendation regarding Dr. Dismukes' proposed modification to the CET?

A. Based on the patently unfair nature of the modification, the Commission should reject it**.**

Q. Please discuss part two of his alternative recommendation.

A. The Company agrees with a part of the second aspect of Dr. Dismukes' alternative recommendation—retain the CET, but evaluate risk shift, if it exists, in the Company's next general rate case. However, Dr. Dismukes also advocates that the Commission make a finding in this docket that risk has been reduced as a result of the CET. For reasons detailed previously in this testimony, in Mr. Feingold's rebuttal testimony, and in light of the Hansen Report, the evidence in this case makes a finding of reduced risk is unsupportable.

3. Other Issues Raised

Q. Dr. Dismukes, Elizabeth Wolf and the Utah Association of Energy Users (UAE) have raised a number of other issues related to the CET. Please summarize these additional issues.

A. There are a number of other issues not specifically addressed above in the discussion of Dr.

Dismukes' alternative recommendations. Most of these issues have been the subject of testimony previously filed by me in this docket. In those instances I will briefly review the prior testimony and provide a reference to the original discussion. Some of the other issues require a more thorough treatment. I will deal with those issues next.

a. ELCON White Paper

Q. Dr. Dismukes and UAE both cite the ELCON White Paper to support their positions that the CET should be rejected. Does the ELCON White Paper add anything useful to the discussion?

A. The ELCON White Paper specifically addresses the electric utility industry and lists six supposed problems with decoupling. As I will demonstrate below, some of the concerns do not apply to the natural gas industry. Those that might apply are without merit.

First, d*ecoupling will make utility management mediocre*. I have discussed this issue in my Surrebuttal Testimony filed on August 14, 2006, at lines 691-717. The CET does not remove the Company's incentive to operate efficiently. The CET does not allow the Company to recover increased costs if the Company's management were to become mediocre in its efforts to control costs. To the extent the Company successfully controls costs, the Company and customers both benefit.

Second, *decoupling shifts risks to customers from shareholders*. As I have already discussed, and based on the Hansen Report, this is not the case for Questar Gas.

Third, *decoupling eliminates a utility's incentive to support economic development*. the Hansen Report shows that a revenue-per-customer decoupling mechanism, which the CET is, alleviates this concern. (See report at page 11, Section 3.3.4.) Additionally, the Company still retains a vital interest in the general health of the Utah economy. The CET applies only to the General Service rate class. Industrial customers (the focus of economic development) are not included in the CET.

Fourth, *decoupling addresses lost revenues not lost profits*. The point the ELCON Paper makes here is that some utilities have significant cross subsidies and/or stranded cost issues, neither of which apply to the Company.

Fifth, *it would be better to just send the right price signal*. While we agree that appropriate price signals are beneficial, the concerns raised in the ELCON white paper are strictly electric issues. Questar Gas does not have time-of-use rates or demand charges for the GS rate class. Time-of-use rate designs are not appropriate for a natural gas utility because the cost of delivering gas does not vary within the day.

Sixth, *a state entity should be used to promote energy efficiency*. I am not aware of any party that is advocating that a state agency be created to supplant private industry in this case. This criticism of decoupling in the ELCON White Paper is not relevant to this docket.

b. Customer growth does not offset the adverse effects of declines in usage

Q. Dr. Dismukes asserts that growth in customers solves the use-per-customer problem because total sales are increasing. Does his analysis and resulting conclusions have merit?

A. Definitely not. He goes to great lengths to attempt to show that the Company is unharmed by declines in use per customer because we have the advantage of customer growth. His analysis is flawed. He uses incorrect data and he builds in unreasonable assumptions.

Q. What data did Dr. Dismukes use that is incorrect?

A. An example of bad data is his calculation of revenue from new customers in CCS Exhibit 1.9. He uses a value of $2.47/Dth. He calculated this value by dividing DNG revenue from all rate classes by Dth sales from only the GS-1 rate class. Interestingly, when he calculated revenues lost due to declines in existing customer usage and DSM he used a value of $1.76/dth.

Q. What assumptions does he make that you believe are unreasonable?

A. He assumes that the Company can serve new customers at no cost. He states at lines 783-785, "If prices and costs are held constant, then earnings will continue to increase if new customer-related usage growth outpaces the decrease in use per customer for existing customers." Unfortunately, prices and costs are not held constant, and we cannot add new customers without significant capital investment and additional O&M expense. Dr. Dismukes was asked to provide the incremental O&M costs, incremental A&G costs and incremental plant investment associated with the new customers in his analysis. His response was, "These incremental costs were not considered in this example." Including new revenue (at an inflated level) while excluding new costs invalidates his analysis.

Q. Does Dr. Dismukes understand that new customers bring new costs?

A. Yes. As I have previously noted, he discusses this issue at length at lines 853-876 of his Direct Testimony. With the CET, new customers bring in average incremental revenues, while the operating and plant investment costs exceed average cost. New customers cost more than existing customers. I fail to see how sales to new customers that cost more to serve than existing customers help to offset declines in use per customer. The fact is that they don't. This issue was also addressed in my Surrebuttal Testimony filed August 14, 2006 at lines 532-639.

Dr. Dismukes' conclusion that growth in customers offsets declines in usage from existing customers is based on a flawed analysis. His assertions and conclusions should be given no weight.

c. CET requires customers to pay only their fair share

Q. Dr. Dismukes asserts that a problem with the CET is the inability of customers to fully realize the complete benefit of reduced consumption. Is this a material concern?

A. I would say he is making a mountain out of a mole hill. Customers that reduce usage will see reductions in future bills associated with their reduced usage. If in the aggregate revenue collection falls below the amount of revenue allowed, then accrual of the difference will eventually be amortized and customers will see a small rate increase to the DNG portion of their bills. This will, by definition, slightly offset the savings the energy efficient customer would otherwise have experienced. However, the energy-efficient customer will still see an overall reduction in his bills. (See QGC Exhibit SR 1.4, page 3.) Additionally, without revenue decoupling, lower revenue collections would eventually be recovered through an increase in general rates. Dr. Dismukes recognizes this interaction in stating at lines 181-182 of his Direct Testimony, "If utilities experience a decline in earnings from declining use per customer, they have the option of seeking rate relief." At most, we are looking at a timing issue, not an all-or-nothing issue as Dr. Dismukes would like to portray it.

d. Utah Ratepayers Alliance Concerns regarding the CET and DSM

Q. The Utah Ratepayers Alliance (URA) filed a position statement detailing five concerns. Could you please comment on those concerns?

A. First, the URA *states a preference for incentives to encourage DSM.* The URA *does not believe the CET provides an incentive for the Company to pursue DSM*. This is an issue of semantics. There is no dispute that the CET removes a disincentive to promote DSM. The Company's performance to date speaks for itself. The CET has provided a significant incentive for the Company to promote DSM.

Second, the URA states that *the CET allows the Company to recover its allowed revenue regardless of the cause of the reduced usage*. As discussed previously, this was an objective of the Joint Applicants and is not a negative thing as the URA attempts to portray it.

Third, the URA states that *the CET shifts risk from the Company to the customer with no corresponding reduction to rate of return and seems to favor periodic rate cases as a potential solution*. As I have discussed previously and as the Hansen Report shows, the CET has not shifted risk for Questar Gas.

Fourth, the URA states that *the CET does not allow low income customers to benefit from DSM*. I addressed this in my surrebuttal testimony at lines 353-364, and QGC Exhibit SR 1.4. All GS customers receive a net benefit from DSM even with the amortization of the CET accruals that can be expected to occur as a result of DSM usage reductions. Ultimately, usage reductions will enable the Company to buy less high priced gas. This will help to keep the weighted-average cost of gas lower than it would have been otherwise. In addition the Company has doubled the contribution it makes to the Low Income Weatherization Assistance Program (LIWAP). Early indications of the use of this additional funding show that 140 furnaces (average efficiency of 60%) have been replaced. The cost effectiveness of this program appears to be very good. The Company will continue to look at the low-income sector as we consider future modifications to our energy-efficiency programs. We are receptive to specific proposals that are cost effective.

Fifth, the URA states that *the underlying rate structure needs to be evaluated to reflect a commitment to DSM*. Rate design is not an issue before the Commission in this case. I believe the Company's current rate design represents a reasonable balancing of the many conflicting objectives that are considered. A commitment to efficient use of natural gas will be on the list of considerations in the future.

4. Concluding Statement

Q. Do you have a concluding statement?

A. The Commission now has the advantage of observing one year's experience with the CET. This allows the Commission to focus on the merits of the CET and the role the CET plays in the state of Utah. The evidence in this case demonstrates that the CET operates as intended, the CET removed the barrier to the Company's promotion of energy efficiency and the Company has pursued cost-effective energy efficiency that will benefit our customers. The Commission should allow the CET to continue to operate as proposed in my Direct Testimony.

Q. Does this conclude your testimony?

A. Yes.

State of Utah)
) ss.
County of Salt Lake)

I, Barrie L. McKay, 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.

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Barrie L. McKay

SUBSCRIBED AND SWORN TO this 8th day of August 2007.

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Notary Public