BEFORE THE PUBLIC SERVICE COMMISSION
OF UTAH

IN THE MATTER OF:)

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 Number: 05-057-T01

September 18, 2007 * 9:3 a.m.

Location: Public Service Commission
160 East 300 South, Suite 500
Salt Lake City, Utah

Commissioners:
Ted Boyer, Chairman
Ric Campbell
Ron Allen

Reporter: Diana Kent, CSR, RPR, CRR
Notary Public in and for the State of Utah

A P P E A R A N C E S

FOR THE COMMITTEE OF CONSUMER SERVICES:

Paul H. Proctor
Attorney General's Office
Attorney at law
160 East 300 South, Fifth Floor
Salt Lake City, Utah 84144

FOR THE DIVISION OF PUBLIC UTILITIES:

Patricia E. Schmid
Attorney General's Office
Attorney at law
160 East 300 South, Fifth Floor
Salt Lake City, Utah 84144

FOR QUESTAR:

Colleen Larkin Bell
Gregory B. Monson
Senior Corporate Counsel
Questar Pipeline Company
180 East 100 South
P. O. Box 45360
Salt Lake City, Utah 84145-0360

ASSOCIATION OF ENERGY USERS:

Gary A. Dodge
HATCH, JAMES & DODGE
Attorneys at Law
10 West Broadway, #400
Salt Lake City, Utah 84111

Also Present:

FOR UTAH CLEAN ENERGY:

Sarah Wright

FOR SALT LAKE COMMUNITY ACTION PROGRAM AND
CROSSROADS URBAN CENTER:
Betsy Wolf

W I T N E S S   I N D E X

(Cont.)

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E X H I B I T S

WITNESS	EXHIBIT NUMBER	ADMITTED
Barrie McKay	QGC Exhibit 1 and 1.0, with attached exhibits	24
Russell Feingold	QGC 1-YR-3 and 1-YR 5.0 with attached exhibits	96
Marlin Barrow	5, 5.0, 5.0R, 5.1R	143
Daniel Hansen	6.0, 6.1, 6.2, 6.0R, 6.1R, 6.2R, 6.0SR, 6.1SR with attached exhibits	166
William Powell	7.0R, 7.1R	211
Sarah Wright	1-YR-1.0, 1-YR-2.0, 1-YR-2.1, 1-YR-2.2	223

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P R O C E E D I N G S

COMMISSIONER BOYER: Good morning, ladies and gentlemen. Let's go on the record. We are here today in docket number 05-057-T01, captioned in the Matter of the Joint Application of Questar Gas, the Division of Public Utilities, and Utah Clean Energy for the Approval of the Conservation Enabling Tariff Option and Accounting Orders. And specifically what we are here for is the one-year review of the Conservation Enabling Tariff that we approved based on a stipulation that we approved about a year ago.

First of all, regarding the motions, let's deal with Mr. Proctor's procedural motion first. We appreciate, by the way, the suggestions made. Some of them we appreciate more than others, and I'll explain that further as we proceed.

This is how we intend to proceed: We are not going to use panels in this particular proceeding, first of all because I think that's the default position in adversarial proceedings, and the rules say that unless we decide otherwise, that's the way we are going to proceed is with the proponents going first and those opposing going second. And in this case there were a lot of issues, so even proponents don't agree on all issues and so on and so forth. So we are going to go the old-fashioned way beginning with the proponents, which will be Questar Gas.

Now, we have a suggestion from most of the Joint -- I guess the Joint Applicants have a suggestion. I don't think we received a different approach from Mr. Proctor other than in your motion suggesting the panels. Have you had an opportunity, Mr. Proctor, to see the Joint Applicants' proposed witness list beginning with Questar, the Division, Utah Clean Energy, the Committee, UAE, and then a separate section for rebuttal witnesses?

MR. PROCTOR: I received the one-page Joint Applicants' proposed witness list approximately seven o'clock Sunday night, so what little time I had available the rest of that evening and then yesterday to some extent. I explained to your executive secretary that my motion covered an order of witness. I was proposing a panel. You've elected not to, which is acceptable, certainly. But the order and the reasons that I've stated in my motion for an order are still there.

I would, however, have an additional reason why the order of putting the two rebuttal witnesses at the very end is unnecessary and truly outside of the scope of the proceeding as it was designed in the scheduling order. So I would like to speak to that, but at the time that you wish.

COMMISSIONER BOYER: Okay. I think this would be a good time to talk about that. My inclination was to follow the witness list of the Joint Applicants, except that I would have Mr. Feingold and Mr. Powell testify with the other witnesses for their respective positions.

MR. PROCTOR: That would certainly be acceptable to the Committee. And as far as the order of the Opponents, which would be UAE, Mr. Higgins, and Dr. Dismukes, do you have a preference as to the order in which you would hear those two? Mr. Dodge and I have talked about this, and I don't know that he and I would have any problems with whatever order you wish to hear them in.

COMMISSIONER BOYER: I don't have any preference or predilection. I don't know if the other commissioners do. Neither of the commissioners do. Mr. Dodge, you sent an e-mail this morning saying this order as suggested by the Joint Applicants would be okay. As I have modified that, would you be agreeable to that approach?

MR. DODGE: Yes, certainly.

COMMISSIONER BOYER: Questar? Ms. Bell, Mr. Monson?

MS. BELL: If we could address for the moment. I understand you have already made your decision on the order of witnesses. But the reason we put the rebuttal witnesses last, Mr. Feingold and Mr. Powell, is because in this particular matter they had filed just rebuttal testimony rebutting Dr. Dismukes. And in accordance with your rule, practice order of presentation of evidence, "Unless the presiding officer orders otherwise," which understandably you have the discretion to do, "applicants or petitioners, including petitioners for an Order to Show Cause, shall first present their case in chief, followed by other parties in the order designated by the presiding officer, followed by the proposing party's rebuttal." So we thought it would make sense logically, given what they filed and what they were asked to do in this proceeding, to rebut Dr. Dismukes after Dr. Dismukes had put his case in chief on.

COMMISSIONER BOYER: Your logic is compelling. Maybe I should reconsider. But Mr. Proctor wanted to speak to this.

MR. PROCTOR: Very much so. The particular administrative rule that Questar cites, doesn't that speak in terms of proponents, including an Order to Show Cause, under those proceedings? And unless otherwise ordered there's the proponents, the opponents, and then an opportunity for rebuttal. If you may, the opponent would be the prosecutor. But that speaks to an Order to Show Cause, as well, so it's trying to get two very different proceedings.

This one, which has a scheduling order that had a particular schedule for the filing of a series of written pre-filed testimony specifically states direct -- even comments, direct, rebuttal, and surrebuttal by certain dates with both parties filing at the same time. And so to suggest that this hasn't already been determined is just not truly reading the rule for its purpose. An Order to Show Cause, for example, would be something to which there is not normally a response. So it would be live.

In addition, Feingold and Powell also are taking the similar positions and citing to direct testimony from the other witnesses. And then Questar also puts in Ms. Wright on behalf of Utah Clean Energy, and she only filed surrebuttal so they are not even treating her -- I would suggest that this is also tied to their motions to strike testimony; that if they are able to strike the testimony and get the last word, then they have, in effect, undone the procedural order of the scheduling order that was decided many, many months ago with respect to the pre-filed testimony that may be submitted.

COMMISSIONER BOYER: Ms. Bell?

MS. BELL: I don't think our intention is to undo the scheduling order, by any means. We respect that scheduling order. But I differ in my opinion from Mr. Proctor on the wording of this rule and on what the roles of the parties were. The Committee was not necessarily going to take this opportunity, this one-year review period, to oppose or become an opponent. We had equal burdens under the stipulation to either support the Conservation Enabling Tariff or show why it should be rejected or show that there was a better alternative. I disagree that we necessarily had a different role than that.

Given that, if we have equal roles and equal burdens, I still believe that it makes logical sense for those rebuttal witnesses that were specifically used or asked to rebut or respond to Dr. Dismukes to go last. Having said that, we can work out whatever schedule makes the most sense to the Commission.

COMMISSIONER BOYER: I'm going to use my prerogative here as chair in conducting this hearing. The way I think and my orderly, anal-retentive mind works, I had it in my mind I would hear all the Questar witnesses at once, the Division witnesses at once, the Committee, and so on and so forth. So let's do that. Let's have Mr. Feingold testify with the Questar witnesses, and Mr. Powell with the Division witnesses and we will proceed in that order.

Now, there's still some other issues to be dealt with here. So we will go with the first witness, Mr. McKay. He will be able to present his summary of his testimony, respond to surrebuttal as necessary, to live testimony. We will subject him to cross-examination of the other parties and then the Commissioners, if we have questions, will ask questions of him. And then we will proceed to the next witness, Mr. Feingold, and so on as we proceed through.

And a word about cross-examination, I'm probably preaching to the choir here but we are going to restrict cross-examination to the testimony actually given and not allow new testimony to come in or wide-ranging diatribes, or character assassinations, as has happened on occasion in the past. We are going to follow rule R 746-100-10(k) which is to discourage parties from trying to make their cases through cross-examination. It worked for Perry Mason and makes good theater, but in real life it is difficult to prove a case through the mouth of a hostile witness and wastes a lot of time. So we're not going to do that. I don't think we need to prohibit it at this point in time. Although we will, if necessary, do that. So we will strongly discourage the use of cross-examination to make your cases.

By the Commission going after cross-examination, we are basically placing the burden on Counsel to make your case and make your record. On occasion we have done that for you, but in this case we are going to ask our questions at the end and leave you to your own devices up to that point.

With respect to who can participate, only those parties who have pre-filed written testimony are going to be able to testify during the case in chief. Parties who might have intervened or not filed testimony will have the opportunity to present their testimony during the public witness portion of the hearing, either in sworn or unsworn testimony.

And I don't need to lecture you. Mr. Monson and I passed the bar the same day, and he with undoubtedly a higher score than I, but in the '70s Utah adopted the Utah Rules of Civil Procedure, and they patterned themselves after the Federal Rules of Civil Procedure. And the main function of that set of rules was to avoid what I used to call litigation by ambush. And we are trying to accomplish that same task by requiring testimony to be pre-filed. Stake out your territory, state your positions, and then there's an opportunity for rebuttal on all sides and surrebuttal on all sides.

It's our objective to get as much evidence and testimony and as full and complete a record as we can, because these are difficult issues, as evidenced by the testimony that we have in this case. So I think we are all better served when all the issues have been fully analyzed, vetted, discussed, and holes are poked in them when possible.

We will allow the parties a brief closing statement - and I do mean brief - at the end of the hearing. That leaves the issue of friendly cross examination raised by Mr. Proctor. I think what we will do in this case is restrict friendly cross to issues in which the friendly people disagree with their friend, shall we say; where some of the proponents agree with portions but not all, or some have suggested a continuation of the CED with additions or limitations. So to the extent their positions vary, I think we should allow cross-examination.

Having said all that, as I understand it the reason we are here today pursuant to the stipulation and the order approving the stipulation, we are here to do basically three things, one of which is to review the effects of full decoupling and the other is to discuss alternative proposals, and third to discuss continuation of the CET or discuss continuation of with or without limitations or modifications. Does that cover the procedural issues and how we go forward? Did I miss anything, Mr. Proctor?

MR. PROCTOR: No. And thank you for considering my motion, late filed as it was.

COMMISSIONER BOYER: Thank you for suggesting it.

Speaking of late filed motions, let's move on now to the motions to strike portions of Mr. Dismukes's testimony. First of all, let me say I feel Mr. Proctor's pain. I have been in that situation. Dr. Dismukes filed his testimony on the 31st, I believe, of August. The two motions to strike by Questar and the Division were filed yesterday afternoon. I'm sure Mr. Proctor was preparing for this hearing at that point in time, so I'm concerned about the timing of it.

On the other hand, the motions seem to have some merit in that at least arguably parts of Mr. Dismukes's testimony might go beyond the scope of rebuttal, and the surrebuttal might go beyond the scope of the rebuttal. The rules provide that for oral argument on a motion, it has to be filed in writing five days before so that the parties have an opportunity to respond to it.

What we have decided to do in this case, and this is kind of a close call because Dr. Dismukes is, in part, rebutting Dr. Hansen's testimony but also testimony of others based on Dr. Hansen's testimony. Other rebuttal testimony based on Dr. Hansen's testimony. So I think on the merits, it's a very close call. But I think what we are going to do is allow Mr. Dismukes's testimony to remain in the record. We will monitor the hearing to see how live surrebuttal testimony goes. If the parties feel they have not had an adequate opportunity to respond to

Dr. Dismukes's so-called new testimony, the new modeling and the more definitive discussion of the lost revenue mechanism, we will allow parties time to file something in writing after the hearing.

And the reason we are doing this, first of all, I have not conducted hearings before. You don't know what kind of a stickler I'm going to be procedurally on the timing and so on. But I'd really encourage you to file your motions earlier. But on the other hand, we wanted as full and complete a record as we possibly can on these very complicated issues. And for those reasons then we are going to deny the motions to strike, but with those provisos. So Counsel, if you'd like to make a motion at the end of the hearing for an opportunity to respond to this new modeling and so on, and have me grant that.

Mr. Monson?

MR. MONSON: I do want to just make a comment. When this subject came up, I said, "We will just make our objection when the testimony is offered." That's what we usually do, so it would be a live motion essentially during the hearing. And that's why I didn't worry about the five days. In fact, we thought we were being more fair to give notice before the hearing that we were going to make that objection. But we understand your ruling and we will -- if at the end of the hearing we feel like we haven't had an adequate opportunity to respond, we will file something.

COMMISSIONER BOYER: There was actually another basis we could have ruled on, and that's paragraph 17 of the stipulation which says any party -- at least with respect to the lost revenue mechanism aspect of Dr. Dismukes's testimony. "Any party wishing to propose an alternative or alternatives or advocate to continue the CET, must do so not later than June 1." To the extent that this might be a different approach, I believe though that lost revenue has been mentioned earlier by Dr. Dismukes and also by other witnesses. But, be that as it may, for those reasons we will deny the motion to strike but with those conditions so that parties will have a full opportunity to respond to it and so that we will have as complete a record as possible.

MS. BELL: Chairman Boyer?

COMMISSIONER BOYER: Ms. Bell.

MS. BELL: May I clarify? When you say Dr. Dismukes may go forward and parties may respond, does that allow for our witnesses then to put on live surrebuttal as necessary?

COMMISSIONER BOYER: It does. And to the extent that that is not sufficient for you, we will give you an opportunity to file something in writing so that we have a fully vetted issue. And frankly, these are issues that we are kind of interested in. Elasticity, alternatives to the CDT, we are interested in hearing all the information we possibly can. These are difficult, challenging issues for us all and we are only moderately paid here.

With that, is there anything else we need to do before we proceed?

MR. PROCTOR: Mr. Chairman, may I address that?

COMMISSIONER BOYER: Mr. Proctor.

MR. PROCTOR: Thank you very much for understanding my client's circumstances and my own, although what I found is that I could respond to their motion or prepare to respond to their motions at 1:30 this morning just as easily as yesterday. And I have, in fact, prepared to do so, although your resolution is certainly acceptable. And I think it is only fair.

But I think also what would be fair is in the event, at the conclusion of the hearing, that the Company or the Division feel that they need additional time to file additional testimony, I would like the opportunity at that point to address in writing, if you wish - in fact, it would be best in writing - my response to their original motion because I'm not as convinced at this point that it is, in fact, accurately portraying the status of the record. So if you will grant me that, that will satisfy my client's needs, and my own. And I'm not going to throw away my 1:30-in-the-morning work product, but I will certainly set it aside.

COMMISSIONER BOYER: At least it was a good exercise, wasn't it?

MR. PROCTOR: It was.

COMMISSIONER BOYER: Ms. Schmid?

MS. SCHMID: I just have a couple comments. First of all, the Division's motion's timing was a result of reviewing the testimony of Dr. Dismukes, requesting and receiving information from him, and then determining that the information received was insufficient to allow a complete understanding of his model.

And second, with respect to Mr. Proctor's last suggestion that he be allowed to respond in writing to a motion that has already been granted, I would object saying that that would be an unnecessary allocation of judicial time. But your discretion, of course.

COMMISSIONER BOYER: Let's reserve that issue until the end of hearing, because I think Mr. Proctor said only in the event that the Company or the Division required additional time to file written pleadings would he respond. And I suppose it may moot itself. But we can deal with that at the end of the hearing.

Before we proceed with Questar's case, let me check with my colleagues to see if I have missed anything.

(Discussion among the Commissioners.)

COMMISSIONER BOYER: Thank you for your patience. We will now begin. Ms. Bell?

MS. BELL: Chairman Boyer, do we need to make appearances for the record?

COMMISSIONER BOYER: Yes, we do indeed. I apologize for that. I don't believe your mic is on though, Ms. Bell. Let's make appearances for the record, and let's begin with Mr. Proctor and work all the way around the room.

MR. PROCTOR: I'm Paul Proctor. I'm the Assistant Attorney General for the state of Utah, and I represent the Utah Committee of Consumer Services.

COMMISSIONER BOYER: Thank you.

MS. SCHMID: Patricia E. Schmid, also an Assistant Attorney General, representing the Division of Public Utilities.

COMMISSIONER BOYER: Ms. Bell?

MS. BELL: Colleen Larkin Bell and Gregory B. Monson on behalf of Questar Gas Company. And I will also be assisting Sarah Wright with Utah Clean Energy.

COMMISSIONER BOYER: And Ms. Wright, you are here representing Utah Clean Energy?

MS. WRIGHT: Yes.

COMMISSIONER BOYER: Welcome. Mr. Dodge?

MR. DODGE: Gary Dodge with Utah Association of Energy Users.

COMMISSIONER BOYER: Excellent.

MS. WOLF: Betsy Wolf on behalf of Salt Lake Community Action Program and Crossroads Urban Center.

COMMISSIONER BOYER: Welcome to you all.

Let's begin, Ms. Bell.

MS. BELL: The Company would like to call Barrie L. McKay. He has already been sworn in this docket. I don't know if it's necessary to have him sworn again or not.

COMMISSIONER BOYER: No, that will not be necessary since he has been sworn.

Barrie L. McKay,
having been previously sworn,
testified as follows:

DIRECT EXAMINATION

BY MS. BELL:

Q. Mr. McKay, would you please state your full name for the record.

A. Barrie L. McKay.

Q. And by whom are you employed?

A. Questar Gas Company.

Q. In what capacity are you employed there?

A. I'm the manager of regulatory affairs.

Q. Did you file eleven pages of direct testimony with seven exhibits on June 1, 2007; 24 pages of rebuttal testimony, and a two-part Exhibit, 2.1 B and 2.1 B-1 on August 8, 2007; and five pages of surrebuttal, with no accompanying exhibits in this case on August 31, 2007?

A. Yes.

Q. If I were to ask you the same questions today that were asked in each of your filed testimonies, would your answers be the same?

A. Yes.

Q. Do you have any corrections that you would like to make to any of your filed testimony or exhibits?

A. None.

MS. BELL: I would like to offer the admission of Barrie L. McKay's direct testimony.

COMMISSIONER BOYER: Any objection, Counsel?

MR. PROCTOR: No objection.

MS. SCHMID: No objection.

MR. DODGE: No objection.

COMMISSIONER BOYER: Okay. The exhibits then are admitted.

MS. BELL: And I meant to include with that his rebuttal and surrebuttal.

COMMISSIONER BOYER: The direct testimony, the rebuttal, the surrebuttal with attached exhibits are admitted.

Q. (By Ms. Bell) Mr. McKay, do you have a summary that you could present to us today?

A. Yes.

Q. Would you like to proceed?

A. Yes, I could.

This month puts us at three months shy of five years since this Commission ordered three specific task forces. There was the allocation and rate design task force; there was the DSM task force; and there was our customer service task force. And during the ensuing time, I would observe that I participated in all three of those task forces.

Particularly the allocation and rate design task force was different than other task forces that I had been involved with. And the difference I would describe as, one, the length of time. It took us three years -- well, it was 18 months and then we continued past that. And then the genuineness in which I felt all the stakeholders participated in discussing very thoroughly the issues that we were assigned to work through.

That task force started out very broad, narrowed, analyzed, came up with a working document that we let sit for a full year process as we looked through different alternatives and being able to accomplish what we had set out to do. Then further narrowed. And very frankly, the Company was saying, "Hey, let's try one of these that we, with our collective mind, our wisdom and analysis have done in helping to solve an issue," and were rather indifferent at the time as to which path we would choose. And I would observe that I think that the group narrowed and chose the better mechanism, which ended up being the Conservation Enabling Tariff.

At the same time, simultaneously we were working on the demand-side management task force and that was unique in that it was chaired by our energy office, co-chaired by our energy office in the state of Utah as well as Questar Gas Company per this Commission's order. There were funds brought in from the state agency as well as Questar to investigate if there's really potential for energy efficiency in the state of Utah, and if so, what particular amount there might be and what barriers existed. That task force worked, although with many of the same people, essentially independently, with different leaders, and came up with recommendations.

At the same time - and I don't want us to forget about this other task force - our customer service was a concern. We had been through the '90s and had had some of our services reduced by choices and by effects of what the Company was going through. That task force worked very well and actually was able to resolve their issues and the standards that we wanted to accomplish rather quickly.

The culmination of that, as you know, we filed in December of '05, issues that related to all three of those task forces: A continuance of certain service standards that we had agreed upon, and even changes in those; a mechanism to remove the barrier for us to aggressively pursue energy efficiency; and a mechanism that allowed us to collect our Commission authorized revenues, regardless of what customer usage was doing. Then we have gone through a process of having a stipulation. That brings us to a one-year review now here today.

My observation is we could not have orchestrated the evidence that has now been able to be produced after one year of review. But what was questioned at the time was whether or not this mechanism was symmetrical. I couldn't go out and cause customers to actually go and do something specifically in their home, but the evidence on the record shows that our CET is symmetrical. There's debits, there's credits, just as had been analyzed and supposed would happen in the state of Utah.

It was questioned, if we went forward with this mechanism, whether the Company would make good on their part and aggressively pursue energy efficiency. I think the record shows that we have actually surprised some with how aggressive we have been and continue to be on that.

Perhaps the greatest thing that we have enjoyed as a company, and I think our customer's greatest benefit out of this, is we have been able to align our interest with them. It is enjoyable to sit down and help them come to the realization that we are looking for ways, from top to bottom in our corporation, to help them reduce their usage and the use of a scarce natural resource.

Other mechanisms, and you will hear us as we debate back and forth, wouldn't have been able to accomplish that alignment. But there's no reason that we should be limited as Questar Gas in our efforts to promote energy efficiency.

It also is very much in line with what our state has set out to try to do. The Governor's initiative that he announced in I think April of '06 of aggressively pursuing energy efficiency, looking for barriers, working in collaboratives is exactly what the evidence and history in this case shows that we have been able to do. We are aligned with that policy. We want to be able to continue that.

And perhaps the greatest thing, in summary, is observing that our service that we set out to be able to have at a standard and maintain has continued to be there through this one-year review. And in summary, our recommendation is it is working as planned. There's no new things that have come up that we hadn't anticipated in our analysis and our study. And the Conservation Enabling Tariff should continue through the pilot program.

Q. (By Ms. Bell) Mr. McKay, does that conclude your summary?

A. Yes.

MS. BELL: Mr. McKay is now available for cross-examination.

COMMISSIONER BOYER: Very well. Let's begin with Mr. Proctor.

MR. PROCTOR: I believe that the Commission was going to permit co-proponents to examine witnesses with respect to differences --

COMMISSIONER BOYER: To the extent they differ.

MR. PROCTOR: So I think Ms. Schmid perhaps should have the first opportunity.

COMMISSIONER BOYER: That's fine with me. We just want to get the evidence in in whatever order. Ms. Schmid?

MS. SCHMID: I have no questions. I

believe that the file admitted and the evidence to be admitted will satisfy the Commission's needs.

COMMISSIONER BOYER: Okay. Were you going to say anything on -- who was helping Ms. Wright? Is it you, Ms. Bell?

MS. BELL: Yes.

COMMISSIONER BOYER: Ms. Wright agrees with the Company's position, so we don't need any friendly cross-examination.

Back to you, Mr. Proctor, I believe.

MR. PROCTOR: Thank you very much.

CROSS EXAMINATION

BY MR. PROCTOR:

Q. Good morning, Mr. McKay.

A. Good morning.

Q. Mr. McKay, what is the difference, if any, between the annual DNG base amount of $254, approximately I believe, per customer that is the base for your decoupling and the revenue requirement for DNG established in your 2002 general rate case?

A. First of all, I think it is $255 that is currently allowed by the tariff.

Q. That's fine.

A. And you are wanting to know what the

difference is in what manner? What are you driving at?

Q. Between that number and --

A. What's the difference between $255 and --

Q. The number that was established as your DNG revenue requirement.

A. I assume you have that one. I do not have that one off the top of my head.

Q. My question is do you know the difference?

A. I can find out the difference. I assume you are talking a mathematical difference here.

Q. Yes. You do not know that number?

A. I can find out what the dollar amount was.

Q. But as we are here today, you do not know the number?

A. I don't have it by memory, no. Sorry.

Q. Okay. And the $255 amount, the base DNG for decoupling purposes, that is established as of December 2005 by dividing your December 2005 customer count in the GS-1 into the total DNG revenues for the GS-1; is that correct?

A. No, that is not correct.

Q. Describe how that is done, then.

A. You need to remember in this case that we came forward and offered in 2005 a $10.2 million rate reduction. And then after discussions and parties' concerns, we agreed in May of 2006 for a $9.7 million rate reduction. And then at that time, after we had agreed on that rate reduction, we took the total DNG revenue that would be collected from those existing customers - recognizing that the rates that were established for those existing customers were what the Commission had allowed in the 2002 case with a few variations of having changed some costs from the DNG to the commodity but essentially it was those rates - reduced for the Commission just approved, just and reasonable $9.7 million rate reduction. And we took that total dollar amount, and I think I can turn to that if you'd like to know what that amount was for the existing customers. And we divided -- we took just the class that we were identifying that we would have the Conservation Enabling Tariff work for, and we took that total revenue requirement and very simply divided the total number of customers in that class and came up with the $255, on average, for a customer.

Q. What is the date, then, that you established or performed that calculation? As of what date?

A. Actually, the calculation -- and we ought to turn to the exhibit because I think that might help us here if we have some concerns, and that's what I'm going to do.

This is in my surrebuttal testimony that was filed on August 14 of 2006. And we recognized at that time with this surrebuttal that we needed to update what the allowed amount per customer would be because of the reduction in customers' rates that had occurred.

So if you want to turn to the exhibit, it is 1.10, page 1. And it will show what the current DNG revenue is on page 1. What the rate reduction was of the $9.7 million that I just talked about. This is the total DNG portion, people should remember. And then we removed from that the non-GS revenues that would be associated with the F1 class or the transportation class or the interruptible class, which left us with the GS-1 and I should identify that that includes also the GSS, so it's the total GS class.

We divided that by the total number of customers we had at the year-end 2005, and came up with the $255. So as far as dates are concerned, this had impact that affected us from June of '06, but the testimony was not filed until August.

Q. And this number then was calculated -- well, when you filed testimony originally in January 23 of 2006 in connection with this proceeding, at that time by your Exhibit 1.7 you calculated an annual allowed revenue per customer of $254.23; is that correct?

A. That's correct.

Q. But now you say it is $255?

A. That's because some parties didn't want the full $10.2 million, and we ended up going with $9.7 million.

Q. Thank you for your comment, Mr. McKay, but the question is what is the difference between -- how do you explain the difference between the $254.23 and the current number? Is that due to the rate decreases that took place as a result of the CET proceeding?

A. Could you repeat your question one more time?

Q. No, unfortunately. If you don't understand the question just say, "I don't understand the question."

A. Okay. I guess I don't understand your question. I think if you repeat it one more time I would, though.

Q. Let me go on. The GS class is comprised of how many customers total?
A. Today?
Q. Yeah.
A. I'm more familiar with our total customers but I think we are at about 830,000. That's an estimate on my part. The evidence on the record shows that that class had 799,000 as of the end of 2005.
Q. As of July 31, 2007, would it be correct that you had 833,127 GS-1 customers?
A. It sounds reasonable.
Q. But your GS-1 class is actually made up of both residential and commercial customers, correct?
A. Yes.
Q. Residential customers, as of July 31, 2007, there were 769,983; is that correct?
A. I don't have the document that you have, but it sounds reasonable.
Q. This comes from a document I believe you filed with the Commission, the Grey Book. Does that sound familiar to you?
A. We provide -- yes. And that's why I'm saying, I don't have my Grey Book report in front of me, but that sounds reasonable.

Q. And there were 6334 GSS residential customers?

A. That sounds reasonable.

Q. And then you have commercial customers, 56,150 in the GS-1?

A. Makes sense.

Q. And 653 in the GSS commercial, correct?

A. I don't have the document in front of me, Mr. Proctor.

Q. All right. And then seven industrial GS-1 customers, correct?

A. I am only agreeing that you are reading the document, which I don't have in front of me.

Q. To refresh your recollection from your Grey Book, the first column is the number of customers, and middle of the page it says, "General service calendarized revenues," and it begins with a column, Number of Customers. Correct?

A. Yes.

Q. Now, so the Company does, in fact, keep records that will separate out residential consumers and commercial consumers that are both within the GS-1 class, or the GS class, correct?

A. We have, yes. According to -- I think we make this breakout according to the tax code. I think that's the flag that causes us to be able to identify it as a commercial or residential or industrial.

Q. For the purpose of calculating sales tax or franchise tax?

A. Well, it is actually a purpose for which there has been a lot of discussion, and it's actually one of the things that we talked about in the cost of service task force as we contemplated whether or not we wanted to break out this class. That was one of the things the Commission asked us to review in that task force is whether or not we thought it would be wise to break this class out.

What became obvious, and the reason I pointed out that it is according to that tax code of the state of Utah as identified, was that there's a lot of different definitions of what could be considered residential use or commercial use. And there were varying opinions in that task force. And there was not agreement on that. But we told the task force this is how we were breaking out those for reporting purposes at that time, and that's how we have continued to do it to this day.

Q. But you do, in fact, decouple the class as a whole, correct?

A. The decoupling mechanism works for the whole GS class, yes.

Q. And Questar Gas also has a tariff that establishes volumetric levels that determine the monthly basic service fee, correct? It's tariff 2.02, GS-1 fixed charges. You have BSF category 1, 2, 3 and 4, correct?

A. Yes. We do have four basic service fee categories.

Q. And those categories are determined by the volume of gas that is handled by the meter? The meter capacity?

A. That's the beginning basis for that, yes.

Q. Now, would there be any residential consumer that would have a meter with a capacity greater than 700 cubic feet per hour?

A. I think some have, but not very many.

Q. And that is your first category. And then the second category is 701 cubic feet?

A. And I will observe that we do have several residential customers that are in a meter category 2. And you need to realize that it's not all volume that is identified there, but it is meter pressure, also, of what it is capable of.

Q. Delivered pressure.

A. Sure.

Q. And the third category is 2001 to 30,000 cubic feet per hour. And the final is greater than 30,000 cubic feet per hour, correct?

A. I assume again that yes, you are reading a part of my tariff I don't have memorized.

Q. Now, as a whole, the GS-1 class covers customers from zero decatherms per day to 1250 decatherms in any one day in the winter season, correct?

A. That is what our tariff says, yes.

Q. Can you give me an example of a customer on your system that would use 1250 decatherms in a day during the winter season?

A. Probably what comes to mind would be perhaps a construction customer that's building a large commercial building. You may have hospitals. You may have schools. I can come up with those specific customers if you were of real interest in it. But that's me opining on that. I don't deal with those customers on a daily basis. But yes, their average costs have all been included in the development of our average rate for that class.

Q. Could you give the Commission some idea of what volumes are used on an annual basis by your top five largest customers?

A. You actually asked a data request for this, and when I get a chance to review it I'll be able to tell you exactly. And it's due today, so I haven't seen all that and have it committed to memory. But I would guess on an annual basis it may be between 50,000 decatherms, maybe 100,000.

Q. And what would the average annual use be for a typical residential customer, excluding commercial customers from the GS class? That calculation.

A. We have just recently changed what we think are our typical customers, and we have identified that it's between 80 to 85.

Q. And according to your July 31, '07 Grey Book page, the one I used to refresh your recollection about your customer base, do you recall?

A. I'm looking at the sheet you handed me.

Q. All right. And if you take, for example, your industrial GS-1, number of customers, which is 7.

A. Yes.

Q. And divide that into the one year, so it's August 1 to July 31, '07, volume of decatherms, 22,267. You see that?

A. Yes.

Q. So that customer is using -- each customer there would be using, on an annual basis, approximately 3181 decatherms, correct?

A. It sounds like you have done the math, so yes.

Q. I have.

IHC has constructed, and I believe may have opened at this point, a new hospital facility approximately 5600 South and State Street in Salt Lake City -- Salt Lake County, within your service territory. Is that hospital a GS-1 customer?

A. I don't know.

MS. BELL: Objection. We have always been very sensitive about giving out customer-specific information publicly. If Mr. Proctor wants to use a hypothetical, I think Barrie can answer that. But I think we have to be careful about what we give out with regard to a specific customer account.

MR. PROCTOR: All I'll asking, Mr. Chairman, is whether they are a GS-1 customer.

A. And I don't know.

Q. (By Mr. Proctor) You used an example of a hospital as being a customer that would use large volumes of gas, correct?

A. I did.

Q. In your experience, and based upon your knowledge of the system, would a hospital of a similar size to the one -- are you familiar with the one on State Street and 5600?

A. I am not.

Q. Okay. We will go on. Since the DSM has been in operation, have you observed a difference between the conservation efforts that have been adopted by commercial GS-1 customers and those in the residential class?

A. I haven't.

Q. In the course of your preparing for this one-year review, has Questar performed any analysis, quantitative analysis to determine whether or not the declining usage has been greater or lesser in the commercial GS class than the residential?

A. We actually have some data already on the record as it relates to that. And I think, if you want to turn to this -- sometimes I get really lucky and just turn to it the first time, but it's the sur-rebuttal testimony. 1.14 that was filed last year in August. And I think actually it was the Committee that may have asked. It may have been the Division or just interested parties. But it goes to the very topic that you are interested in.

You were wanting to know is there a difference that we have seen between the declining usage for residential as well as or as compared to the commercial, which obviously are the big players in this class. And if you notice, the two pages there, page 1 and page 2 simply shows a very similar pattern of declining usage that has occurred during this 25-year period. Freely admits that there's different ups and downs a little here but the direction has generally been the same, although at any given moment or any given year it could vary from that.

Q. And that exhibit distinguishes and separately tracks commercial and residential?

A. That, according to our definition, breaks out the residential and the commercial.

Q. And the definition would be?

A. The tax definition that we have broken it out as.

Q. Would that bear relationship to your volumetric classification in your tariff? Commercial versus residential?

A. It is comparable to what we have shown in our Grey Books for the volumes that we have identified in that class, as well as the residentials that we have identified in that class. Is that what you are after?

Q. Does it relate to your meter capacity volume categories?

A. You are actually getting into an area of expertise that we have -- that we discuss in a general rate case, Mr. Proctor. And I am not that particular witness at this time. So I can't tell you all of the information that's gone into that. I can get that information, if you'd like.

Q. You are not familiar, then, with the relationship between the tax classification commercial/residential, and the meter capacities?

A. The tax classification is just simply something that we have used and have been very forthright in our explaining of that's how commercial and residential have been separated here. If the Commission or the parties come to an agreement on something else, we have been open to that. That's what we put forward in that cost of service and rate design task force.

Q. Thank you. Just a moment, if I may.

Thank you, Mr. McKay.

COMMISSIONER BOYER: We have established

that Ms. Schmid has no questions, Ms. Wright has no questions. Mr. Dodge may have a few.

MR. DODGE: No questions.

COMMISSIONER BOYER: Ms. Wolf, have you questions for Mr. McKay?

MS. WOLF: No questions.

COMMISSIONER BOYER: Any redirect?

The Commissioners may have a question. Let's start with Commissioner Allen.

COMMISSIONER ALLEN: Thank you, Mr. Chair. I have a few here.

EXAMINATION

BY COMMISSIONER ALLEN:

Q. One of the things I like to do, I'm kind of a big picture guy, as you probably noticed before, and I want to take a step back and remind myself of some of the things we have done in this tariff. I know that probably some of these are going to seem self-evident to those of you that participated in multi-years of the technical conference, but I just want to make sure I'm clear on this.

One of the things that the other energy company does that delivers electrons for energy, one of the things we have done there five or six years ago is they have a tariff rider to take care of these programs. Would you remind me, was that dismissed quickly? Was it never considered as an alternative in this particular case? Because we are looking at alternative proposals. So just remind me the history on that, in your particular instance.

A. My understanding of the tariff rider, and I'm not an expert on the electric side, is simply the mechanism that's used to collect the costs that have been associated with their energy efficiency or demand-side management programs. That was looked at as a way for, in our instance, if we come forward and the Commission approved about a $6.9 million budget for the energy efficiency programs, the question was how should we collect those costs? We didn't want to have them just be deferred forever, because it's not wise to have interest being accrued on that. Nor do people want to spend dollars on it without being able to have recovery. So that was looked at.

Because we didn't know exactly the dollar amount that we had anticipated would be spent, we proposed and it was discussed back and forth, why don't we just take what the actual amount ends up being, allow the Company to come forward on a semi-annual basis and seek an amortization of that actual amount?

It could easily morph into, on a going-forward basis, let's say that a given dollar amount is identified as, "Hey, this is wise, this is a good level of funding." And essentially if you develop an amortization or a rider in the case of the electric company, it would act in the same way. Let's say that it gets to $10 million, and if that's what the amortization is then on an annual basis we are doing about $10 million, it would have exactly the same effect. One is actually collecting it a little beforehand, the other is collecting it after the fact.

Q. Another quick question. I just want to make sure I'm clear on this, because it seems to me that in earlier testimony, if my memory serves me right, on occasion you refer to or the Company refers to this as a partial decoupling program. Yet in your new testimony for this particular area, I think you call it full decoupling. Would you please make sure I understand how you are going to characterize this, or how you are officially characterizing this?

A. I would certainly characterize this as a full decoupling.

Partial decoupling was looked at. In

fact, lost revenues, which is before this Commission, has been characterized in that way.

We did make a reference to that as perhaps some of the limits that were imposed on this could act as a partial, if, in fact, we get near those limits, meaning that it is not a full decoupling. It is only allowed to accrue to a certain level or amortize. But we have not. And our recommendation is that those should be removed, and therefore I characterize it as absolutely a full decoupling.

Q. Another question, then. One of the options available to us that we are looking at, and this is all open, of course, is the possibility of more proactive true-ups. The possibility of looking at historical data and versus actual and requiring maybe a higher level of performance in terms of true-ups. But at some point in your testimony, I believe you imply or you state that having that kind of more true-up process creates problems for you, but I don't recall specifically why.

A. Well, you are conflicted in what you are trying to go about and do. We obviously think that this is a rate stabilizing mechanism, if anything, because customers are essentially saying that they will be paying what the Commission has identified as being allowed for their non-gas service.

And so in the past when we have collected more than we have been allowed, they have had to pay more and vice versa on that. But as far as now the mechanism that says how often should we have an amortization, our history of the first year says, "Wow, if we wouldn't have made any amortization filings we would have been really near zero." And that's with hindsight. I can't tell you exactly what it will be in the future.

I will be really frank that we have looked at it internally and said, "Maybe it's an annual amortization that could work on this." We recognized that the pilot program suggested it would be two times a year. And in keeping with the spirit of the pilot program we thought why don't we take that to the end, in other words, the three-year pilot program, and if we saw a big need or maybe with two more years of history saying, "Hey, it looks like it might be wiser to do on an annual basis." Or vice versa, "Gee, it looks like we ought to try to do it more real time, every quarter." We are open to that. It just -- we have wanted to try to make it so that we didn't have a lot of changes as it relates to it. And that's another reason why we lined it up with the past filings; so customers, if there is a price signal being sent to them, it is happening only twice a year and other than that prices remain stable in between that period of time. That's kind of the thought process that we went through.

Q. Okay. And one last big picture question here. There seems to be a strong indication from the Company that new customers, when we look at the difference between new customers and old customers, new customers are always more expensive. And I may be mischaracterizing that. But it seems counter-intuitive to certain situations I can think of. So explain to me again, are the new customers always more expensive for reasons given that are -- help me understand that.

A. As it relates to the capital needs for these customers, we have a very hard time adding new customers at less than our average cost. We have a couple of different exhibits that have shown that, and I don't know if you want me to point to them specifically.

Q. That's fine.

A. But our average costs that have been allowed in rates by the Commission are significantly lower than what our incremental costs are, in plant, as it relates to adding a new customer. That's related to labor costs, digging lines, pipe costs, inflationary costs, for meters, service lines, for regulators, for mains in the street. And that's the biggest driver.

So I'm fairly confident in saying that you can almost use the term "always." Now, you can find maybe the exception. If somebody's home was right on the property line and they only have ten feet because of some setback to go to the edge, that customer might be able to be in it because costs have already been, long ago, in some subdivision laid and depreciated. But that's the rare moment.

Now, you drive right to the heart of the other one. We are motivated big time to try to see if our O&M per customer, if we can drive it down. We are touting our horn. We are saying we are among the leaders in the nation there. So if we can, and we have been able to if you look back through history, we have been able to add an awful lot of customers. We are trying to keep controls on those costs. That very much stays with us, whether we have our current rate design which is decoupling, or you return to the previous era of having us collect all of our fixed costs, if you will, with the volumetric charges. But we are very much motivated to keep those costs under control and, if we can, do it for less as a benefit for our customers.

Q. I think that helps me. Thank you.

EXAMINATION

BY COMMISSIONER CAMPBELL:

Q. I don't know where Commissioner Allen was going with that question, but let me follow up just to clarify in my mind. With your line extension policy, does that narrow that gap between the increased capital costs and the average capital costs per customer on the capital side?

A. Yes, it does. It helps.

Q. But it doesn't completely capture that?

A. No.

Q. And then as you have more customers that contribute to your fixed costs, which moves, I guess, that in the opposite direction, when you net it all out, when you net out capital as well as the additional contribution you are getting of fixed costs now from additional customers -- you see what I'm saying? You have certain O&M costs.

A. Sure.

Q. And some of those aren't variable, they are fixed. You get more customers and you get more customers paying your fixed costs. So when you net it out, you net out your capital and net out your O&M, is a new customer a benefit or a detriment as far as your bottom line?

A. I would say that they are putting pressure on us. So if you want to use the word "detriment," we think new customers are great. We want to serve them.

Q. I didn't mean to call customers detriments.

A. But they are putting pressure on us. And you've gone right to the heart of the issue, and that is something that would be discussed in a general rate case. And I don't think it is any surprise that the Company is looking at that, and I think there's been official pronouncements out there as far as relating to perhaps some timing on that. But you have gone to the heart of the issue of what is driving us there; and that is that we have continued growth in this area. We have continued need for reinforcements of our current system to be able to have larger lines to provide for all of the services in the area. And those costs are driving us to that. So it is -- I wouldn't call it a detriment, but that is the driver of why you will be seeing us here in a general rate case, which is where that still ought to take place.

Q. All right. I'd like to focus a few questions on page 11 of your rebuttal testimony. It comes down to -- you've been educating me over the years in a lot of different areas. And as I read this testimony, it seemed a little contrary to some of the education I have received from you.

So let me ask this question: As we have sat in 191 technical conferences, and I think I distinctly remember you letting us know that when price changes, customers respond. And so I guess I was a little confused that you jumped on Hansen's bandwagon here that it has no effect, because I think in technical conferences in the 191 you are like, "Yeah, we do get a price response. It is just 12 months later," or it's however more months later. So could you talk to me about your understanding, having worked in the business, as far as what the price response is by customers?

A. Sure. And I will observe that yes, I have sat in those meetings. I think what I have particularly identified in relation to the 191 account is that when we raise prices, customers respond. Let me tell you how they respond. They call us up and holler at us, and they are very frustrated and we get a lot of complaints.

We survey consistently. And we provide the same amount of service and we are there with the delivery of our product, but our prices go up and you can see our approval rating goes down because people are frustrated that they are paying more for a product.

Q. Let me clarify my question. When I said customers respond, I was referring specifically I believe to statements related to usage.

A. And let me speak to that specifically. We have done a lot of work through the years in trying to figure out in the state of Utah, "What is this customer's response?" And we have tried to say, "Is it immediate? Is it lagged eight months later or twelve months later?" And we have done a lot of different models. I'm not the one that puts those together, but the people that do work for me in other areas of the Company have tried to do the same thing. Because you have a 25 year history here of seeing a fairly steady decline.

Now, to put that all in perspective, and I think that's what you have to do, and it is going to take more than you maybe anticipated. But we sit there and say, "We have this decline and we have customers' usages change. What are the reasons?" Well, 93 percent of that, of what we have put together in our past history, shows that customers' usage varies because of weather. So what do we do? We take weather out of it. So all of those charts you see is weather normalized. So we are left with just about 7 percent that we are trying to figure out what is causing all of this.

And so then we put our time trend in saying over time you have changes in the appliance efficiencies and what is allowed by codes, building code enforcement there. And that moves us to 97 percent of what we have done in our studies that says, "Here is where we are at." So now we are fooling around with 3 percent left of us trying to figure out what's causing this change. And the best of our knowledge of what we have put together is that we have about a .06 percent elasticity issue. It's been debated back and forth here, but that's what we have put together for this state which we operate in, which is here in Utah. That's pretty small. I think you are going to have some testimony on the record that says you get down to .05 or less and that's about as close as you can get to zero. Can't really figure out what that is.

But that's what has become our big argument here in this case is all the sudden we are trying to figure out that last little 3 percent of what's really being affected and where things have been shifted. So that brings me to this issue right here. And I say as it relates to the CET, do we feel, do I feel in my testimony and what I say, that we have shifted some risk from the Company to the customer, or from the shareholders to the customers?

Now, here is the perspective, and it's a perfect scenario of where we are headed here, I think, in the state of Utah. We come through with a general rate case. Okay? Our last one was 2002. Let's take that as our example. We are, by code -- not by code, but by statute. We are supposed to try to - it's our thing, and you can hear everybody's explanation of what it ought to be - but we are supposed to set rates on what we expect to occur during a rate effective period. That's defined.

Now, there's definitions of somebody says it has to be historical; some say no, it's forecast. But the whole goal is to set prices on what is expected to be taking place in the rate-effective period.

So here's the key thing. We set rates. If we set rates where we thought for sure in this rate-effective period, which is just one year, that things are going to be less, usage is going to be less, I would say, "Hey, we have just set rates improperly." If we set rates where we thought usage is going to be a whole lot more than what I just said, I say, "Hey, we set rates improperly." So I have to agree or admit that we have set prices for this rate-effective period on what we expect to occur. And to me, when I say that, I think, "Hey, I have to expect just as much a likelihood that my estimate for usage could be high as my estimate for usage could be lower." So if that's the case, we expect customers' usage to be what we had identified there.

So with that in place, the CET simply identifies saying we are going to remove this risk of what our guess was, whether it could be higher or lower. And it doesn't shift it to the residential customer because we expect it to be at the level we set prices. And all the CET does is simply make sure that the Company doesn't collect any more than the Commission said, "This is just and fair for this expected level of usage and cost," or doesn't collect less. So that's the emphasis of saying, "Hey, there hasn't been a shift."

Now, Mr. Hansen has gone through and done a whole bunch of analysis and study saying, "Hey, I'm going to get into the actual usage," and I'll let him testify to that. But it's his results in saying, "Hey, there should not be a change in the Company's return, allowed return on equity, because I don't see that there's a shift." That's what I'm agreeing with.

Q. Let me pursue that a little bit. And I want to pursue the symmetry argument a little bit, as well. But before I do that, let me ask you this: Has the company's business risk changed? And I'm not talking in terms of when it's positive or negative as far as the CET account itself. But by removing the variation in your revenues, just by removing the variation, is that not a decrease in your business risk?

A. I'm on record, I have responded to data requests where we say, "Hey, we have removed the risk of us collecting more. We have removed the risk of us collecting less." We are very strong in saying that we don't think that there's been a shift.

Now, how much is that? What is that amount? We are in 100 percent agreement, which I think all the parties are saying that that's something you should try to figure out in a general rate case, because there's been other changes in our business risk profile since the last general rate case. We are saying that removing of that risk, relatively small, ought to be considered in with all the other factors that go to determine. But yes, we agree that that risk has changed.

Q. That risk has changed. Where has it gone?

A. It has been removed.

Q. It's been removed. Did it just go out into the ether?

A. Well, there was a risk, and people forget there's a risk that I'm going to collect more than what the Commission thought I was. Evidence on the record shows that I did that in 2006. I would have done that in '05 and '04 if it would have had the mechanism. Likewise the risk of me collecting less has also been removed, so I'm going to collect what the Commission has authorized.

Q. You are headed to my next question, but I haven't got this question answered first, and that is the variation. I'm not referring to whether you collected more or collected less. I'm just referring to the overall variation. So you do agree that the Company's business risk, as it related to revenue collection and the variation of that, has changed?

A. Sure.

Q. Okay.

A. We are going to collect what you have allowed us for the given costs.

Q. Let's talk about symmetry for a minute. Are you aware of any customers that have come forward and complained that because of weather or prices or usage, that the Company collected too much revenue in a certain quarter? I mean, it seems to me that the Company cares and is concerned about this risk. It seems to me, though, that I don't hear a drum beat of customers saying, "We need this symmetry. We want revenues." I mean, I guess the argument the Company is making is, "Well, you know, everybody is okay because if it is up we are collecting too much, if it's down -- so it's fair to everybody."

A. Sure.

Q. But I don't hear the customers jumping on board saying, "Yes. Now we have got symmetry in the revenues of the Company."

A. Well, I don't know if you are looking for customers to show up at all, because really what took place in our task force is that we put a mechanism out and took a lot of them and said, "How does this handle all of the issues that we are more expert in, in looking and in developing and in analyzing rates than others." And we developed that mechanism, this CET or the decoupling, so that it would be symmetrical. It would be pretty hard for me to come before you and say, "Hey, we really like this and we want to be able to go and collect more than what you authorize." We are simply showing the symmetrical nature of it because of our analysis. But no, we didn't have a lot of residential customers in there.

Now, from that perspective of residential customers, I am one. I'm on the verge of going into a different category of meter because of a change in the appliances I'm going to run into my home. And I'm not happy that I'm going to have to pay a higher basic service fee, but I'm going to go and do that for other reasons. But I'm a customer out there. I'm willing to pay a fair price for my service. I don't think it's bad that I pay that fair price, what this Commission has identified for me to pay. I don't think that I should pay more. But I also don't think that I should be able to go out there and cheat on the system or get around it and pay less than what you have identified for that price to be. I'm willing to pay that. And I think that's a fair thing in return for me having service to a home, having the gas when I need it there, for the delivery of the product that I'm choosing to use. I hope to take advantage of our energy efficiency programs and use a whole lot less going forward.

Q. Let me ask you about another risk as it relates to the Company and customers, and it probably will be very difficult to quantify but certainly one I think customers will be concerned about, and that is historically the Company had to manage their costs based on not only costs but the revenue side of the equation to get to their profit.

A. Sure.

Q. And I understand the Company still has incentive to manage its costs but by removing the revenue variability, the Company has, one could argue, a lower incentive than it had previously to manage its costs because they don't have to manage the revenue side. All they have to manage is the cost side. So the question is if the incentives for the Company to be efficient are reduced, and that then is a risk shifted to customers, how do we measure that or how do we know that the Company doesn't become more inefficient because they don't have to manage revenues? I mean, you made a statement just a moment ago that you are an O&M leader in the nation.

A. Sure.

Q. And I have heard that, and it makes me feel good. I don't think I have ever seen the study myself so are there benchmarks, are there data that regulators can look at as part of this process to say or to get a degree of comfort that customers in kind of this unseen, hard-to-quantify way that the Company isn't becoming less efficient?

A. Sure. That was a lot of questions so I don't know that I'm going to get every single one but let's start with first of all the benchmarking can be provided, and we have handed out things in some of our update meetings.

Second, the premise that you are asking the question on is assuming that in our, quote, management of revenues in the past, that it was always a given that usage was going -- that we had established rates where the usage was going to always be less. But our management, if you will, of revenues has been to incentivize us to get customers to use more. Okay? And that was -- and essentially we are paid by the Commission. Okay? We set a certain price and then however many units we can get sold, we get paid.

We are simply saying that method hasn't always been, and that's what we were identifying the task force to go look at. So that doesn't seem to be really working when usage always seems to be going lower on that. What is a mechanism that we can do to have it be a little bit more symmetrical, doesn't allow us to collect revenues any more than you have identified?

But now you are coming down to how do you know that we are being efficient and where is your level of service? That's why I want us to have us all remember that there was a customer service task force that was established. And we reviewed 50 different measures that people thought were important. This stipulation and our application before the Commission said we want to review those during this pilot period and see if there's others that we want to put up there as benchmarks to establish saying, "Here is the level of service that we want to see from this company. Here is the level we want you to do. Here is something different that we want." All those things can be explored and brought to court.

Also put forward, the Division said, "We wanted to be able to bring the Company in and if they fail to meet their service levels with this, have safeguards for it." So now I have those things as far as the service goes, and now I have my motivation, also, to try to control my costs, to be able to earn my allowed return. That's still my goal. And that is what I can control better is my costs for pipes, O&Ms, for how efficient we can operate from our IT group to our operations group to our regulatory. But that's the motivation we have out there. It's actually the issues that we talked about in the task force. We said, "Hey, this seems to make sense. It seems like it is symmetrical." We didn't come in and say, "Hey Commission, we have figured this thing out and we know for sure and this is final. Please approve this." We said, "This makes sense. We see that it could work this way. Let's just do a pilot. Let's find out. Let's see if the Company is still motivated. Let's see if they will be aggressive on doing energy efficiency. Let's see if they continue to control their O&M costs like they have in the past."

And that brings me to the last issue is that you can see on a twice-a-year basis our results of operations. You can, with technology, line things right up and say, "Hey, where are our O&M costs going? Where are the pressure points happening here? Where are the capital expenditures going?" And that type of monitoring still exists and was actually something that the Division said, "We want to be able to continue to have," and they have even gone and asked for even more than that on a forward-going basis to see the very things I think you are concerned about.

Q. My final question comes down to the rate case. Let's say, for example, that the testimony on this record kind of shows some smoke. Is there a shift here or not? But we really can't quantify it in this case and it is probably better left to a rate case where you can evaluate all business risks at the same time. Let's say also, hypothetically, that the Commission doesn't quite know where the $255 -- I mean, we know where the $255 came from, but we really want to have a good hard look at that number to continue this program.

A. Sure.

Q. How quickly could the Company file a rate case? How much time does it take? And maybe it doesn't matter the timing. I guess the Commission could say the $255 is an interim number as of this order and then we will true it up in a rate case where we actually have some confidence that we have accounted for any risk shifting that took place and whatever the current circumstances are to derive that number.

A. Sure. I mean, I think that is basically what is before you today. We came forward and, first of all, we had a rate decrease to even go into this, to come up with that dollar amount. And then that only lasts until the next general rate case. So at that point in time we will say, "Okay, what do we expect those costs to be and what's the dollar amount?" And we should absolutely take all those things under consideration, and we are in the process of trying to put that together.

Now, you asked how quickly we can do it. I will be frank with you. We had some good discussions in these task forces. There will be issues that are brought before you that have been thoroughly vetted. We have trained Gary Dodge and his group on knowing everything we do in our cost allocation model. The Committee knows everything that we have done in the past practice for all of the allocations that we use in the cost of service. You are going to have some real fun in issues that are brought before you, because we have the tools now. We have had the discussions and that is all going to be laid out.

As we looked at it and said, "You know what? We are going to need rate relief probably in 2008, given where our costs are going." We've begun to put together with our team saying, "We have to update this study." Because as soon as I file this, they'll say, "When is the last time you did a lead lag study?" As soon as I say, "It was 2002," they'll say, "Hey, I want to kick that out." So there's an awful lot of preparation for us to go through a complete preparation. But we hope to. And I'm simply going to quote my chairman. He said we are in the process of trying to put together something late this year or early next year.

Q. And I guess you are aware that we are likely expecting a rate case early December from another company?

A. My chairman doesn't organize what they are going to do, but yes, we are aware of that, also.

Q. How would you feel -- how would it affect your incentives if we were to make the $255 interim as of this order until we actually had a rate case to be comfortable with what that number is?

A. Help me understand incentives.

Q. I mean, as I look at the totality of this evidence, I personally want to explore more the potential shifting of risk and are there costs. And I don't know if this record does that for us. And I think an appropriate place is a rate case. In fact, I think a rate case would probably, in hindsight, we probably should have had a rate case to implement a program like this rather than just kind of backroom negotiations, "Here is the number that we are going to use," you know, this $255. Just to provide us, I guess, some comfort that we know what the baseline is and where we are going.

So I guess the question is rather than say -- I mean, I guess I'm thinking of Mr. Barrow's testimony and his testimony says, "Well, we ought to have a rate case by December '08." If we have a rate case by December '08, then the whole three years is over and if there was a shifting of risk to customers, it's too late because we have had three years of this. And I guess my point is if this is a mechanism that we decide to continue but it's based on getting some firm numbers that the Commission believes in and relies on -- well, I guess I shouldn't think out loud.

But I guess is there any objection or what would be the argument against the Commission coming out of this saying we might want to continue the CET for the pilot but we really want to analyze this idea of cost shifting and this $255 number, and we can only do that in the rate case. So what would be the downside of saying that $255 is an interim number until we have a rate case completed?

A. I assume that the $255 would last until the next general rate case. So the interim -- I guess I don't know what you mean as far as we go back and if in this general rate case I come forward and say, "Okay, we have to establish rates for rate effective period," and we know that it is going to probably be 240 days from the time I file, and so that means rates are going to go into effect eight months after I file. And we assume, just to carry the thing forward, that because of capital costs and needs that are identified that will be in place, will be in service for that period of time, that rates are going to go up, I'd be surprised if the Commission were to say, "We want to hold as an interim -- the

$255 shouldn't have been $255 and we want it to be $260." But it does seem to make sense that, given the information that you have today, that you'd say, "Okay, we have had a rate decrease. We have results of operations that are out there. Yeah, I have some concerns about this. I don't know if I have everything that's vetted out here on that particular issue. But yeah, it's right. We ought to do it in a general rate case. But we are not concerned that this company is overearning right now. The results show that they are earning less than the Commission allowed returned. So let's move forward with where we are at and we don't have any problem with going forward." My testimony is, as it relates to what Mr. Barrow has said, that we would agree to being able to do a rate case in that period of time, and I think you are going to be able to have one.

Q. My point was that it doesn't matter if the rate case -- if rates go up or down. That's what the rate case will determine, whether they should go up or down.

A. Sure.

Q. But if you say we are going to delay or defer the timing of the rate case such that you file it December '08, we do 240 days, then I guess my point is that this whole discussion of cost shifting is really moot because if there was a cost shift, it's already over with. I mean, the three years has passed. We have gone through this whole pilot program and the costs have been shifted for the whole pilot.

A. If there was a finding on that. But I think our testimony on the record is that we do not feel that it -- you're right. You have to make a decision based on what you think is before you.

Q. All right. Thank you.

EXAMINATION

BY MR. BOYER:

Q. I found one good thing about being the conductor of this hearing, and that is the parties and other commissioners ask most of the questions, but let me ask a couple.

On symmetry, you mentioned with some pleasure that some of the information is in now. We are up and running. At least for the better part of the year the DSM programs have been in place and it looks like the approach is symmetrical and that it moves up and down. Does it move equidistantly, in each direction?

A. No. I think our analysis was that we knew that when we collected more than what the Commission had allowed, that there would be a credit. And when we collected less, there would be a debit, if I can use accounting terms. And the observation and the concern was, "Hey, it is always going to be in one direction, and that's not going to be good." Well, our first year showed that there was $1.7 million that was credited to customers. And that's the symmetry.

And no, particularly if we are effective in what we are trying to go out and do, and that is have customers have a reduction in their usage, we hope to be able to have that be in a direction that the usage is consistently going down. That's our goal. We are trying to align them with obviously where the state is going and everything else, but that's what you would have occur.

Now, the key thing I want us to remember, because we are going to be heading for a general rate case here, is it different than what we had anticipated when we set the rates in this general rate case? And I hope that when we set the prices, that we think that there's just as much probability for usage to be lower and higher, when we go and we set the usage level and the price level of what we come up with and what we are charging. If we aren't doing that, then I don't think we are doing our job.

Now, history or whatever happens after that will say, "We were right. We overestimated or underestimated." But that should be the goal in a general rate case.

Q. Thank you. I'm wondering, has there been a shift in focus or purpose of our activity here? As I recall, when the program was first studied and announced and the stipulation was filed, it was cloaked with this aura of conservation and motherhood and apple pie. But as we look at the data so far, most of the accrual for lost revenue, if you will, DNG revenue were causes unrelated to DSM. Is that not right? The larger proportion of the money accrued or credits accrued and the balancing account are because of a decline in usage for market, price, weather, technology, codes, and that sort of thing rather than demand-side management.

A. I don't think anybody has said on the record what we thought the change in usage has been caused by since the development or since the approval of this mechanism. But two things --

Q. And you are saying it's not even relevant now because the original intent was just to recover those lost fixed costs as a result of declining usage for whatever reason; we don't care about the reason.

A. Okay, and I think you are going to the heart of what I think our application was. If it was perceived as just energy efficiency and that was the only note that we were -- that you heard us singing as we presented this before you, then we should have sung louder on the other issue. But I think it's been very clear that it was actually a combination of two specific focuses that we had coming out of different task forces of why we were proposing this mechanism. And one of them absolutely was not anything to do with the DSM side and that was, "Hey, we have had a decade of the '90s where we have seen this constant decline. Our current approach doesn't seem to be working. Let's go and study that in a task force." So we looked at that and we said, "This mechanism allows the Company to collect the Commission authorized return." That very much, from day one, was part of our reasons for coming before the Commission.

Now, to go to the heart of what you are saying. What has caused our change? Well, you look at it and we have had an increase. Why did we have an increase? We haven't sat down and tried to figure that one out or tried to synthesize it. Just recently, and I'll observe that if you look at the amortization schedules that we have provided in my testimony, which was Exhibit 1.2, that essentially you see on average for the first year, not on average in total for the first year, that we had an abundance of crediting, $1.7 million.

Since that time, coincidence or not, we launched our programs after this year. I don't know what has caused the customers -- I don't know how much there has been related to conservation, related to advertising, which has been really strong. But you do notice that it was since March, and you can start to see it in March and April where we started to have that change in their usages. No party has been trying to synthesize exactly what that is.

We hope, and I will say the momentum that we are hearing from customers, the interest that we are hearing, the surveying that we are taking from outside third parties in saying, "How aware are you of this campaign," has been very positive. Our DSM group just had those results presented to them. And what was I think more encouraging from the Company's point of view was people are saying they are going to act on it. So we hope to. And we haven't even been a full year on this yet to see where they are going.

Q. And during the winter months you weren't fully ramped up so you don't know the effect of weather?

A. No, not at all.

Q. I was hoping that at the one year point we would have a little more data on that. If you look at the stipulation, those who opposed it -- or didn't oppose it but had concerns about it, were thinking, "Well, at least we get the $1.1 million credit and we get some major DSM programs rolling out." And I guess I'm interested in the quid pro quo. We know what you got, we know what the Company got. You talk about rate stability and you have revenue stability?

A. Yes.

Q. And I guess that remains for another day.

The other thing is I guess more of a comment than a question particularly because I've read the testimony. But this pricing on elasticity sort of surprises me. Just based on my own behavior and the behavior of my family and friends and my friends who are in the HVAC business, we are all changing our behavior based on prices. Particularly we have changed our behavior back two years ago when prices of gas went up to $11, $12, $17 a decatherm, whatever it went to. And I'm surprised we don't have any evidence of that, or very little evidence of that. That's just a frustration I have at this point.

A. We were surprised, too. During that particular run-up we saw our usages for those months where we had that and the months following stay very flat. That surprised us.

Now, as all of this data has come in and this analysis has come about, we said, "Does this really pass the sniff test?" And I guess that's I did want to try to put in perspective this issue. We are trying to figure out how much of this risk, if there is a risk, what shifted? We are fooling around with a big hundred percent continuum here. 93 percent of it, you are dealing with weather causes changes in usage. Then you put a time series into that and now you are up to 97 percent. So in Utah we are left with 3 percent that we are trying to figure out.

Now, in my home I know I can holler and say whatever I want, but my kids still want warm showers so they are taking the same number of showers and I have yet to be able to shorten them. The same thing with our usage of keeping our home where we are at. It did start to make sense, particularly when you see we are only at a .06 from what we have been able to do in all of our analysis through the years, that we might have fairly ineslastic as it relates to price in this area. I can't speak to other areas. But I think that's what the evidence is showing here; that in this area when you have space and water heaters, and we are over 95 percent in every home, that they are still having warm showers and still heating their rooms.

COMMISSIONER BOYER: Thank you.

Ms. Bell, are you going to have much redirect? I think our reporter, we are wearing out our good reporter here.

MS. BELL: I can wait until after a break. I don't think I have very much.

COMMISSIONER BOYER: Why don't we take a ten-minute break. We'll come back to redirect and then move on to the next witness.

(A break was taken.)

COMMISSIONER BOYER: Back on the record.

I just can't resist, having Mr. McKay here under the hot lights, so I'm going to take the prerogative of asking one more question, or perhaps a series of questions.

CONTINUED EXAMINATION

BY COMMISSIONER BOYER:

Q. The Company appears to be the only party in this case advocating the elimination of the caps that were placed during the first year of this pilot program. Could you explain, I know we are not approaching those caps, but why would we want to eliminate them and why not adjust them or leave them in place?

A. First of all, I do think as far as clarification goes, that the Company recommended the removal of the accrual limit as well as the amortization limit. And I think the Division, in rebuttal testimony, recommended that the amortization limit stay. So I think they are in agreement as far as the accrual. But their recommendation was that the amortization should be changed from being half a percent of gross revenues to a more stable -- and also have it linked to the actual revenues that we are identifying, and that is the distribution on gas. I think the recommendation was 2.5 percent of that, which would make it fairly comparable to what the current amortization limit is today. So my statement is I think the Division is in agreement on the first part of that, but they offered an alternative position going forward.

To speak to your other question of why the Company feels that they ought to be eliminated is, first of all, we didn't ever see any need for them to begin with. If the theory and the idea behind the approach of what we were identifying is saying, "Hey, the Company ought to be allowed to collect what the Commission has authorized as revenue for these customers," then we are saying that the Commission's approved level of revenues is not correct if we are saying, "Hey, we don't want to let them collect that." So our saying that that ought to be removed or there is no need for it is related to that.

Q. So you are saying that these are not necessary or contradictory?

A. Yes. The contradictory side of it is as it relates to the energy efficiency side. If we really e go out and become very effective and not have customers using as much on an actual basis as what had been identified on an allowed basis, then it sends me the signal saying, "Hey, go out there and try to work really hard and get up to this level or don't go over it or else you will be penalized." And

I don't think that's a good signal for us wanting to try to move forward energy efficiency. We will freely admit that in this first year we have not approached the limits on either one.

COMMISSIONER BOYER: Commissioner Campbell is going to exercise his prerogative to ask a question on the topic.

FURTHER EXAMINATION

BY COMMISSIONER CAMPBELL:

Q. You pointed us to 1.2, and it occurred to me that when you talk about symmetry -- 1.2 of your direct testimony where it shows the ins and outs.

A. Yes.

Q. When you talk about symmetry, really the intent isn't symmetry. What we want to have happen is for a positive balance to continue to grow, right? Because that means we are successful in the DSM. So it's intentionally designed, hopefully, to grow if the program is going to be successful.

A. Yeah. You're kind of talking two different focuses. I agree that our goal was exactly what you just said. We hoped to be able to have energy efficiency take over, we change the market. I'm seeing signs that we are changing the utility corporation and how we think and how we act and what we are going out and trying to promote. We hope we can have that same effect on customers.

Now, as far as how we set this price that we are talking about in the general rate case going forward. Hopefully there will be just as much chance as we come with our best analysis that it will be higher or lower, because we used our best estimates in doing that. That's what I'm relating to in the symmetry side. We hope very much, and we agree with you on that.

COMMISSIONER BOYER: Ms. Bell, now it's your turn for redirect.

MS. BELL: Thank you. I just have a few questions for Mr. McKay.

REDIRECT EXAMINATION

BY MS. BELL:

Q. Mr. McKay, Commissioner Campbell asked you some questions about the impact of new customer growth on the system and related to whether or not new customers provide a greater base across which to spread fixed costs. And I believe you answered that new customers put pressure on the system. Can you please clarify what you meant by that?

A. Sure. Well, specifically I think that we would observe that our costs are fixed in nature as it relates to our current volumes that we had identified in a case. But they are not fixed as it relates to customers, and new customers do cost us more. So as we add a new customer, they put -- and I used the word "pressure," but they bring with them more costs in the capital side as well as on the operation and maintenance side in answering phone calls, providing service, being able to get out to the customers where we do have maintenance on their lines or their meters and reading all those. All of those costs go up when we have an increase in customers.

If you don't worry about an increase in the customer side and we just say, "Okay, this current existing set of customers, do my costs change because of the volumes that they use during the year?" No. Our costs are very constant as it relates to whether or not we pay an employee a salary in August as well as we pay them the same salary in January. So those costs are not varying with the customer's usage. But our costs do vary with the number of customers.

Q. Commissioner Campbell also asked about whether customers are on board with this Conservation Enabling Tariff. And I believe it was with regard specifically to allowing the Company to collect its revenues through a decoupling mechanism. Have we surveyed customers at all with regard to, say, DSM programs?

A. We have. And in fact, we have been genuinely encouraged by their positive response. And I think that's specifically what this mechanism was identified to be able to do. And that was one of the benefits that we chose in decoupling versus -- and remind us all that we were very close, on the verge of coming forward with the straight fixed variable. But one of the benefits was the customers wouldn't see a change in how they were billed in the volumetric portion, as well as the basic service fee. But what they would receive is exactly related to the energy efficiency and us aggressively doing that. So yes, we have had very positive feedback, and customers have been very supportive of what they are to see and be a part of in this pilot program.

Q. And I think I just have one more question. With regard again to a line of questions from Commissioner Campbell with regard to whether the CET should be placed in rates on an interim basis. And I believe you said -- well, you had questions about it. What is the Company's position with regard to that?

A. First of all, we should be very clear that we don't think there is necessarily anything on this record that would call into question the Company's current rates or need for them being on an interim basis, and we would oppose that. But we don't have any problem with going forward in our normal course of business of coming forward with a general rate case. But we see no need and would oppose an interim rate.

Q. And isn't it true in a full general rate case we would fully analyze the level of revenues, the allowed revenues that would be set and looked at?

A. I think that's been very clear in all of the witnesses' testimony that have spoken to this issue is that this particular issue, as it relates to risk, ought to be fully vetted, and we agree a hundred percent in a general rate case.

COMMISSIONER CAMPBELL: Just one follow-up. So if you would oppose this idea of an interim, wouldn't that benefit you if you truly believe rates are going up?

A. Well, I guess the reason we are opposing is the principle upon which we are basing it; and that is I guess I have to assume that the reason they become interim is because there's a show cause order. The Company is earning more than they should be allowed or that they must be brought in at a given point in time. And usually I think this Commission has made a determination of an interim rate being based upon those types of premises.

We don't see any of that that's before this Commission. We are not opposed to going forward with that and let the chips fall where they may, but it doesn't seem like the word "interim" should be associated with that.

COMMISSIONER CAMPBELL: Is the $255 a rate? It's not really a rate, it's a calculation. And so I guess -- well, I think -- let me ask the attorney. Maybe it's a question for the attorneys. This is a calculation, it's not really a rate.

MS. BELL: I think it's a calculation based on rates that were put into effect and deemed just and reasonable by the Commission in the last rate case. And in a future rate case you would again determine what that allowed revenue is that the Company should be allowed to collect. So it was a calculation that allowed us to collect the amount of revenue.

COMMISSIONER CAMPBELL: I'm going to think on this.

MS. BELL: And I guess the Company obviously would be troubled by looking or having the Commission determine that this should be set on an interim basis subject to a retroactive rate change and the allowed revenues that -- I'm not sure how that would work, Commissioner Campbell. I think we would object to that and question whether we could do that.

MR. PROCTOR: Commissioner Campbell, may I respond?

COMMISSIONER CAMPBELL: Please.

MR. PROCTOR: The Committee's view would be it indeed is not a rate. It's a revenue. The calculation says what is their revenues they are supposed to receive? And it may or may not bear any relationship to the DNG cost of service for any class of customers that was established in 2002. And furthermore it establishes -- or it uses the number of customers divided into the DNG revenues at a certain period of time to establish how much their ongoing future revenues should be, what should the base be above or below which there would be a CET adjustment. So it doesn't bear relationship to the traditional ratemaking in that sense. And that's part of the problem.

In this case, it could be an interim revenue, not unlike where you grant a rate increase on an interim basis for specific reasons. And given the fact that this is a pilot program, I think you would probably have a greater statutory right to entertain that type of interim treatment. But it secures a revenue stream at a certain level for the certain number of customers. But it also grants the Company, without subject to adjustment, revenues for new customers.

Now, Mr. McKay has testified or placed in his testimony discussions of the extension policy and the cost to join a new customer and so forth, which are clearly general rate case issues. But that would be the Committee's position; that it's something you could do because it's part of the adjustment. But it is not establishing a just and reasonable rate. It is taking a revenue. Thank you.

MS. SCHMID: If I may?

COMMISSIONER BOYER: Ms. Schmid.

MS. SCHMID: Given just a few moments to think about this, it seems that the Division would not oppose an interim program or revenue or whatever you want to call it on a going-forward basis, of course, and that such treatment would be consistent with the flexibility offered a pilot program and our procedural schedule to discuss alternatives regarding the CET.

COMMISSIONER CAMPBELL: Now having opened the can of worms, is there enough information on this record for us to actually recalculate that?

MS. SCHMID: I believe that Dr. Powell could address that. And I think that there --

COMMISSIONER CAMPBELL: Why don't we wait until the other witnesses come on, because I actually wanted to ask the Committee some questions around this idea, as well.

COMMISSIONER BOYER: Mr. Dodge, everyone else has weighed in on this issue. Have you anything to add to the decision?

MR. DODGE: I don't. Thank you.

COMMISSIONER BOYER: Your next witness, please?

MS. BELL: Would it be all right if Mr. McKay answered the question that was just raised? He would like to answer that.

MR. McKAY: The other witnesses are going to be able to respond to that. Let me respond. I think the question was is there enough evidence on the record to recalculate the $255?

COMMISSIONER CAMPBELL: Right.

MR. McKAY: And let's remember how we calculated the $255. We said we took current rates. These rates. And how we got to the current rates was here's the prices that were established in the last general rate case. These are the rates. What are we collecting right now from customers with those rates, assuming normal weather? We have to do that. Then we reduce that level, that dollar amount, because we had a bunch of customers, obviously, since that last case.

We reduce that dollar amount by $9.7 million. And all the things that went into establishing that rate, we said we are just going to reduce this by $9.7 million, and I could tell you the parts of what this $9.7 made up, but I don't know if that's the key point here. Then we say, "Okay, here's what that total dollar revenue--"

COMMISSIONER CAMPBELL: Actually, that is part of the key point insofar as why a rate case would benefit this Commission where they actually felt comfortable with all the plusses and minuses. But you don't need to go over what makes up the 9.7.

MR. McKAY: It was depreciation was a large part of it. Also some refinancing which helped to reduce customers' prices, also. Those are the main drivers.

But then we take those prices. All we did is took the prices that had been identified in the last general rate case. We are saying, "Okay, here is that level." Now, what do we need to do in those prices to make it so that the Company collects $9.7 million less? So we adjusted those prices downward. Then we say, "Okay, given that, what's the amount that you collect?"

Now, this whole mechanism, this CET mechanism isn't dealing with the prices. That is just saying, "Here is what you are allowed." Here is what these prices will collect in total. And we said now it's a very simple mechanism; you take the total dollar amount which is $204 million and divide it by the customers. We are saying on average this is the amount. And it's an average. It was average prices that we had developed, and we charged those prices to the high volume customers. We charged them to the little widow on the corner. But we take all of those total revenues and say, "Okay, what's an average that they should have for a customer?" Our records showed that new customers are costing us more than what the average customer costs us in our last, or since our last case. So we simply have that. And then that's what we are allowed by this Commission on average.

But the price that we have was determined just and reasonable in 2002. It was an order that came out in June of '07 that says these rates are just and reasonable today. I said '07, and I meant to say '06. In '06 where they said these prices are just and reasonable. We filed, well, this next week it will be three results of operations using those prices and these accruals as it relates to the Conservation Enabling Tariff since then that shows us earning ten sixty-eight, ten three is an estimate for a period of time. Bringing all those rate case factors, because we do what you asked us to do, and I'm saying, "Here is what the impact on three year average for bad debt is. Here is what we do for all the other adjustments." So we provide this by Commission order so you can monitor and see where we are at.

Now, have we had a fully vetted case? No. Are we going to? Yeah, we will.

COMMISSIONER CAMPBELL: One final question, and maybe this will simplify it. Do you see any way for those parties arguing that there is a cost shift to customers to preserve the ability to recapture that for customers before the conclusion of a general rate case?

MR. McKAY: I think we are all in agreement that that ought to happen in a general rate case. So no. I think they would have a very hard time. One, I don't think they have the evidence to be able to do it. But two, I think that has to be done in a general rate case.

COMMISSIONER BOYER: Thank you, Mr. McKay. You are excused.

MS. BELL: I would like to now call Mr. Feingold.

COMMISSIONER BOYER: Has Mr. Feingold been sworn in this proceeding?

MS. BELL: No, he has not.

Russell Feingold,
called as a witness, being first sworn,
was examined and testified as follows:

DIRECT EXAMINATION

BY MS. BELL:

Q. Mr. Feingold, would you please state your name for the record. Your full name.

A. My name is Russell A. Feingold, F-E-I-N-G-O-L-D.

Q. And for whom are you an expert in this proceeding?

A. I'm representing Questar Gas Company.

Q. Are you the same person who filed 18 pages of rebuttal testimony with four exhibits on August 8, 2007, and 4 pages of surrebuttal testimony dated August 31, 2007 in this case?

A. I am.

Q. If I were to ask you the same questions today that were asked in each of your filed testimonies, would your answers be the same?

A. They would.

Q. And do you have any corrections that you would like to make with regard to any of your filed testimonies or exhibits?

A. No, I don't.

Q. I would like to offer the admission of the rebuttal testimony with its accompanying exhibits, and surrebuttal testimony with no accompanying exhibits, of Mr. Feingold. And this has already been filed in this case.

MR. PROCTOR: No objection.

MS. SCHMID: No objection.

COMMISSIONER BOYER: Anyone have objection to the admission of these two pieces of testimony? And we will just use the marking that you have placed on them Ms. Bell for the record?

MS. BELL: Yes.

COMMISSIONER BOYER: They are admitted.

Q. (By Ms. Bell) Mr. Feingold, have you prepared a summary that you would like to read into the record?

A. Yes, I have.

MS. BELL: Chairman Boyer, is that something that you would like to have handed out or may he just read that into the record?

COMMISSIONER BOYER: He may read that into the record. That would be fine.

A. Thank you. The testimony that I presented in this proceeding concludes the following points. Number one, revenue decoupling mechanisms are being embraced by a growing number of state legislators and regulators across the U.S. in recognition of the business challenges faced by utilities and the energy efficiency and conservation initiatives that are being pursued by utilities for the benefit of their customers.

This type of industry-wide support for revenue decoupling mechanisms is growing rapidly as evidenced by the large number of legislative, regulatory, and utility initiatives that have occurred in just the last six months. In my rebuttal testimony, I list developments in ten states that are indicative of the growing trend in utility rate-making, this growing trend in utility ratemaking.

As a point of contrast, as of 2002, there were only three states that had approved revenue decoupling mechanisms for gas utilities. And currently there are eleven states, including Utah, that have approved revenue decoupling, with 14 additional states currently addressing revenue decoupling issues. I anticipate that over the next six to twelve months, we will see other states added to the list of regulatory commissions that have approved revenue decoupling mechanisms for gas utilities. In fact, just in 2006 alone, along with this Commission's approval of the Company's Conservation Enabling Tariff or CET, six other state regulatory commissions approved revenue decoupling mechanisms for the gas utilities that they regulate. Those states were Indiana, New Jersey, Ohio, North Carolina, Washington state, and Oregon.

Even in those states where another party in this proceeding has claimed they have found a way to promote energy efficiency under more traditional rate-making approaches, more than half of those states, or twelve states, in more recent times have either ordered all gas utilities to file revenue decoupling mechanisms, approve the revenue decoupling mechanisms for a gas utility, have opened an investigation into revenue decoupling concepts, or are considering a revenue decoupling proposal filed by a gas utility.

In addition, the governor's of Connecticut and Nevada have signed laws that either order the utility regulator to implement revenue decoupling mechanisms for all utilities, or allow the utility regulator to adopt rules to implement revenue decoupling mechanisms for all utilities. The growing number of utility proposals and regulatory initiatives that I discuss in my rebuttal testimony I believe underscores the recognized importance of this rate-making concept, with the increased offering of energy efficiency and conservation programs to utility customers. In my opinion, the continuation of the Company's CET is consistent with and supportive of these industry-wide initiatives.

With regard to the specific aspect of the company's CET mechanism that I addressed, I conclude that its business risks are not shifted to its customers under this rate-making mechanism for the following four reasons. Number one, the company's CET does not change the fundamental weather-related or economy-related costs of the utility. It will only affect how and when revenues are collected to cover the regulator approved level of costs.

Number two, if a customer's gas consumption increases due to a variety of factors and the customer overpays for gas delivery service, the company's CET remedies the situation equally for both the Company and its customers by adjusting the revenues of the Company and the level of rates charged to its customers for delivery service.

Three, commodity risk is not shifted to customers under the company's CET because customers will continue to respond to the market risk associated with gas commodity prices as embodied in measures of price elasticity.

And four, the Company, as explained in Mr. McKay's testimony, has shown by its actions that it is committed to promoting energy efficiency and conservation programs that will have the effect of reducing commodity price risk to the customer.

That concludes my statement.

MS. BELL: Mr. Feingold is now available for questions:

COMMISSIONER BOYER: Ms. Schmid?

MS. SCHMID: No questions.

COMMISSIONER BOYER: You are the only friendly witness that might have questions.

Mr. Proctor?

MR. PROCTOR: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. PROCTOR:

Q. Good morning, Mr. Feingold.

A. Good morning, Mr. Proctor.

Q. Are you familiar with the decoupling proposal submitted by the Public Service of New Mexico?

A. Yes, I am.

Q. You testified in that proceeding on behalf of the utility, as I recall. Correct?

A. Correct.

Q. Do you recall when it was filed?

A. I believe it was filed in 2006.

Q. In the fall of 2006? Does that sound

correct?

A. Mid year or fall. I can't recall exactly when.

Q. And it was, in fact, a general rate case, was it not?

A. It was. For its gas utility business.

Q. And in conjunction with a general rate case, they also requested a decoupling mechanism, correct?

A. Yes.

Q. Do you know the outcome of that case?

A. The Commission chose to not approve the revenue decoupling proposal.

Q. Was it a question of not approving it, or actually rejecting it with prejudice?

A. I don't know the specific language that you are referring to, but I do know that while the Commission chose to not approve the Company's revenue decoupling proposal, the Commission also left the door open for the utility to come forward in future times to be able to demonstrate the impact of declining use per customer on its margin revenue situation.

Q. Have you read the Hearing Examiner Huffman's recommended decision in that case?

A. I did.

Q. And are you familiar with his recommended decision as finding that, for example, the scope of PNM's decoupling proposal is remarkably broad?

A. You are asking me if that's a statement?

Q. Yeah. Is that consistent with your recollection of the opinion?

A. I believe when I read it, that was what I read, as well.

Q. Do you also recall Examiner Huffman noting that in relationship or in connection with your testimony, that you acknowledged that a decline in use per customer will trigger an upward adjustment or an increased charge, even when new customers exactly make up for reduced total use by old customers so that the volume of gas PNM sells is the same? Do you recall reading that finding?

A. I do.

Q. Is that result --

MS. BELL: Excuse me. Mr. Proctor, I think I need to object here. The hearing examiner opinion, the record decision was not the Commission's final decision. And I think to the extent that you are using that as if it were is somewhat misleading. But also, you are asking my witness to draw conclusions about what the hearing examiner may have felt or believed.

MR. PROCTOR: Merely asked him whether or not, Mr. Chairman, he recalls reading that finding. And if you'd like, I can lay a foundation for the Commission's adoption.

COMMISSIONER BOYER: Why don't you try that, and make sure we are talking about the same document; whether we are talking about the order or the suggested order, I guess you might say.

Q. (By Mr. Proctor) Mr. Feingold, did you read or are you familiar with the June 29, 2007 final order partially adopting the recommended decision that was issued by the New Mexico Public Regulation Commission?

A. I did read that at one point, yes.

Q. And they adopted, without change, the recommended decision that Examiner Huffman had issued, did they not?

A. Subject to the clarification that I made earlier that they left the door open for a future presentation on the part of the Company.

Q. Okay. Is that result, where there's a decline in customer use, there's a triggered increase in the rate, even though new customers have in fact continued to provide the same volume of gas sales to Questar, is that possible under this decoupling mechanism?

A. You threw me because you put in "Questar." I thought we were talking about the Public Service Company of New Mexico.

Q. But my question is, is the possibility that Examiner Huffman identified, is that possible also with the Questar decoupling program?

MS. BELL: Objection. I think that question is beyond the scope of what Mr. Feingold's testimony is.

COMMISSIONER BOYER: I'm going to sustain that objection.

Try again, Mr. Proctor.

Q. (By Mr. Proctor) Mr. Feingold, in your Exhibit 1-YR 3.3 page 1 of 3, you noted recent development and you stated, "The state has an energy efficiency program. Decoupling is not used." Do you have that exhibit before you?

A. Yes. I believe that was Dr. Dismukes's title and I just carried that forward in the exhibit.

Q. And on line number 7 you note New Mexico, but then you leave it blank. There's no discussion of the case, the decision that you have acknowledged you are familiar with.

A. That's right.

MR. PROCTOR: My purpose, then, Mr. Chairman, is to examine him as to what exactly New Mexico -- what was the basis for their rejection, because he testified it's a rejection, and is the same concern possible in Questar's decoupling?

COMMISSIONER BOYER: You may proceed. Thank you.

Q. (By Mr. Proctor) That's the question that's been put to you, Mr. Feingold.

A. I'm sorry. Which is the question again, Mr. Proctor?

Q. Examiner Huffman expressed a concern that under the PNM proposal, even though there may be a decline in customer use and an upward adjustment in charges, that the new customers will make up for the reduced total of use and therefore the volume of gas that PNM sells is the same. Is that possible under the Questar decoupling program?

A. Well, I don't think it's a function of whether the utility has a revenue decoupling mechanism or not. It is simply a function of the trends in the utilities' marketplace going forward. And that can happen at any utility.

Q. Okay. Also on that same exhibit, Mr. Feingold, and this would be on page 2 of 3, line 20. You refer to recent developments again in the state of Washington. "Revenue decoupling mechanisms have been approved for Avista on February 2, 2007 and Cascade National Gas Corporation on January 12, 2007." Do you see that?

A. I do.

Q. Did not the Washington Public Utilities Commission also on January 5, 2007 reject a proposal for decoupling submitted by Puget Sound Energy and their gas division?

A. I believe they did.

Q. Is there any place within your Exhibit 1-YR 3.3 where you reference the rejection by the Washington Commission of Puget Sound Energy's proposal?

A. No. And it shouldn't have been, because this exhibit, which was a rebuttal exhibit, was simply trying to provide a more balanced picture of the biased perspectives that Dr. Dismukes presented in his exhibits.

Q. Now, in particular are you familiar with the Cascade Gas Corporation decoupling proposal as it was submitted and reviewed by the Washington

Committee, or Commission, pardon me, on August 16, 2007?

A. I have not reviewed that.

Q. The order you cited, January 12 of 2007, was, in fact, merely the Commission's direction that Cascade should begin developing a conservation program, correct?

A. I believe a conservation program and related ratemaking mechanisms associated with those programs.

Q. A decoupling proposal?

A. Correct.

Q. That is Order Number 5, I will represent to you. Have you ever read that order?

A. No, I have not.

Q. So you are not familiar, then, with the Commission's imposition of conditions on Cascade as it was directed to develop this decoupling proposal?

A. No. For purposes of this rebuttal exhibit, I was simply trying to report, for the benefit of the Commission, those other regulatory commissions that have chosen to pursue revenue decoupling concepts.

Q. May I assume, then, that you also did not read and are not familiar with Order Number 6, the

August 16, 2007 order in which the Commission actually imposed conditions upon the decoupling proposal?
A. Is that the one you asked me about earlier?
Q. Yes.
A. My answer stands.
Q. You are not familiar, you have not read it?
A. Correct.
Q. Now, in Cascade Natural Gas Corporation's proposal from decoupling, that, too, was submitted in conjunction with a general rate case, was it not?
A. That's my understanding, yes.
Q. And the outcome of that case was a stipulated settlement on the rate portion of the case, correct?
A. I believe so, Mr. Proctor.
Q. And also a stipulated imposition of a decoupling program, correct?
A. I'm not sure what you're getting at by the term "imposition."
Q. That's a bad term and I apologize for using it. The parties that stipulated to a settlement of the case also agreed that the Company

could implement a decoupling proposal, provided that it was developed in accordance with the Commission's conditions, correct? Is that your understanding?

A. I read that a while ago but I do recollect that that's the import of what was being conveyed in the document.

Q. If we could turn now to page 10 of your rebuttal testimony. And this would be the question that begins on line 259. And in particular, sir, I'm looking at line 263. Do you have that there?

A. I do.

Q. You made the statement there that, "Over the last five years I am aware of at least 11 revenue neutrality programs besides Questar's that were considered and approved by utility regulators and standalone rate-design-only proceedings rather than in general rate cases." Did you consider Cascade to be one of those?

A. Yes, I did.

Q. Did you consider Avista, which is also a Washington utility, to be one of those?

A. Yes.

Q. But in both of those cases is it not true that the decoupling proposal was initially proposed in a general rate case and that the development and approval of the decoupling took place in a following but separate proceeding?

A. A rate design only proceeding, yes.

Q. So they were, in fact, connected with very recent general rate cases?

A. They were connected by virtue of the timing.

Q. Now, of the other nine revenue neutrality programs which you state were considered and approved in standalone rate design proceedings, how many of those had had a general rate case within one year prior to that standalone proceeding?

A. I did not review that to be able to answer that.

Q. That's fair. Thank you so much.

On page 11 of your rebuttal testimony, beginning at line 273 you made the statement that, "In a general rate case parties also must address the appropriate determination of the utility's total revenue requirement which includes review and evaluation of a multiple of expense and rate case components that comprise the utility's total revenue requirements." Do you see that?

A. Yes, other than I think I used the word "multitude" rather than "multiple."

Q. I apologize. I skip over words sometimes.
A. That's fine.
Q. I will grant you, you were discussing there why it is, a standalone rate design proceeding is, in your judgment, more appropriate in considering decoupling. Do I fairly state your testimony in that way?
A. Yes, you have.
Q. But you also note that in general rate cases there's going to be, may I say, a much more in-depth examination of cost of service, for example?
A. I would agree with that.
Q. There would also be a much more in-depth examination of rate of return, elements of rate of return, and what would be an appropriate one for a utility?
A. Yes. Whether that case is going to come up or whether that case has already occurred.
Q. Are you familiar when Questar's last general rate case was held and determined?
A. In listening to Mr. McKay's testimony earlier this morning, I believe he indicated 2002.
Q. Is this the first time today that you learned that that was the last general rate case that the Company had?

A. I think I had heard that in previous discussions, but this just helped my recollection.

Q. Now, you made the statement in your summary, and you also make the statement on page 12 of your rebuttal, and this is at line 321, that commodity risk is not shifted to customers. Do you see that?

A. I do.

Q. And if I may, Mr. Feingold, I heard you emphasize the word "commodity" in your summary. Did you emphasize "commodity"?

A. Yes, I did.

Q. And that was to distinguish commodity prices from the fixed or DNG prices; is that fair?

A. That's fair.

Q. From a customer standpoint, when they see their utility bill, do they react in parts; their response is one to the commodity price and two to the DNG price? Or excuse me. The DNG bill and the commodity bill? Do they react to those in separate ways?

A. Well, being a customer myself, I think I respond to the element of the bill that drives the bottom line, which is the commodity in the gas business.

Q. And if I may, you are a highly sophisticated gas customer. What about the person who doesn't have your skills or experience and your education, who just sees the bottom line, a bill that has gone up let's say 25 percent? Will that customer respond differently to the commodity price elasticity as opposed to the DNG price elasticity?

A. Yes, I believe so, because I believe they are responding to the bottom line amount on the bill which, as I indicated, was driven by the commodity component, whether they know that or not.

Q. So they may not even know or care, for example, that there's also a DNG component?

A. Well, they might not. Or they may not even look at it the same way we are talking about to the extent that a customer is on budget billing, for example. So I think the price signal is in the eyes of the beholder in many respects.

Q. So a customer, as you say, who is on budget billing may have one reaction. Would it not also be true that the customer who is on a fixed income in the middle of a very severe winter, and their home is poorly insulated, would they not also have another response to that bottom line bill?

A. They might. And in that case I think the company's WNA would help to mitigate the impact of that situation.

Q. And might also the customer react to price elasticity by turning down their thermostat?

A. I don't know if they react to price elasticity. I think that the act of turning down the thermostat may be embodied in the measurement of price elasticity.

Q. And that would be a total price, the total bill that they are responding to.

A. Yes. Driven by a large portion of it as commodity.

Q. Turning now to page 17 of your rebuttal testimony, beginning with line 468. And I don't want to unduly limit your response, Mr. Feingold, but I want to skip down because your answer really begins there, but I want to skip down to line 474. Because prior to that, you determined that in fact a company, a gas company isn't given any premium on their return for an additional risk. So if I may paraphrase, why should the fact that you're getting a certain assured revenue on DNGs result in a reduced risk? Is that a fair summary of what you are saying here?

A. No, I don't believe so.

Q. Please explain.

A. I think a fairer characterization of what I said was that in my opinion regulators have not provided utilities with a risk premium for recognition of any reduced revenue collection capabilities inherent in the utilities rates. So to me that's much narrower than how you characterized my testimony.

Q. So on line 473, you state you don't know why regulators should now be pressured to single out rate-making as a consideration in return of earnings on earnings determination.

A. Which is consistent with my prior statement on the previous page which was as narrowly focused, as well.

Q. Do you know whether or not the Washington Utilities and Transportation Commission imposed an earnings cap on Cascade as a condition to granting its decoupling?

A. I just can't recall.

Q. Are you familiar with Avista and the Commission's order on Avista?

A. Again, I have not reviewed it recently to recollect that.

Q. Are you familiar with any gas utility that has been subject to a return cap or limit as a condition to a decoupling proposal?

A. No, I am not.

Q. If I could have just one moment.

(Discussion off the record.)

Q. Mr. Feingold, thank you very much.

A. Thank you, Mr. Proctor.

COMMISSIONER BOYER: Mr. Dodge?

MR. DODGE: Thank you, your Honor. I do have a few questions.

CROSS EXAMINATION

BY MR. DODGE:

Q. Mr. Feingold, on page 17 of your rebuttal testimony, you're responding to a question that begins on line 456 as to how you react to Mr. Dismukes's suggestion that there should be an equity allowance adjustment because of, and I'll quote here, "change in its risk profile." Your answer starts by saying, "The CET does not eliminate the utilities business risk." Is it your view that a business risk must be eliminated for a utility before a downward adjustment in the risk premium reflected in an equity return can be appropriate?

A. I think I would broaden the term "eliminating" to say that there should be a demonstration that there is a reduction or a moderation of risk as opposed to just an out and out elimination.

Q. So in other words, if there is a reduction in the utility's business risk, that is at least a consideration in setting the ROE, right?

A. It's a consideration among all of the other factors that come into play in setting the utility's ROE, and there would have to be a determination on whether that is a material impact or not.

Q. Now, do you agree that risks basically means uncertainty?

A. I would agree with that general proposition, yes.

Q. So you use the words "symmetrical basis" on line 464, and Commissioner Campbell referenced that earlier. I struggle a little bit with your use of that term in this context. It's true there's symmetry under the old system, too, right? Under the old system if rates -- excuse me. If usage per customer went up, the utility over recovered its fixed costs, and it went down and under-recovered. So there was symmetry there, right?

A. I believe in both traditional rate-making as well as the development of revenue decoupling mechanisms, there is symmetry in the design of the rates or the mechanisms. There may not be symmetry in how the activities that the utility are subjected to on a going-forward basis, there may not be symmetry there.

Q. And there may not be symmetry in the perception of the benefit versus the downside, correct?

A. In whose eyes?

Q. In the utility's eyes, for example. Let me ask it more directly here. Before the decoupling proposal was made, the utility had the benefit of increased cost recovery, fixed cost recovery if usage per customer increased, and the detriment of less than full cost recovery or fixed cost recovery if usage per customer decreased. They weren't happy with that symmetry, were they? And they sought a change to eliminate the uncertainty, and therefore the risk. Do you agree with that?

A. I think I would characterize it that generally speaking the utilities are attempting to eliminate the asymmetry that is inherent in the traditional rate-making process as a result of occurrences in the industry that have made it asymmetric metric. For example, a continuing decline in use per customer relative to the baseline number that's been set in a rate case, to me is asymmetric, an asymmetric outcome.

To the extent that a company doesn't have a weather normalization adjustment mechanism and weather is consistently warmer than normal relative to the assumption made of normal weather in the rate case, that's an asymmetrical outcome.

Q. So you used the word symmetrical here, but what you mean is there's an asymmetrical risk that usage per customer will continue to decline and therefore the utility wanted to reduce that risk through a decoupling mechanism?

A. That's the outcome. But as I use it on page 17 of my rebuttal testimony, I indicated that there continues to be the symmetry from a design perspective, whether it's traditional regulation or revenue decoupling.

Q. I understand. But again, the utility perceived that risk asymmetrically and that's why it wanted a CET.

A. With regard to Questar Gas, I think you would have to ask the utility directly.

Q. And then you also -- you didn't spend a lot of time on this but other witnesses will address it, but there's a difference between reduction in risk and shifting risk to somebody. Correct? They don't have to be the same thing?

A. I would agree with that.

Q. And a lot of the discussion has to do with a shift in risk to customers. Other discussions have to do with the reduction in the Company's risk profile which may impact the ROE calculation. Those are different considerations, are they not?

A. Well, they are. But I think they are also tied together within the broader context of evaluating revenue decoupling as a viable mechanism.

Q. Clearly in terms of whether this is the right mechanism to address the perceived problem, shifting of risks is a very important consideration, correct?

A. Yes. And it's my opinion, based on the evidence that I provided, that that shifting of risk is not occurring in the case of Questar's CET. More broadly, I don't see that risk shifting with regard to other revenue decoupling mechanisms that have been approved in the industry.

Q. I understand that. And I want to address that just briefly. But now moving -- if that's the case, revenue shifting is the issue of whether to approve it per se or not. But a reduction in risk profile is an appropriate consideration for an ROE evaluation in a rate case.

A. Just as an increase in risk would be. I'd agree with that.

Q. And then I want to just briefly address your notion there's no shift in risk. I'm a simple lawyer, and sometimes from a simple lawyer's perspective it seems like economists tend to substitute analysis and technique for thinking. And I want to test that just a little bit. Prior to the CET, there was the risk to the Company that they would undercollect their fixed revenues, and you could view that as a benefit to the customers if you view a reduced rate as a benefit to the customers. Whether you think it is right or not, it's an economic value to the customers if their rates are lower. Correct?

A. Economic value, whether it's appropriate and justified and reasonable, is a different issue.

Q. And I'm not even addressing that. It may be totally unreasonable to have a utility undercollect its revenues. But that was the risk profile this utility faced before the CET was implemented, from a declining use per customer basis. Correct? That the ratepayers would benefit if the decline in use continued over and above what was assumed in the test period for the rate case. And the Company would lose if that were the case.

A. I can't speak for the Company, but in talking to other utilities I don't think they viewed the situation you characterize as a benefit to the customer. I think they viewed that as a concern that traditional regulation and rate-making might not be working the way that all the parties envisioned it should be working.

Q. I understand. And again, I took out the value judgment. I simply said if you accepted a lower rate is something the customer likes, if that is all they are looking at, there was an advantage to the pre-CET world for a customer if you assume continued declining use over and above what was projected in a rate case.

A. There might be. But if the utility, as some have, continued to file base rate cases, the customer would end up paying the same for delivery service as if they were paying it through a revenue decoupling mechanism.

Q. Sure. And the utility here could have opted for that and rejected it, presumably because they didn't view that as an adequate solution. Correct?

A. I don't know. I think Mr. McKay is the better one to answer that.

Q. Then the point is simply again - from a simple lawyer's perspective, not an economist's or a modeling perspective - if before the CET was implemented the utility bore the risk and the customers the rate advantage of declining use per customer over and above the baseline set in the rate case, once the CET was eliminated, the customer takes on the risk. Maybe appropriately, but it takes on that risk. Correct?

A. I don't think so.

Q. So I don't, as a ratepayer, now have a risk that as declining use per customer continues, under the old system I wouldn't have paid more for it and under the new system I will? That's not a risk?

A. I believe the risk is mitigated, not shifted.

Q. Okay. Well, again, I think maybe sometimes we substitute technique for thinking. In my simple world if my rate has gone up, as a result my risk has increased. And if there's an asymmetrical risk, as you acknowledge, that the decline will continue, then it's not compensated by the offsetting advantage that maybe use per customer will go up.

A. But with regard to the design of a revenue decoupling mechanism, that will not occur based on the design because it is designed on a symmetrical basis.

Q. What will occur is that now the customer will ensure that the utility does not lose money because of declining use per customer.

A. And the Company will ensure that the customer does not overpay for delivery service.

Q. Exactly. And if that risk were purely symmetrical, I might accept your proposition there's no risk shift. If it's asymmetrical, someone is taking a risk hit. Is that not true?

A. The asymmetry you talk about, we will only find out as years go on.

Q. Granted. But again, if there weren't a perception, they wouldn't have needed the decoupling proposal to mitigate that risk, correct?

A. Like I said, I think you need to ask one of the Company witnesses.

Q. I think he actually already said that.

Thank you. I have no further questions.

COMMISSIONER BOYER: Ms. Wolf, any questions for Mr. Feingold?

MS. WOLF: No.

COMMISSIONER BOYER: Ms. Wright, I assume you don't have questions?

MS. WRIGHT: No.

COMMISSIONER BOYER: I know the commissioners have questions. Let's see if we can finish with Mr. Feingold so he can be excused. We will begin with Commissioner Allen.

EXAMINATION

BY COMMISSIONER ALLEN:

Q. I will be brief. I want to ask a few questions about what the states are doing, but I want to preface that by making it clear I think there are risks and benefits when we look at what other states are doing. I don't want anybody to read too much into this. I just want to know what the current state is.

Would you characterize that most of these new demand-side management programs or these tariffs, are they similar or largely dissimilar in their application? Is there a lot of experimenting going on in the market? I probably shouldn't characterize it that way, but do you see that they are kind of merging into similar approaches or not?

A. Well, first off, as I said in my earlier statement, as of 2002 there were only three states that had it. And if we look at the first revenue decoupling mechanism that has ever been approved in the U.S., that was back in 1998 for Baltimore Gas and Electric. So on a relative basis, we haven't had a great deal of experience with the mechanisms at this point in their evolution.

But what I can say is that there are some fundamental design elements or design characteristics that seem to be coming out more times than not in the proposals. I mean, number one, there is a recognition of the need to directly connect the mechanism to the distribution revenue allowed in the utilities's last rate case. I guess that's one given.

The second thing is that the metric that is used to measure the variation from that baseline amount to what the utility is experiencing currently can either be use per customer or revenue per customer. Those are the two that I have seen used most often in the mechanisms.

And I think thirdly, there's probably a recognition that there has to be an amortization of any deferred balance on a regular basis as opposed to once a year or even less frequently than that, to be able to manage that balance and ensure that the balance doesn't grow beyond a reasonable level.

Q. Great. Just to follow up a little bit here then, do we have any examples out there as we look around us at any other states of any severe unintended consequences that occurred recently such as major overcollecting that's being adjusted?

A. I think when we look at a revenue decoupling that reflects both weather related adjustments as well as nonweather related adjustments - and an example of that would be Piedmont National Gas that I mentioned in my surrebuttal testimony - not surprisingly the balances are larger, all things being equal, for a utility with that type of mechanism because you're reflecting weather as well as nonweather factors in the rate adjustments and in the deferred balance; as opposed to a utility such as Questar where its CET reflects only nonweather related adjustments because they already have in place a WNA. In fact, it's very similar to what Northwest Natural has in Oregon where they have two companion mechanisms, one an WNA, Weather Normalization Adjustment mechanism, and one a revenue decoupling mechanism.

Q. And is there anyone out there that has made major improvements or new discoveries in methods of analyzing the effectiveness of their programs? Are there things being done that we are not aware of as far as program effectiveness?

A. To the best of my knowledge, most if not all of the utilities that have revenue decoupling mechanisms in place are required to file periodic reports with commissions, with their regulators. And those are looked at fairly closely in the examples I'm most familiar with. There have been tweaking of the adjustments over time.

The one that comes to mind would be Northwest Natural's. It has been in place the second longest after Baltimore Gas and Electric's. It was approved in 2002. The mechanism was reviewed after a four-year period. The Commission looked at the mechanism, looked at the effects, took evidence from all the parties, and concluded that the mechanism should be continued for another four years. They did make slight changes to the design of the mechanism. One of them was that they eliminated a 90 percent restriction on the original mechanism and changed it to be 100 percent recovery, as an example.

Q. And one last question. Is anyone using Questar's program, any other states using their program as an example of what to do or not to do, to your knowledge?

A. I think the Northwest Natural one, because there's a WNA in effect, is similar in structure and design to Questar's. I think the utilities in New Jersey, both South Jersey Gas as well as New Jersey Natural, also have revenue decoupling mechanisms that have been approved and at the same time they have continued their weather normalization adjustment mechanisms. So I would think they are those where there's similarities.

Q. Thank you.

COMMISSIONER BOYER: Commissioner Campbell?

EXAMINATION

BY COMMISSIONER CAMPBELL:

Q. Let me just ask you a question on 468, line 468 of your rebuttal testimony where you make the point that you haven't seen any utility rate case where an explicit risk premium was added. You are not suggesting that there isn't implicitly in those ROEs these business risks factored in?

A. There may be implicitly. But I guess what I'm getting at is if, for example, in the past you had a utility that was in for a rate case before their commission and as one of the determinations in setting the return on common equity, there was a peer group of companies that the utility that filed the case was being looked at relative to, if those peer companies, if most of them had ratemaking mechanisms or revenue neutrality programs as Dr. Dismukes calls them, that would address this issue and the utility that filed the case did not have those, there might be a basis for a premium to reflect that reality.

Q. Let me also follow up on a question Mr. Dodge asked you about the business risk reduction versus shifting. I want to focus just on business risk reduction. And I believe I heard you say or concede that there could be a business risk reduction from one of these programs, not necessarily a cost shift but a business risk reduction. Did I hear that right?

A. Yes. And I said it was unclear whether it would be material or not.

Q. So how would you know if it is material or not unless you had a rate case? You seem to say you don't need a rate case to do these. But if, in fact, there were a material business risk reduction, wouldn't you want a rate case to make that determination in implementing one of those programs?

A. Well, I think there would be an eventual desire on the part of the parties to evaluate whether, in fact, a risk reduction was present, and some recognition of that in rates was appropriate. But to my knowledge most if not all of the commissions that have approved revenue decoupling mechanisms, outside of rate cases, have relied upon and used as a baseline the utility's most recently completed rate case as a basis for the revenue aspect of the mechanism until they had the opportunity to revisit that in a subsequent rate case.

EXAMINATION

BY COMMISSIONER BOYER:

Q. Just a couple questions, Mr. Feingold, since we have you here and you obviously have some expertise in what's going on in various states.

First of all, I have to say my eyes lit up during your summary when you mentioned the third reason there's no business risk shift. I believe you said, and I'm paraphrasing, but I believe you said commodity price risk is not shifted because customers can still respond to price signals. And I thought for a moment I might not be the only Utahan who modified my gas usage when prices went up. Is there elasticity or is there not elasticity, in your opinion?

A. Well, I think what I can speak to is from a broader perspective. I think there is elasticity. It's a question of whether here it's material or not. I mean, I think we have seen or heard made reference to American Gas Association studies that have looked at elasticity.

Quite frankly, I think elasticity needs to be looked at over a period of time as opposed to just one point in time. There are those that look at short-term price elasticity versus long-term and there can be very different results depending on what period of time you look at to evaluate the trends of price relative to usage.

I would not be surprised, if we took a period of time where there was a very pronounced price spike and see a different elasticity measure for price elasticity than over a longer period where that impact is not as pronounced over that longer period.

Q. Is the issue complicated by the fact that gas prices are so volatile?

A. Well, they are volatile. It is also the fact that customers look at price differently, depending on whether they are sensitive to the total bill over an annual period, over a monthly period, over a seasonal period. Price signals can be use skewed by budget billing, as I alluded to earlier. So it's not as straightforward a process as it might seem to be on the surface.

Q. What kind of data would we want to collect to be able to perform that longer term analysis on the price elasticity?

A. I think you would want to look at longer term trends of the prices that the utility charges its customers in its various market segments. And that probably would be looked at on a monthly basis over a long period of time.

The same would hold true for the usage characteristics of customers; trying to disaggregate those by the causes, which in fact quite frankly I think is one of the reasons why revenue decoupling has seen a growing interest, because under the mechanisms that have been approved more times than not there isn't a need to disaggregate the various factors of what's causing declining use per customer. There's just this recognition that use is declining and it's not allowing the utility to recover the revenues that have been approved by the regulator, and it doesn't allow the customers to pay only the price for delivery service that's been set by the regulator.

Q. Some economists might argue that there's a lag time between the presentment of the price signal and the modification of behavior. In your experience is that a week, a month, a year, five years?

A. I'm not sure I'm in the best position to comment on that. I haven't done a lot of price elasticity studies myself to really say. I have looked at many of them over the years, but cannot really comment on that aspect of it.

Q. Would it be fair to say, Mr. Feingold, based on your experience, that inasmuch as most of the states that have adopted full decoupling have done so fairly recently, that we really are not in a position yet to analyze the intended and unintended consequences of full decoupling?

A. Well, I think there will be more of that going on in the future. I think we do have some data points already with regard to Baltimore Gas and Electric's Mechanism. It's been in place since 1998. And, in fact, the Commission staff itself was the one supportive of that mechanism back in 1998. We have the example I referred to earlier with Northwest Natural. We have had a four-year review of the program. The Commission determined that that four-year program should be extended for another four years. So we are starting to get more data points as time goes on. But I would agree with you, we still have other data points to gather.

Q. And one last area I'd like to inquire about. You mentioned a couple of utilities in New Jersey that have decoupling. I was wondering if you were familiar with the New Jersey Conservation Incentive Program, the CIP that has been adopted recently, taking a different approach really. We have heard about lost revenue, we talked about putting the fix to the losses because of usage on fixed cost in the customer charge, and various alternatives. Could you just briefly summarize the CIP and then give us a reaction to this?

A. I can. The CIP, which has been approved by the New Jersey Commission for two utilities in the state, South Jersey Gas Company and New Jersey

Natural Gas Company, mechanically and design-wise are very similar to the other mechanisms that have been approved around the country. The one difference is as part of a global settlement for both utilities dealing with gas costs as well as rate design, the Commission accepted the settlement of the parties which tied the level of adjustments under the CIP to the level of savings that are achieved by the utilities with regard to their pipeline capacity costs. So there was a desire to essentially allow the utility to recover for lost margins to the extent that they were able to provide benefits to customers in other ways through reductions in pipeline capacity costs. And the connection there was that the Commission believed that if there was declining use per customer, that would change the load duration curve of the utility, which eventually could allow them to modify their gas supply portfolio and generate savings for customers that way.

Q. Could something analogous to that be used in the current instance in which we are trying to figure out ways in which the Company can recover the loss of revenues for fixed costs occurring because of decreasing usage?

A. Well, I think --

Q. And the reason I ask that is the Company is probably in a better position to mitigate the cost side of the equation than consumers are.

A. Well, I think it's my view - and you had asked me at the end of the last question to comment what I thought about the CIP - I don't believe personally there's a value in tying a utility's gas commodity procurement practices to a ratemaking and revenue recovery mechanism.

Q. Of course, I'm talking about costs associated with distribution, not the commodity costs.

A. Well, and I think with regard to tying it to the costs of distribution. If you start doing that, you essentially are starting to bring forward a whole other series of ratemaking mechanisms that I would characterize as rate stabilization mechanisms that address more than just the revenue lever associated with the company's revenue requirement and total cost of service. Then you get into programs like have existed in Alabama for years and in other jurisdictions where essentially they are foregoing a rate case, and in lieu of that are adjusting the delivery service or distribution rates of the utility every year to reflect factors other than just changes in use per customer.

Q. Thank you, Mr. Feingold.

Ms. Bell, do you have redirect?

MS. BELL: May I have just a minute, please?

COMMISSIONER BOYER: Please.

REDIRECT EXAMINATION

BY MS. BELL:

Q. Mr. Feingold, I just have a few questions on redirect. Have you had experience testifying in other jurisdictions where a revenue decoupling mechanism or rate stabilization mechanism was approved by the Commission in those jurisdictions?

A. Yes, I have.

Q. And what were those jurisdictions?

A. Two in particular are the state of Indiana and the state of Missouri.

Q. And what were the results and what was the mechanism that was before the Commission in those instances?

A. In Indiana, the Indiana Utility Regulatory Commission approved a revenue decoupling mechanism for Citizens Gas and Coke utility in August of this year. And in Missouri, the Missouri Public Service

Commission approved a straight fixed variable rate design proposal that I supported, which resulted in just south of a $25 per month customer charge to address the declining use per customer and the utility's chronic inability to recover fixed costs of delivery service.

Q. In your experience as an expert and in your experience testifying, what is your preference -- let me rephrase this. Do you believe that a rate-design-only mechanism is better than or not as good as analyzing these particular mechanisms in the context of a full rate case?

A. You mean rate-design-only proceeding, not mechanism?

Q. Yes. I'm sorry, yes. Proceeding. Which, in your opinion, is a better way to analyze these kinds of rate stabilization mechanisms?

A. Well, I think, as I said in my testimony and as we talked about in cross-examination, I believe that rate-design-only proceedings allow the parties to focus singularly on rate design. And as a result of that, and it's been my experience in looking at this process in Utah, that compared to the level of scrutiny that I have seen in rate cases with regard to rate design issues, there's been far more review of the options available to the Commission, far more review of the ins and outs of the design of the mechanism, and far more review of whether there's an expectation that the objectives that have been agreed to for the mechanism will be achieved in a rate-design-only proceeding compared to a rate case where there are a multitude of other factors and issues that are addressed in the case.

Q. Thank you.

COMMISSIONER BOYER: We will be in recess until 2:15. Thank you all.

(The lunch break was taken.)

COMMISSIONER BOYER: Let's go back on the record in Docket Number 05-057-T01. And we have come to the point in the hearing where it is the Division's turn to go forward, and the first witness is Mr. Marlin Barrow. Have you been sworn in this case, Mr. Barrow?

THE WITNESS: No, I haven't.

COMMISSIONER BOYER: Would you please stand and raise your right hand.

Marlin Barrow,
called as a witness, being first sworn,
was examined and testified as follows:

DIRECT EXAMINATION

BY MS. SCHMID:

Q. Good afternoon.

A. Good afternoon.

Q. State your name and business address for the record.

A. Marlin Barrow. Business address is 160 East 300 South, Heber Wells Building. I work for the Division of Public Utilities.

Q. Did you file testimony marked for pre-filing as Exhibit Number 5, DPU Exhibit Number 5.0, DPU Exhibit Number 5.0R and DPU 5.1R?

A. Yes, I did.

Q. Do you have any corrections you would like to make to that pre-filed testimony?

A. No.

Q. If asked the same questions as set forth in your pre-filed testimony, would your answers today be the same as those presented in your pre-filed testimony?

A. Yes.

MS. SCHMID: The Division would like to move the admission of DPU Exhibit Number 5.0, DPU Exhibit Number 5.0R, and DPU Exhibit Number 5.1R.

MR. PROCTOR: No objection.

MS. BELL: No objection.

COMMISSIONER BOYER: Mr. Dodge?

MR. DODGE: No objections.

COMMISSIONER BOYER: Those exhibits as identified by Ms. Schmid are admitted into evidence.

Q. (By Ms. Schmid) Thank you. Mr. Barrow, do you have a brief summary you would like to give today?

A. Yes, I do.

Q. Please proceed.

A. The CET tariff in this docket was approved as a pilot program in order to remove a disincentive to Questar Gas Company to actively pursue gas DSM programs. The traditional regulatory contract requiring Questar Gas to recover its fixed costs through volumetric sales volumes is counterintuitive to the expectation of requiring Questar to actively pursue programs that reduce those volumetric sales. It makes as much sense as it does to sell a product by hiring a commission salesman, whose income is based on the units of product sold and then in the same breath tell the salesman he must do everything possible to discourage customers from purchasing and using the product.

The CET tariff overcomes this paradox by providing a simple mechanism which allows Questar Gas to collect its Commission allowed DNG revenues for the GS rate class while removing the inherent disincentive to actively offer customers in the GS rate class DSM programs which will help them conserve and reduce their annual usage of natural gas. However, it does not insulate Questar Gas from needing to prudently manage its operating costs if it wants the opportunity to earn its allowed rate of return, much like any individual earns an annual salary must learn to live within that annual salary by budgeting and controlling their annual expenditures. In Questar Gas's current corporate environment, prudence is even more problematic because Questar Gas must compete for capital dollars with other Questar entities which currently provide greater returns on those capital dollars than what Questar Gas provides.

The CET tariff will true up a typical GS customer's bill every six months for about 23 percent of their annual costs. In contrast, DSM programs can help that same customer realize direct savings of about 77 percent for each decatherm of reduced usage achieved through those programs. As an example, what this means restated in terms of dollars and cents, using current GS-1 tariff rates with the CE tariff shows that Questar Gas is allowed to collect about $255 in revenue per year per customer in the GS customer class. By weighting the first block of the current GS-1 DNG and commodity rates for the summer and winter differentials, a weighted DNG rate of $1.79 per decatherm is obtained while $6.22 per decatherm is the rate for the commodity gas cost.

To allow or to collect the annual DNG revenue of $255 per customer, the GS customer will need to consume about 110 decatherms of gas annually, which will require an additional $682 in commodity gas costs, for a total annual bill of $938. For each decatherm of gas actually consumed below or over the 110 decatherm threshold, $1.79 will be deferred to the 191.9 account and later collected or refunded back to the customer over the next twelve month period.

However, if usage is below the 110 decatherm threshold, the customer will save $6.22 for each decatherm below that threshold, which is the commodity cost of the gas. On the other hand, if usage is over the 110 decatherm threshold, it will cost $6.22 for each decatherm over the base amount. We are talking about adjusting the annual DNG rates

$1.79 per decatherm in order to provide DSM programs which give the GS-1 customer an opportunity to save $6.22 per decatherm, and net benefit of $4.43 per decatherm to the customer for each decatherm below the base level of 110 decatherms.

In my direct and rebuttal testimony, the Division has made several recommendations for the continuation of the CET tariff. The first one, adjust the monthly spread of the current annual $255 allowed DNG per customer revenue based on a rolling three year pattern on average actual usage.

Second, during the pilot program maintain a limit, on a net basis, of the amount that can be amortized in any twelve month period. This limit should be 2.5 percent of the preceding twelve month GS-1 DNG revenues. The Division also recommends removing the limit on the amount that can be deferred into the 191.9 account.

Third, the Division will work with the Company in obtaining 24 month forward-looking forecasts to be filed in conjunction with its annual results of operations.

Fourth, the Division would recommend that Questar Gas be required to file a rate case at least every four years in order for the CET tariff to continue beyond the pilot period.

Finally, the Division recommends the CET tariff be retained during this pilot period. The rate case is the proper venue to determine the permanent status of the CET tariff. The DSM programs offered as a result of the CET tariff in place are in the public interest and should continue as long as the Company is not unfairly penalized in the collection of those DNG revenues which are required to maintain its operations.

Q. Thank you.

Mr. Barrow is now available for questioning.

COMMISSIONER BOYER: Ms. Bell, is there any friendly cross on those issues that might differ from the Company's positions?

MS. BELL: Perhaps just one.

CROSS EXAMINATION

BY MS. BELL:

Q. Mr. Barrow, with regard to your fourth recommendation that Questar should file a rate case every four years, is the Division's position that the Company should do that regardless of whether they would normally want to come in for an increase or other reasons that a company would come in for a rate case? Is the position that we would automatically do that?

A. The Division's position is if the CET tariff continues beyond the pilot period, that a rate case would need to be filed at least every four years to maintain that decoupling proposal.

Q. Regardless of the reasons for whether we would need to come in or whether you would determine that we were overearning and --

A. Right. Regardless. This is mainly just to true up the costs and review everything.

Q. Thank you.

COMMISSIONER BOYER: Ms. Wright, have you any questions for Mr. Barrow?

MS. WRIGHT: No.

COMMISSIONER BOYER: Mr. Proctor?

MR. PROCTOR: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. PROCTOR:

Q. Good afternoon, Mr. Barrow.

A. Good afternoon.

Q. There's been some discussion earlier, and I believe you were present, about the asymmetrical or symmetrical effect of the decoupling when you have the Company both receiving more revenues than allowed or less revenues, and it's basically a wash. Do you recall that testimony?

A. I vaguely remember that discussion.

Q. Okay. Let's talk about the reality of this CET. When was the last time that the CET accrual was amortized into rates?

A. I don't remember the exact date.

Q. A month is fine.

A. My memory has forgotten me on that. It was just -- I want to say maybe April, but I'm not sure.

Q. March or April of this year?

A. Yes.

Q. Do you recall how much was amortized?

A. $844,000.

Q. And was that in favor of the Company or was it an increase to rates?

A. It was an increase to rates.

Q. Now, upon amortization, is that when the next accrual begins or -- yeah, is that when it begins?

A. I'm not sure I understand your question when you say "is that when it begins."

Q. You are accruing the CET, the amount of either under-recovery or over-recovery, and at some point you amortize that. But over what period of time are you accruing the CET?

A. Well, the accruals to the CET happen each month.

Q. So when it was amortized in April of this year, what months would that have covered?

A. Well, the amortization period is over the next twelve month period, they are going to amortize that $844,000. But each month there is an accrual, a separate entry into the 191.9 account.

Q. Let me ask it this way: What is the present amount that has been accrued? And let's say as of July 31.

A. I don't have that figure before me.

Q. Would you acquire that figure from the company's Grey Book?

A. It's in there, yes. It is in the Grey Book.

Q. Have you reviewed that Grey Book? I have a copy of that page. Would that help you?

A. I have seen it, but I don't recall the figure.

Q. Maybe I could help. Would the figure be

$4,147,923.51?

A. I don't know. I'd have to look at the -- I'd have to look at the Grey Book.

MR. PROCTOR: May I approach?

COMMISSIONER BOYER: Please do.

Q. (By Mr. Proctor) Is that the proper page where you would look for that?

A. You wanted the balance or do you want the total that's been accrued or what?

Q. I wanted the amount that would now be amortized into rates if we did it today.

A. Well, I'd have to look on the balance sheet. I don't think this is the proper sheet.

Q. Have you testified in your direct or rebuttal or surrebuttal testimony in this case about how much that amount is?

A. No. I gave an example of how the accrual or the amortization limit would be, but I did not testify about how much that amount would be.

Q. Thank you, Mr. Barrow. Let's go on.

Mr. Barrow, for these few questions, I want you to assume that the GS class which is subject to decoupling includes a population of customers where their average annual use can be zero, but I believe the testimony is on average a residential customer is 84 decatherms a year to a customer who is a commercial customer and is using up to 1250 decatherms a day in the winter season. Are you willing to assume that --

A. I guess.

Q. -- isn't that the tariff defining the GS class?

A. I don't know. I haven't looked at the tariff that closely to determine those limits.

Q. Has the Division either internally or throughout side assistance examined whether or not, within a class of customers where you have such a broad range of usage patterns and therefore revenues, whether or not the decoupling proposal as it exists today could result in intraclass preferences or discrimination when there are adjustments based on declining use?

MS. SCHMID: Objection. I believe that the question is outside the scope of Mr. Barrow's testimony.

COMMISSIONER BOYER: I'm going to permit this line of questioning. This is an interesting topic.

A. The Division hasn't specifically looked at it for that issue. As far as the CET tariff goes, the rate is based on an average rate, which includes customers that have high usage and customers that have low usage. That broad spectrum is part of that average.

Q. Well, let me ask you to assume that within the GS class for Questar there are seven GS industrial customers who use on average 3181 decatherms per year; and let me also ask you to assume that there are 56,150 customers, commercial customers, who use on average 476 decatherms per year; and we still have the same assumption that an average residential consumer uses about 83, 84 a year. Given the way that the base DNG revenue amount is set, and that is the average, has the Division performed any analysis to determine whether these lower number of customers, the 56,150 plus seven, and their average annual usage would in any way either cause a preference or a discrimination as to the 769,983 residential customers who are using 83 or 84?

A. Not in the context of this CET tariff hearing, we have not.

Q. Have you done so in any context?

A. Yes.

Q. And what context is that?

A. The GSS EAC docket.

Q. Let me ask you to assume, then, that residential GSS customers, of which there are 6,334 - and you can assume that - use on average 65 decatherms a year, I want you to assume that, which is some 19 or 20 less than the regular GS-1 residential customer. Would, in fact -- has the Division studied to determine whether or not this decoupling, because it adjusts DNG rates, in light of the fact that the GSS rate is twice the DNG rate, whether or not there's any preference or discrimination as a result of this decoupling proposal?

A. Yes, we have.

Q. And what was your conclusion of the Division?

A. The GSS customer class does, in fact, subsidize those that use less.

Q. Is it possible that the $255 amount that reflects a broad category of customers, if in fact you calculated only the DNG requirement for residential customers would, in fact, be less?

A. Would you mind repeating that again? I'm sorry.

Q. It's a bad question and I understand why you wouldn't understand it.

If you calculated the DNG base revenue for decoupling purposes purely within the residential class, would you expect that base amount to be more or less than $255?

A. Without really having the data to look at, I don't know whether I can answer that definitively one way or the other. Naturally, any time you have a customer who, through their volumetric usage, is paying more than $255 a year, they are in a sense helping everybody else who uses less, reap that benefit of bringing the average down.

Q. Doesn't that also work in the reverse? That if, in fact, customers who use less and therefore their annual DNG cost of service, if you will, is less, if they are paying a decoupled amount calculated with a much larger population of customers with much greater usage, they are in fact subsidizing those large or commercial users? Is that possible?

A. If they are using less?

Q. If they are using just an average amount but you have combined them with big users.

A. Well, I don't know. If they are using just an average amount, they are paying the average cost.

Q. Well, let me ask you, has the Division determined what the DNG revenue for the residential class would be, the residential GS class would be for base amount if that number was calculated without the effect of any commercial GS customer?

A. No.

Q. I'm going to ask you to assume that that number, assuming the DNG ratio -- excuse me, the percentage of total revenues attributable to DNG for all customers is .257. And I believe you testified that the amount of the -- the DNG amount on a bill is roughly 20 percent.

A. Yes. That's the approximate ratio.

Q. I want you to assume if you calculated the base amount by only looking at residential class, the base or decoupling would be $195. Can you assume that?

A. I can assume it, I guess. I haven't ever done the calculation. I don't know. We have got to remember that the whole CET tariff was based on an average class rate, which includes everyone within that class. It wasn't ever designed to break out residential versus commercial.

MS. SCHMID: And again, an objection. Is Mr. Proctor testifying or could he speed up his hypothetical?

COMMISSIONER BOYER: Let's let him ask a couple more questions and if Mr. Barrow doesn't know the answer, he can say so.

MS. BELL: I would like to extend the objection of the Division to the extent that Mr. Proctor is trying to put on a case or a position perhaps of the Committee that has never been put forward by his witnesses, or witness in this case. I'm not sure where he is going or if he is trying to put on his case through cross-examination. And to that extent I guess I would object. It was a similar line of questioning that Mr. McKay got. If this is something that the Committee needs, we just barely responded to a data request along these lines. But this is not any kind of a proposition or a proposal that we have had notice of before today.

COMMISSIONER BOYER: Well, it probably does border on exceeding the scope of Mr. Barrow's testimony, but let's ask one or two more questions and see if -- it doesn't sound like he has done these calculations, so I don't know where you are going to go, what you are going to get.

MR. PROCTOR: I will certainly respect your request, Chairman.

Q. (By Mr. Proctor) Mr. Barrow, in answer to the last question, you said that the CET was never designed except as a GS class as a whole; is that correct?

A. That's correct.

Q. Has the Division of Public Utilities itself, or has it requested anyone else, to perform any analysis or evaluation to determine whether or not in fact it should be designed to more narrowly specify who is in the class that is to be decoupled?

A. No, we have not.

MR. PROCTOR: If you will just bear with me one moment.

COMMISSIONER BOYER: That's fine.

MR. PROCTOR: No further questions, Mr. Barrow. Thank you.

COMMISSIONER BOYER: Mr. Dodge?

MR. DODGE: I have no questions.

COMMISSIONER BOYER: Ms. Wolf?

MS. WOLF: No questions.

COMMISSIONER BOYER: Did I ask you, Ms. Wright?

MS. WRIGHT: No questions.

COMMISSIONER BOYER: Okay. Let's go to Commissioner Allen.

EXAMINATION

BY COMMISSIONER ALLEN:

Q. Just one quick question. For the record, Mr. Barrow, you briefly mentioned in your pre-filed testimony that it's too early for you to determine the effect of the DSM programs, and you just mentioned briefly the winter heating season. Could you discuss for the record a little bit how important having a winter heating season would be to your analysis in examining what we are doing here?

A. Well, the DSM programs are really designed to help customers reduce their usage, which normally occurs in the winter heating season. We just have not had a full winter heating season to really evaluate for even those customers that have, you know, taken advantage of the programs, what effect those programs will really have on their usage.

Q. So you are saying that even those who have swapped out for new appliances, that is not even showing up yet? Would you say it is helpful to have a winter heating season in your analysis, or critical or important? I just want to get some relative --

A. Yes, I think it is really critical because that's when they would be using those furnaces.

Q. Thank you.

COMMISSIONER BOYER: Commissioner Campbell?

EXAMINATION

BY COMMISSIONER CAMPBELL:

Q. Let me follow up on a question Mr. Proctor was asking you. And that is since you understand this mechanism, if the growth of new customers, the proportion of growth of new customers in the residential class compared to the commercial class was different, if the growth was different, let's say there were more residential customers than initially that proportion was when this $255 was established, would the Company earn greater revenues than were anticipated in the test year?

A. I think that would really depend on what their average cost per customer is. And I really haven't gotten into that area yet as to whether they would earn more. When you talk about "more," they would have certainly more revenues coming in. But whether they would actually earn more, I don't know.

Q. Let me ask -- I'm going to go to a couple of my original questions. Is it fair to say -- let me give you a hypothetical. Let's say you work for the utility. Let's say that revenues are down and you need to increase profits. And so one way to do that is to look at your cost structure and see if there's certain costs that you can defer, certain items that you can push off another quarter without having any serious impact on the system. Would that be an alternative?

A. Yes, that's an alternative as long as they didn't suffer in their quality of service that they were providing to the customers.

Q. Okay. And so in your testimony, I want you to clarify for me. On page 4, line 51 where you talk about QGC still has every, and I guess the word "every" is the one that is kind of categorical that I'm trying to explore here, where you say they have every incentive to control cost. Isn't stable revenues, doesn't that remove an incentive that they would have to control cost if they now have stable revenues?

A. Well, I don't think so. I think Questar Gas, just like any company, is very conscious of its costs. I personally have a hard time imagining a company just going out and spending money to spend money, particularly in light of Questar's corporate environment. I really believe that Questar Gas, as far as an entity, is probably the last one to get choice on capital dollars because their return is lower than their other sister companies who provide a much greater return in an unregulated environment on those dollars. And I understand they are scrutinized pretty closely as far as their operating budgets. I don't think they can just go out and spend to spend.

EXAMINATION

BY COMMISSIONER BOYER:

Q. Just one question, since Commissioner Campbell asked my question.

You have suggested a general rate case cycle of four years. Is that because the pilot program goes for three and that would follow the year after the last year of the pilot program, or did you pick it out of the sky, or what were you thinking there?

A. There's nothing magical about the four year time period. It seems like that's when we try to elect new presidents, so why not? The main thing is the Division feels that it is important to periodically review all of the costs of a company, particularly with this decoupling mechanism in place. The actual time frame, we just felt four years was an appropriate time frame. As far as -- I lost my train of thought on one of the parts of the questions you asked me. That's not good.

Q. Well, I was just -- it would have sounded more precise if you said every 3.789 years. I was trying to determine how you selected the four year general rate case, and I think you answered that.

A. Just a number.

Q. Thank you. That's all I have.

COMMISSIONER BOYER: Ms. Bell, have you any redirect? Excuse me. Ms. Schmid.

MS. SCHMID: No redirect.

COMMISSIONER BOYER: Mr. Barrow, you are excused. Thank you.

MR. BARROW: Thank you.

MS. SCHMID: The Division would like to call its next witness, Mr. Daniel G. Hansen.

COMMISSIONER BOYER: Welcome, Dr. Hansen. Have you been sworn in?

DR. HANSEN: No, I have not.

COMMISSIONER BOYER: Could you stand and raise your right hand.

DANIEL G. HANSEN,
called as a witness, being first sworn,
was examined and testified as follows:

EXAMINATION

BY MS. SCHMID:

Q. Dr. Hansen, could you please state your full name and business address for the record.

A. Daniel G. Hansen. 4610 University Avenue, Suite 700. Madison, Wisconsin.

Q. By whom are you employed?

A. The Division of Public Utilities. Oh, sorry, Christensen Associates.

Q. And for whom are you appearing in this matter?

A. The Division of Public Utilities.

Q. Did you file testimony marked at prefiling as DPU Exhibit Number 6.0, which is your pre-filed direct testimony; DPU Exhibit Number 6.1, which is a report entitled A Review of Natural Gas Decoupling Mechanisms and Alternative Methods for Addressing Utility Disincentives to Promote Conservation; DPU Exhibit Number 6.2, your resume; DPU Exhibit Number 6.0R, your pre-filed rebuttal testimony; DPU Exhibit Number 6.1R, a two-part exhibit illustrating that decoupling does not affect the utility's incentive to control costs, baseline cost level; DPU Exhibit Number 6.2R, which is CET accounting entries for a date certain. I'm sorry. 6.1R has a 1a and 1b. And moving back to 6.2 R, the CET accounting entries; then DPU Exhibit Number 6.0SR your pre-filed surrebuttal testimony; and DPU Exhibit Number 6.1SR, statistical models examining whether GS-1 use per customer changed following the winter of 2000 to 2001.

A. Yes.

Q. Do you have any corrections to that pre-filed testimony?

A. No, I do not.

Q. If asked the same questions as set forth in your pre-filed testimony, would your answers today be the same as those written?

A. Yes, they would.

Q. Thank you. DPU would like to move the admission of DPU Exhibit Number 6.0; DPU Exhibit Number 6.1; DPU Exhibit Number 6.2; DPU Exhibit Number 6.0R; DPU Exhibit Number 6.1R, with 1a and 1b; DPU 6.2R; DPU Exhibit Number 6.SR; and DPU Exhibit Number 6.1SR as more specifically identified previously.

COMMISSIONER BOYER: Thank you. Any objection to the admission of these exhibits?

MR. PROCTOR: No objection.

MS. BELL: No objection.

MR. DODGE: No objection.

COMMISSIONER BOYER: These exhibits as identified by Ms. Schmid on the record are admitted into evidence.

MS. SCHMID: Thank you.

Q. (By Ms. Schmid) Dr. Hansen, do you have a summary of your testimony you would like to give today?

A. I do.

Q. Please proceed.

A. Thank you. Decoupling mechanisms such as the CET provide three benefits relative to traditional rates: They remove the utility's disincentive to promote conservation; they remove the utility's incentive to promote load growth; and they do not significantly change the customer level incentive to engage in conservation. No alternative has been presented in this proceeding that combines these benefits.

The Committee has asserted the effects of the CET are too broad. However, their proposed narrow approach has two shortcomings: It limits the scope of the conservation methods that we can expect the Company to support and promote, and it does not address the Company's incentive to grow load. The Committee has asserted that the primary problem with the CET being too broad is that the CET shifts risk from the Company to its ratepayers.

In my direct and rebuttal testimony, I demonstrated that the CET will only shift risk from the Company to its ratepayers if GS-1 use per commerce changes in response to changes in commodity price or economic conditions. I then presented an analysis of the factors that explain variations in GS-1 use per customer from 1980 to 2005, including weather, price, economic conditions, and a time trend. I examined ten different models to compare the results with and without a time trend, and examine the effects associated with three different economic variables, including a measure of income, gross state product, and the unemployment rate. The models estimated very consistent effects of weather and time trend on use per customer. However, they showed no statistically significant relationship between GS-1 use per customer and the commodity price or economic conditions.

In my surrebuttal testimony, I focused the analysis on the years following the large rate increases that began in January 2001. The results showed that, controlling for weather and a pre-existing downward time trend, GS-1 use per customer was no lower from 2001 to 2005 than it was in the previous years. That is, starting in 2001, GS-1 customers experienced five years in which the average rate was 27 percent higher than it was in 2000, but class-level use per customer wasn't affected.

These results mean that the benefits of the CET, which are the improvement in the utility's incentive to promote conservation without reducing ratepayers' incentives to pursue conservation, can an be obtained without shifting any significant risk from the Company to its ratepayers. I therefore continue to recommend that the CET be retained for the pilot period.

If I may, I would like to now offer some rebuttal to Dr. Dismukes's surrebuttal testimony.

COMMISSIONER BOYER: This would be a good time to do that.

MR. HANSEN: Okay. A little less rehearsed, so bear with me. Of course, more time would be helpful in performing a complete rebuttal, but I will provide a summary of what I know now, based on my reading of the testimony provided and data.

First, Dr. Dismukes provided the finding of an AGA study that described the results associated with a Mountain Census Region, and demonstrated that price responsiveness existed for that region. As this was not a result specifically for Utah, it did not cause me any concern, particularly in that the Rand study that Dr. Dismukes cited in his rebuttal testimony showed a statistically significant price response for the Mountain Census Region, but at the state level for Utah it showed no statistically significant price response. No state level analysis is contained in the AGA study.

Dr. Dismukes alleges two problems in my methods. First is the use of income variables which he argues will potentially distort the results that you estimate. However, even if one accepts his argument, only two of the ten models I presented even included an income variable. As I said in my summary, two other economic variables were examined in addition to the income variable.

Second, Dr. Dismukes alleged I used mismatched data in my analysis in that I examined an aggregation of GS-1 customers for the use per customer, but took a rate that was the residential rate summarized by the Energy Information Administration, called the EIA later on.

Now, it was what I believe to be the best information available to me at the time. In addition, residential customers account for about 75 percent of the usage within the rate. Most importantly, however, the residential and commercial customers pay the same tariff prices. They may pay different block rates, but when one block rate changes, the other block rate changes. So the correlation over time will be highly -- will be quite high between the two rates. So I did not believe that this was a significant problem. However, with time, I could address this concern by analyzing matched data to give people more comfort on that issue.

Dr. Dismukes then presented the results associated with two studies that he conducted. The first study used data from the EIA, it had annual observations with eight data points; and the second study used monthly GS-1 class data from Questar. One thing that an investigation of the data sets used in these two models indicates is that while the second model of Questar data includes weather data that Questar has provided in data requests dating back to the earlier parts of this proceeding, the weather used in the EIA model is different from this.

Now, I conducted an analysis using data that Dr. Dismukes provided, and using that data I was able to reproduce his results shown. And simply by replacing the weather data that he used in the first study - which has not been documented, explained, the source is unknown - by replacing that data with the more known weather data that has been provided by Questar from the second study, his findings go away. The statically significant price response disappears. So that calls that result into question.

Secondly, with regard to the second model where he is analyzing monthly Questar data, he claimed that, quote, "The price variable that was provided by the company, while not clearly defined, appears to be based on a moving average process." He then included an error of correction for this process he believes to exist. Discussions I have had with Questar indicate that they are never provided a price variable that contains a moving average process. So it appears he corrected for a problem that does not exist. I don't have enough information, based on what Dr. Dismukes has provided, to be able to tell what the effects would be of properly treating the data.

It might be useful at this point to provide some perspective on the results across various models. From 2000 to 2001, GS-1 rates went up by 38 percent, the largest rate increase since at least 1980. During that same time, GS-1 use per customer declined by 2.8 percent. If this change is adjusted for weather, economic conditions, and the trend in use per customer across the two years, it would be even less than 2.8 percent. But just to be conservative, I will assume that all the reduction can be attributed to price response, even though no statistically significant effect of prices has been shown.

Also to be conservative, I will assume that the reduction in use per customer led to a matching reduction in revenue per customer. It would actually be less than that because some of the usage reductions would have been from the lower-priced second block. Distribution non-gas rates account for 20 percent of a customer's bill. Therefore, the largest price response effect that we could hope to find from examining the biggest rate increase in the last 25 years would produce a CET deferral equivalent to one-half of one percent of the customer's total bill, or twenty percent times 2.8 percent. To reiterate, the worst case scenario for commodity price risk is a bill impact of about one-half of one percent. For a typical annual bill of $1000, this amounts to about $5.

Now, if you take .028 and the 38 percent price increase, the elasticity that you would calculate by dividing those two numbers is about minus .07. And again, that was a conservative number based on our treatment of the change in usage across the two years.

If you examine the results associated with the log form of my model that then produces an elasticity coefficient that I described in footnote 32 of my report. I estimated a point estimate of minus .04, but found that this result was not statically significant. And by that I mean not statically significantly different from zero, but I will use the shorthand from here on out.

In addition, the Rand study cited by Dr. Dismukes found for Utah a price elasticity of minus .03, but this was also not found to be statically significant. Questar's IRP found a price elasticity of minus .06, and there's been no test of the statistical significance of that result that I know of. So we have four estimates: Minus .07, minus .04, minus .03, and minus .06 that all came from various different methods, using different data, over different time periods from different sources saying what is qualitatively the same thing: Price response, to the extent it may be statistically significant, is small.

Compare this to Dr. Dismukes's estimates which for the two models are minus .22 and minus .38. This is an effect that ranges from three to twelve times higher than the estimates that I have described earlier.

Now, we have seen that the implications of these findings, of the elasticities of minus .03 to minus .07 is small, one-half of one percent. So in answer to whether there is commodity price risk, if it can be found - and I wasn't able to find it in a statistically significant way - I believe it must be small. Thank you.

COMMISSIONER BOYER: Thank you, Dr. Hansen.

MS. SCHMID: Dr. Hansen is now available for questions.

COMMISSIONER BOYER: Is there friendly cross-examination?

MS. BELL: No.

COMMISSIONER BOYER: No friendly cross-examination. Ms. Wright, have you any questions of Dr. Hansen?

MS. WRIGHT: No.

COMMISSIONER BOYER: As soon as Mr. Proctor is available.

MR. PROCTOR: Could I have a moment?

COMMISSIONER BOYER: You certainly can. We will wait for Mr. Proctor and let him ask his questions.

MR. PROCTOR: I have no questions. Thank you.

COMMISSIONER BOYER: Okay. Ms. Bell?

MS. BELL: No questions.

COMMISSIONER BOYER: I'll bet Mr. Dodge does.

MR. DODGE: It will be friendly, though.

CROSS EXAMINATION

BY MR. DODGE:

Q. Dr. Hansen, good afternoon.

A. Afternoon.

Q. I represent the UAD and I really only have a few limited areas I want to ask you about, but it's basically clarifying what appear to be some disputes between you and Kevin Higgins, the testimony for UAD.

On page 5 of your rebuttal -- surrebuttal, excuse me.

A. Just a moment, please.

Q. Starting on line 73 you indicate that Mr. Higgins misconstrued your analysis to be about risk reductions as opposed to risk shifting. And I'm going to read the next sentence and I guess to emphasize and clarify. "In fact, Section 5.2 does not purport to examine whether the CET will reduce Questar Gas's risk, nor does it reach any conclusions regarding whether reductions in Questar Gas's risk that can be attributed to the CET should be accompanied by a reduction in Questar Gas's rate of return." Now, that's an accurate statement of your view of your testimony. Correct?

A. Correct.

Q. So in other words, nowhere in there did you intend to suggest or imply that a reduction in the ROE is inappropriate as a result of the CET; but rather, just you found no support for a reduction based on risks shifted to customers. Is that an accurate statement?

A. I'm sorry. Could you repeat that?

Q. Your analysis and your views demonstrated there's no basis for reducing Questar's return based upon risks shifted to customers, but did not even purport to analyze whether or not, in fact, risk reductions occurred to Questar that would warrant reductions in the return on equity.

A. That's correct.

Q. That was a very important clarification, and I'll tell you neither I nor Mr. Higgins understood that until we read it in your surrebuttal. Do you, in your testimony anywhere, make that clear; that there may be an appropriate analysis of reduction in ROE based on risk reduction generally, even though you didn't find it in a shift of risk?

A. I made no conclusions about that within my testimony, though there is testimony regarding what I believe to be the likelihood that Questar's risk will be reduced by the CET.

Q. Don't you think that's an important clarification, as a Division witness, that there may in fact be an analysis still to be done on absolute level of risk reduction?

A. Well, this line of analysis began from Dr. Dismukes's claim in earlier testimony that because of a reduction in risk, the allowed ROE should be reduced.

Q. You just said "reduction in risk."

A. I'm sorry.

Q. Are you confusing between "reduction" and "shift"?

A. I'm sorry. I did not --

Q. You meant to say "shift in risk."

A. Correct.

Q. You said Mr. Dismukes said that because of a reduction in risk.

A. Because of a shift in risk.

Q. You meant shift. So maybe the confusion is pretty obvious.

But if you will turn to page 24 of your report attached to your direct testimony, I guess I just want to make sure we understand. You have an "In summary" paragraph that's the first full paragraph. Following that you go on to say, "if I had found a significant risk shift, I'll tell you what we would do to analyze it and to mitigate it in the next couple of paragraphs," right?

A. I don't see the text that you are referring to. This is page 24?

Q. DPU Exhibit 6.1. Are you on that page? It starts with or the first full paragraph begins with, "In summary."

A. Yes.

Q. After the bullets.

A. Yes.

Q. Okay. I guess my point is this is where Mr. Higgins took your statement, "In summary, there's no need to consider," and I'm skipping words here, "a reduction in Questar's allowed rate of return." In the next paragraph where you are talking about if you had found a significant risk shift you would have -- you are describing how you would have analyzed it and considered mitigating it. Correct? In the next two paragraphs?

A. Yes.

Q. And in those, you refer to and compare to weather risks, which you describe as mutual risk reduction. Correct?

A. Do I use the phrase "mutual risk"?

Q. In the last sentence. The, "As a matter of general methodology," paragraph. It says, "A higher value was associated with a larger potential risk shift or a mutual risk reduction." Indicates a weather risk.

A. Right.

Q. So in other words, although you have now testified that you intended to not have any reference to things that you don't think shift risk -- weather, you think, doesn't shift risk. That's a mutual risk reduction. Correct?

A. Correct.

Q. But you refer to it here in the same context in terms of mitigating it and identifying the magnitude of it. I guess my point is I don't think you were very clear in your report that you didn't intend to say just a blanket no return on equity adjustment is appropriate as a result of this CET. We hopefully have now made that perfectly clear. That is your testimony, correct?

A. Yes.

Q. Okay. Thank you. Moving down on page 5 of your testimony.

A. In the direct testimony?

Q. No. Your surrebuttal. Back to your surrebuttal. And again explaining why you believe Mr. Higgins was apparently confused about the difference between reduction in risk and shifting of risk, you indicate that Section 5.2 was conducted in an attempt to assess Dr. Dismukes's contention that the proposed CET would shift risks associated with changes in price, the economy, and other factors like greater economy-wide energy efficiency. I'd like to focus on that one, the "and other factors like greater economy-wide energy efficiency." You did have a variable in your analysis to test for that, did you not?

A. Are you referring to the time trend variables?

Q. The time trend. Isn't that what you are trying to test is other factors like economy-wide energy efficiency over time?

A. That would be part of the time trend, yes. But by including a time trend, you don't necessarily know what's behind it.

Q. And I do understand that. So you did test for the time trend, and did you find a significant correlation --

A. I did.

Q. -- with the time trend?

A. I did.

Q. Did you propose or analyze the appropriateness of a rate, an ROE reduction for that significant shift in cost?

A. I don't regard that as a shift in risk.

Q. I meant to say "risk." Thank you.

A. You're welcome. The reduction in use per customer over time, the trend, is something that's been accepted and, in fact, to Mr. Higgins was no surprise. He found it to be obvious. I don't regard that as something that might or might not happen in terms of, you know, the trend could go up, the trend could go down in the future and we don't know which way it's going to happen with the CET.

What I believe the CET does in accounting for the effects, the decline in use per customer over time, is correct for a problem in the rates that were generated using a historical test year. And this is backed up by Dr. Dismukes's contention that a forecast test year would be appropriate for the treatment of decline in use per customer. If you used a forecast test year, you would make your best guess about how use per customer would go down over time. And to the extent that the CET accounts for decreasing use per customer, you would just get that. They would do the same thing as long as you essentially guessed right in the forecast test year.

Q. And how often, in your experience, have they guessed right in a forecast test year?

A. Forecasts will almost never be right. The problem is whether they are biased.

Q. Well, whether they are biased or just

incorrect, the result is the same, right? It's wrong. The result is wrong and the rates therefore weren't set precisely correct. Correct?
A. Correct.
Q. So how can you say it's not a risk? Are you saying you know exactly what the decline in use per customer will be for this year or the next or the following?
A. I do not. It's the consequence associated with being wrong.
Q. And whether it's a future test year or a historic test year, there is a consequence that follows from being wrong in that estimate, correct? Let me restate it. There's an uncertainty about the estimate, correct?
A. There is an uncertainty about every estimate, yes.
Q. And you define risk as uncertainty as to an outcome, correct?
A. I did.
Q. So there is risk in the time trend which you identified as significant. And yet you don't explore, don't even purport to analyze whether an ROE adjustment is appropriate for that shift in risk. And yet you opine that it's not appropriate for the

others where you found no significance. Why wouldn't you have at least analyzed that?

A. Recall that there are two conditions for risk shifting to occur. One was that a relationship existed between that factor and use per customer.

Q. And let's stop. And you found that as to the time trend?

A. I found that, yes.

The second was that the risks were in the same direction for the utility and its consumers. Now, assume that you've got this forecast test year and the CET, and you've adjusted revenue per customer across the years ahead of time for what you think will happen. The goal within that forecast test year process would be to come up with an unbiased estimate. You want to guess right on how much use per customer is going to go down.

In years in which they are wrong - which will, to some degree or other be every year, and they may be off by a hundred percent or might be off by half a percent - to the extent that they are wrong, one party will be better off and the other is worse off. And there's no reason to believe that mistakes in one year will be related to mistakes in other years.

Q. So isn't that the definition of a shift in risk?
A. No. I think it's similar to the weather situation. To the extent that use per customer is guessed incorrectly, you will just -- the effective decoupling will only smooth out the variations associated with guessing incorrectly.
Q. The difference, is it not, is that we have a long-term historical database from which we can demonstrate average weather over time, setting aside global warming issues, and we know with some degree of confidence that it will approach the norm over time, do we not? The weather?
A. Yes.
Q. And yet the same database for 25 years that the Company relies upon in this case and that Mr. Higgins referenced demonstrates a consistent declining over time on averages per customer. So it's not something like weather that will simply average out year by year; isn't that correct?
A. No, it is not.
Q. You think it will average out year by year?
A. The rate of decline will average out year by year. The rate of decline I analyzed from 1980

through 2005 and checked to see whether or not that would vary, and it's --

Q. So by your testimony, there's no need for a CET. A future test year will solve it and it will average out over time.

A. If the only problem you are concerned about is decline in use per customer and you are confident that the regulatory process will arrive at the right answer, then the forecast test year is an adequate replacement for the CET. But it does nothing to the incentives with respect to conservation. And it is, after all, called the Conservation Enabling Tariff, not the Use Per Customer Declining Enabling Tariff.

Q. And as an economist, do you normally find it productive for governmental entities to try and bribe an entity to act inconsistent with their normal economic incentives by things like these kinds of decoupling tariffs?

A. Who is being bribed in this scenario?

Q. Well, do you find it usually worthwhile to try and incent someone to act against their natural instincts, their natural economic incentives?

A. I would say that providing incentives can alter behavior.

Q. Well, obviously.

A. And this provides an incentive that is intended to alter behavior.

Q. And the behavior we want to alter is one that they naturally have, that is to sell their product, right?

A. They would, under current ratemaking practices, want to sell more product.

Q. And are you saying this is the most efficient way to get to the goal that you are describing; that is, to provide correct incentives?

A. No. In fact, my testimony describes a more efficient way that is difficult to implement.

Q. Which is?

A. As I described -- I don't know if I can do this off the top of my head. Straight fixed variable pricing in which all fixed costs are recovered through the customer charge and all variable costs are recovered through volumetric rates, if combined with pricing associated with all of the externalities, and by "externalities" I mean pollution and things that make us want to have people use less because there are adverse effects associated with people using more, if you can get that externality effect into the volumetric price so that customers always face the correct incentive, decide to change their usage, the utility still wants to sell more but the customer would be provided with the correct incentive as to whether to use more or to use less. The belief is that a pricing system like that would result in higher rates than currently exist.

Q. Whose belief?

A. The belief of people who deal with things like -- well, who specifically?

Q. Your belief or are you paraphrasing somebody else?

A. My belief as reflected by unspecified people that I have conversed with.

Q. We will leave it at that.

A. I will explain, if you'd like.

Q. If you'd like to, go ahead. I certainly don't want to stop you. I don't feel the need to have you explain.

A. Okay.

Q. What about other alternatives like having an entity with no mixed incentives being in charge of handing out whatever money might be used to incent customers to install energy efficiency measures?

A. Are you speaking about third party administrators?

Q. Exactly. Have you looked into the efficiency of those kinds of programs?

A. That was implemented in Oregon. And I conducted the evaluation of the decoupling mechanism for Northwest Natural at the time. I don't have strong feelings about third party administrators one way or the other. I understand from discussions of others, and again I can't set a record, but some of those situations have worked out well and some have not worked out as well. I can't independently verify that.

Q. And so one more efficient approach is appropriate rate design. Do you worry as a policy witness - I assume you are partially a policy witness here on behalf of the Division - of unintended consequences of decisions that might be made in dockets like these?

A. I am concerned about unintended consequences, yes.

Q. I mean, for example, years ago a decision was made rightfully or wrongfully that removed the commodity risk from this utility.

MS. SCHMID: Objection. I think to the extent that Mr. Dodge is inquiring about Division policy, the questions would be better directed to

Dr. Powell.

MR. DODGE: This isn't Division policy. I'm asking about unintended consequences from the witness who talks a great deal about policy.

COMMISSIONER BOYER: Overruled.

You may proceed, Mr. Dodge.

Q. (By Mr. Dodge) That decision was made a long time ago. I assume the intent wasn't to create a disincentive for the utility to encourage conservation in response to declining use per customer that might occur twenty years later. Would you agree that's probably the case?

A. I'm sorry. You are speaking of the fuel adjustment costs?

Q. Yes. Years ago when the commodity cost risks were shifted away from the utility, it has now, in part, created this very problem we are dealing with today. Correct? If they had the commodity risk, they would have the same incentive as their customers to save like crazy, wouldn't they? To reduce usage like crazy, because they would be facing a price risk.

A. I think there would be more than one way they could manage the commodity price risk.

Q. And another issue which you have addressed is straight fixed variable rate design. If rate designs were designed to cover, so fixed costs were recovered through fixed charges, then we wouldn't be facing that mixed incentive or that cross incentive, would we?

A. Correct.

Q. Turn, if you will, to page 7 of your surrebuttal. In here, beginning on line 19, again I want to understand. You accuse Mr. Higgins repeatedly of not understanding or being incapable of understanding. I assume you don't know Mr. Higgins or what he is capable of doing. Is that a fair statement?

A. I have not met him.

Q. Okay. Or selectively quoting from your report. And one of your examples is page 120. "He claims that I concluded that weather risk from decoupling exists." And you go on to say that is clearly not true. If you turn to page 24 of your report, your report attached to your direct testimony, it says, "In summary, the findings indicate that weather risk exists." And the quote from Mr. Higgins is that, "He concluded that weather risks from decoupling exists." So he didn't really misquote what you said, did he?

A. I believe he used the quote out of context. There was context around that quote that indicated that it wasn't a risk that was shifted due to the CET.

Q. Not around that quote. You go on to say, "But economic and commodity price risks do not appear to exist. So you don't, in that context there, at all address whether or not you later disprove it. You state as a fact whether risk exists, don't you?

A. I identified within my testimony the ways in which I believe that was mischaracterized.

Q. If you move back to page 23 of your report, the first bullet in the middle of the page, the last sentence, "This indicates that weather risk exists. But as described earlier in this report, methods exist that can mitigate this risk." So it isn't that you concluded weather risks didn't exist. It's that you concluded there were ways to mitigate that risk. And Mr. Higgins simply said you said weather risks exist, and yet you claimed he mis- characterized you.

A. I believe he mischaracterized me.

Q. Okay. Let's talk about who is confused and mischaracterizing. On line 128 of page 7, you are quoting Mr. Higgins's testimony on page 5. And I don't know if you have Mr. Higgins's testimony on page 5.

A. I do not.

Q. He outlines on that page the five results of your analysis. The third one is the GDP variable, the fourth one is price of natural gas. Do you recall that? Or will you accept that?

A. Okay.

Q. So you said on page 5, Mr. Higgins writes that the GDP variable coefficient has a negative sign, suggesting counter-intuitively that an improvement in economic conditions reduces usage per customer. And then you go on to say, "Which he later writes is suggestive of a likely, though not unusual, specification problem." So you've claimed that Mr. Higgins said that the GDP variable is suggestive of a specification problem. Correct?

A. I believe that was my interpretation of that portion of his testimony.

Q. Let's go on and read that portion of his testimony. On page 6, and you don't have it but I will read it and you can double check this if you'd like. Beginning on line 8 he says, "Of some concern, Dr. Hansen's models are unable to demonstrate a significant relationship between the price of natural gas and usage per customer, which is suggestive of a likely although not unusual specification problem in his model." So now I don't think he could say that more clearly. Which of your five variables was he describing as indicative of a specification problem; the GDP or the price of natural gas?

A. I'd like to see his testimony so I can read it.

MR. DODGE: May I approach the witness?

COMMISSIONER BOYER: You may approach.

Q. (By Mr. Dodge) Read the part beginning on line 8, and compare that to what you say beginning on line 128 on page 7. You indicate that it was the Utah GDP variable and not the price of natural gas variable about which he made that statement.

MS. SCHMID: Chairman Boyer, would now be an appropriate time to take a break while Dr. Hansen takes a look at that?

MR. PROCTOR: I'm not going to speak for Mr. Dodge, but --

MR. DODGE: I don't think this will take him long to acknowledge. If he needs time, he can take it. I want to point out he made a mistake in how he characterized Mr. Higgins's testimony.

COMMISSIONER BOYER: We will, however, be taking a break soon to rest our reporter again.

MS. SCHMID: Thank you.

A. Based on what I can read from the hot lights, I would agree with you, yes.

Q. (By Mr. Dodge) Thank you. If you'd like another copy, I have an extra.

I'm almost done, Mr. Chairman. I have just one more area of cross-examination.

COMMISSIONER BOYER: Please proceed.

Q. (By Mr. Dodge) On page 11, and we have addressed this to a certain extent, so I won't spend a lot of time, but you say beginning on line 208, you do not regard the observed downward trend in use per customer as a risk. Again, if risk is uncertainty and you cannot correctly predict the exact downward trend, there is a risk there, is there not?

A. The exact value of the trend will be uncertain, but the fact that the trend is downward I don't believe this -- at least a significant risk has been downward trending since 1980.

Q. But again, you are not able to tell me, will that ever change? Will there ever come a time when it starts trending upward?

A. I don't know.

Q. And you don't know what next year's or the

follow year's downward percentage will be, either?
A. Correct.
Q. And that represents risk to whoever it is is taking the risk of the amount of distribution non-gas costs put in rates that is recovered through a volumetric measure. Correct? Whoever is taking that risk will end up either better off or worse off as a result of this downward trend without the CET. Is that a fair statement?
A. Well, when one is better off, the other will be worse off. So the fact that the CET swaps that risk I think can eliminate it.
Q. I appreciate you acknowledging it swaps the risk. That was exactly my point.
You also say, "I do not regard the observed downward trend as a risk. By definition risk is associated with uncertain outcomes." Again, the downward trend is based on historical analysis, right?
A. Yes.
Q. And the uncertain outcome is looking to the future?
A. Correct.
Q. So they are very different animals. Trying to predict the future is a lot tougher than

trying to predict the past.

A. By definition, yes.

Q. And then I think lastly, on line 216 you say the last sentence there, "It therefore appears that Mr. Higgins is merely interested in maintaining a transfer of dollars from Questar Gas to its rate-payers by retaining a flawed ratemaking method, i.e. the use of an historical test year in the absence of decoupling." Could you please refer me to where in Mr. Higgins's testimony you possibly came up with that statement? Or is it just a gratuitous slap at him personally?

MS. SCHMID: Objection as to the characterization.

MR. DODGE: I'd like to know is there any possible support in his testimony for that statement. I think that's a fairly aggressive and obnoxious statement.

Q. (By Mr. Dodge) Do you have any support for it?

A. I apologize that you view it that way.

My view was that if there's a change that is expected, and you don't wish to account for it in the future, and that change works to the benefit of your constituency, that you might want to maintain that change.

Q. So where in Mr. Higgins's testimony does he suggest anything of that sort? I'd really like to know.

A. He doesn't state it directly.

Q. He doesn't even imply it. Did you read his initial testimony filed back in 2006 as to why he opposed decoupling?

A. I believe, but I don't recall for sure.

Q. Do you recall that he talked about unintended consequences, shifting of incentives in an unintended way, and risk reduction or shifts? Things of that nature?

A. I don't recall specifically what he discussed in that testimony.

Q. Do those things sound like he is simply trying to steal money from Questar Gas for his customers?

A. If he discussed those factors, no.

Q. And yet, you sit here and say that therefore it appears -- so you are admitting you have no basis for that statement as to Mr. Higgins?

MS. SCHMID: I believe he already answered that question.

MR. DODGE: I'd like to hear it. I don't

think he has.

Q. (By Mr. Dodge) You have no basis for that statement.

A. Correct.

MR. DODGE: I therefore move that that sentence be stricken from his testimony.

COMMISSIONER BOYER: That motion is granted, Mr. Dodge. What line was that, to remind us and the reporter?

MR. DODGE: It's the sentence beginning on line 216 on page 11 and continuing through page 219.

COMMISSIONER BOYER: Line 219.

MR. DODGE: Excuse me. Line 219.

COMMISSIONER BOYER: The sentence beginning on line 216 through line 219 will be stricken from the record.

MR. DODGE: Thank you. I have no further questions.

COMMISSIONER BOYER: Ms. Wolf, have you any questions for Dr. Hansen?

MS. WOLF: I don't.

COMMISSIONER BOYER: Let's take a ten minute break and see if the Commission has some questions.

We will ask you to return if we could,

Dr. Hansen.

THE WITNESS: Thank you.

(A break was taken.)

COMMISSIONER BOYER: Back on the record. We'll see if Commissioner Allen has some questions for Dr. Hansen.

COMMISSIONER ALLEN: I don't right now. Thank you.

COMMISSIONER BOYER: He does not. Commissioner Campbell?

EXAMINATION

BY COMMISSIONER CAMPBELL:

Q. Good afternoon, Dr. Hansen. I'm going to sound like a broken record, but I'm going to ask you the same question I have asked two other witnesses, and it's this: If revenues are down for the Company, is the utility not incented to control cost to meet profit goals?

A. I don't see it that way. As my testimony indicated, maybe it's the economist in me but I see the incentive to reduce costs as not being affected by that, by the variability in revenues.

Let me offer an alternative story as to what might happen. If the management of the Company changes to a situation where they have no control over revenues, what are they going to do to justify their jobs? They might turn to controlling costs. It's the thing that they can do something about at that point. So I don't see it as a significant concern. Can I definitively say that they will exert the same amount of effort controlling costs? I guess I can't.

Q. Okay. On page 8 of your study, you talk about the issue of customer service standards. Are you aware if we in Utah have enforceable customer service standards on Questar Gas?

A. I am not aware.

Q. So that if they provide less than adequate customer service there is some sort of financial penalty? Are you aware if that's in place here?

A. I'm not.

Q. On page 12 of your report, at the top you talk about once again customer service, and I don't understand this statement in the context of a monopoly. Are you suggesting that customers, if they get poor customer service, will switch to propane rather than natural gas? I understand this in a market-based economy and the point you make here, but I don't understand it in the context of a monopoly

where they are the heating source for customers.
A. Right. You are referring to the loss of customers?
Q. Right.
A. In response to not providing high quality customer service.
Q. Right. I'm trying to find out what's the relevance of that to a monopoly?
A. It would have to amount to fuel switching, using a different energy source to perform the same function.
Q. On your study, Mr. McKay has talked about, and it's been my understanding -- and frankly I was surprised at the results that there wasn't a greater price effect. And so let me ask you this: In any of the studies that you ran, did you take into account perhaps a delay of eight months for a pricing effect to take place? Is that anywhere accounted in your studies?
A. The study that's conducted in the surrebuttal testimony accounts for any of those effects that would have occurred. In fact, it accounts for it in a fairly flexible way. It says we know that prices jumped up right away on January 2001 and they went down a bit in '02 but then they shot

right back up and stayed there through the end of '05, which was the sample period.

So if customers were responding either immediately or with a one or two year lag, somewhere in there, anywhere within there, they either decided to shift usage down, just immediately start mitigating and do whatever they could, or started phasing in more efficient appliances at a faster rate, my analysis would have picked that up. And it found that really if you just graph the downward trend, you just keep following it right on down through those years since 1980.

Q. All right. And then I assume, as an analyst and as someone who runs these studies, you often ask the question why. So how do you in your mind reconcile your results to the AGA national results? In your mind, what would be some reasons why those studies are so different?

A. The best reason that comes to mind is the very high penetration rates of natural gas space heating and natural gas water heating in Questar's service territory relative to the nation as a whole. I think it's 85 percent in Utah. This is using an EIS statistic, that's not controlling for availability. That's 99 percent where available, according to Questar's statistician.

But comparable to the 85 percent figure, it's 51 percent for a national average in terms of who is using that heat. Now, those two end uses are going to account for the vast majority of a customer's use here and they are applications that people aren't going to necessarily compromise on that quickly, and they are fairly long-lived assets that you are not just going to change on a whim.

Q. All right. Thank you.

EXAMINATION

BY COMMISSIONER BOYER:

Q. Just a couple of questions, Dr. Hansen. Were you in the hearing room when Mr. Feingold testified?

A. I was.

Q. And were you listening when I had my little dialogue with him about the longer term examination of price elasticity?

A. I vaguely recall. If you could refresh me on that.

Q. I expressed chagrin that it seemed counter-intuitive to me that a price signal wouldn't alter behavior, because it certainly did in my case and my circle of friends. And maybe I travel in a different circle of friends. Do you expect that we might find price elasticity if we looked at it over a longer period of time?

A. Well, I looked at it -- you mean in terms of a lag effect.

Q. A lag or a longer term, either way.

A. The analysis that I conducted included 26 years of worth of data, though that only examined same year effects until the surrebuttal testimony, which looked at effects that could have gone out to five years. So I'm an economist and I generally believe in demand curves that slope down, when you use less. Though I have seen customers that won't respond to prices. What is particularly surprising here is that if you are going to see price response, you will tend to see it when changes are big and that's why I specifically focused on the larger rate increase that happened in January of 2001.

Q. And did you factor in weather during that period of time?

A. The analysis included weather, the time trend, and then variables to indicate the time period following 2001.

Q. Okay. I have one other question. Given the context in which Questar operates here, and as you know Questar receives pass-through benefit on its commodity cost, the cost of fuels passed on to customers. Our laws permit forecast test years in rate cases, decoupling now here. On page 11 of your testimony in the paragraph that begins on line 223.

A. Is this the surrebuttal?

Q. This is your surrebuttal. You testified, "As reflected on page 32 of my August 8, 2007 rebuttal testimony, I agree that a forecast test year is an adequate substitute for the CET in addressing these effects (but forecast test years do not resolve utility conservation incentive issues as the CET does)." Can you see of an alternative to full decoupling, given the context in which we have already eliminated certain risks to the Company, that a forecast test year with some other mechanism might achieve the same end; that is, provide incentives for DSM?

A. Well, whether it will just provide incentive to provide DSM or provide the full range of incentives that decoupling provides, as I mentioned earlier I think straight-fixed variable pricing would accomplish that as well. But it has the detriment that if you don't combine it with pricing for these externalities you actually lower the price at the margin to consumers, so you give them smaller incentive to conserve even though you give the utility a larger incentive to promote conservation. That's the nice compromise with respect to conservation incentives that decoupling offers is it keeps almost the entire current incentive that customers have intact, and it changes the utility behavior at the same time. And that's actually tough to come by using other methods.

Q. I'm not an economist so I'm just speculating here, but what about utilization of a forecast test year, rate cases at regular intervals, and a CET targeted or tied to the actual usage decrease attributable to the DSM efforts and expenditures? Could that work?

A. That would require DSM programs that can be well estimated and wouldn't affect the utility's incentive to grow load. So it would not do as well in terms of the breadth of incentives that it alters with respect to the CET. It would certainly promote more conservation than traditional rates in the absence of anything.

Q. All right. Thank you.

Commissioner Campbell has another

question.

FURTHER EXAMINATION

BY COMMISSIONER CAMPBELL:

Q. I failed to ask one question that occurred to me the first time I read your direct testimony, and that is you share with us Appendix A and I guess collected by your colleague. What was your reason for not carrying out such an analysis in this case?

A. I'm not the cost of capital expert in our company. He is. You mean what was the reason for having Mr. Camfield write Appendix A as opposed to having me write Appendix A?

Q. Right.

A. Yeah. He has executed that in practice and I have not.

Q. Is that -- was that presented to the Division as an option as far as analysis that could have been provided in this case?

A. No. The Division had requested that methods be provided for how you would analyze such a thing, and so I enlisted Mr. Camfield to comply with that request.

Q. So you provided just the summary of a method without actually performing that analysis?

A. Well, the method, as introduced by me, was to be implemented upon finding evidence of a risk shift, and I found no such evidence. So at least on that basis would not have -- we would know, going in, what the answer is.

Q. So could you then guarantee us that if one were to perform the analysis in Appendix A it wouldn't come to any different conclusion than what your analysis did?

A. I can't guarantee that for two reasons. One is that there's uncertainty in terms of what that analysis will produce relative to any other analysis. The other is that Mr. Camfield produced in the end a document that was more about what you do about the risk reductions for the Company in the presence of decoupling as opposed to risks that are shifted. The part that should have been inserted in, and it was a miss on my part, was stating that it should have discussed the risks explicitly that were shifted and not reduced in aggregate.

COMMISSIONER BOYER: Okay. Ms. Schmid, any redirect for Dr. Hansen?

MS. SCHMID: No redirect.

COMMISSIONER BOYER: Very well, Dr. Hansen, thank you. And you are excused. Shall we proceed with Dr. Powell? We will be breaking shortly before 4:30 for the public witness portion of this proceeding.

MS. SCHMID: The Division would like to call Dr. Powell to the stand.

COMMISSIONER BOYER: Dr. Powell, have you been sworn in this proceeding?

THE WITNESS: I believe I was in the earlier phase.

COMMISSIONER BOYER: Then you are still under oath. Ms. Schmid.

EXAMINATION

BY MS. SCHMID:

Q. Good afternoon, Dr. Powell.

A. Afternoon.

Q. As you have already been a witness in this proceeding, we can skip some of the general qualifications sorts of questions and move directly on to the exciting part of your exhibits.

Did you prepare what has been premarked for identification as DPU Exhibit Number 7.OR, the pre-filed rebuttal testimony of Dr. William A. Powell with service list, and DPU Exhibit Number 7.1R, an attachment to that, a Barakat & Chamberlain draft report addressing impact evaluation of the PacifiCorp multifamily program?

A. Yes. With one caveat. My testimony is actually -- on the document itself it's 1.0R and the exhibit list says 7.OR. And correctly it should probably read 7.0R on my testimony.

Q. And then the 7.1?

A. Right. Yes.

Q. With that correction, if you were asked the same questions today, would your answers be the same as stated in your pre-filed testimony?

A. Yes.

MS. SCHMID: The Division would like to move the admission of the exhibits premarked and identified as DPU Exhibit Number 7.0R and DPU Exhibit Number 7.1R.

COMMISSIONER BOYER: Are there objections to the admission of these two pieces of evidence?

MR. PROCTOR: No objection.

COMMISSIONER BOYER: The two exhibits identified by Ms. Schmid as DPU Exhibit Number 7 and number 7.1R are admitted into evidence.

Q. (By Ms. Schmid) Dr. Powell, do you have a brief summary that you would like to provide us with today?

A. Yes. I don't have anything written out.

Just a couple bullet points. But I think my testimony was brief enough and focused enough that it wouldn't be necessary to go over it a lot.

I did offer a couple of comments in my testimony that the committee up to surrebuttal testimony at least have failed to provide a concrete alternative that parties in this docket could look at and evaluate and make comments on to the Commission. I also offered comments on the difficulty and controversy that would surround a lost revenue adjustment calculation to compensate Questar for any lost revenues due to DSM programs.

I also made the comment in my testimony that in the context of a rate case, the Division would take into account all the information available in formulating a recommendation on the rate of return which I believe is consistent with the position that the Division has taken throughout this docket.

The Committee has, at this time, in surrebuttal testimony - if I may make a couple comments or observations - proposed an alternative of a lost revenue adjustment calculation based on the engineering estimates of savings in the actual participation levels in the various DSM programs or measures. And they also suggest that any discrepancies could be later trued up. Since there's no details surrounding either how this engineering approach would work or how the true-ups could be instructed and enacted, I'm not convinced that Dr. Dismukes's testimony that my concerns on mitigation or the concerns surrounding lost revenue calculations have been mitigated, let alone eliminate those issues. And as Mr. Barrow testified earlier, the Division supports the continuation of the CET tariff as modified by our recommendations.

Q. Thank you.

Dr. Paul is available for questioning.

COMMISSIONER BOYER: Thank you, Ms. Schmid. Ms. Bell, do you have any cross-examination?

MS. BELL: No questions.

COMMISSIONER BOYER: Ms. Wright?

MS. WRIGHT: No questions.

COMMISSIONER BOYER: Mr. Proctor?

MR. PROCTOR: No questions.

COMMISSIONER BOYER: Mr. Dodge?

MR. DODGE: No questions. Thank you.

COMMISSIONER BOYER: Ms. Wolf obviously has no questions.

Let's go to Commissioner Allen.

EXAMINATION

BY COMMISSIONER ALLEN:

Q. Mine is pretty brief here. I'm just curious if we have any solid examples of successful lost revenue applications, or unsuccessful ones. I couldn't find that in the testimony. Any examples of what worked or not worked other than analysis of projected possibilities?

A. From my perspective just some anecdotal evidence. When I first came to the Division which was ten or eleven years ago, I worked in DSM projects. One particular nightmare that I remember was going up to Portland. We went up to Portland to establish the models that would be used to calculate the loss revenues for a particular pilot program that was being proposed in Oregon.

If I recall correctly, it was a simple promise involving low flow shower heads. We spent several meetings over several months defining what those models would look like, what the data would be, how the data would be measured, how the evaluation would take place, and the establishment of a pilot program.

Once all of that was decided, the Company initiated, this is PacifiCorp, initiated the pilot program. The Company collected the data from the pilot program, ran the analysis according to what had been decided in those meetings, and the results were not favorable for the program. We had another meeting where those results were reported to the group, another argument ensued over it wasn't the DSM program it was the modeling, it was the data, you didn't do the estimation correctly. Those types of arguments.

The outcome eventually was one party from Oregon basically just said they didn't care how much the program cost, they wanted the program, they would pay for it. I came home from Oregon and asked to be removed from DSM at that point.

COMMISSIONER BOYER: Commissioner Campbell.

EXAMINATION

BY COMMISSIONER CAMPBELL:

Q. You have, in the past, been the ROE witness for the Division; isn't that right?

A. That's true.

Q. So as the Division policy witness, how confident are you that in a rate case you'll be able to find a comparative sample of companies that have fuel cost pass-through, forecast test year, DNG revenue pass-through from full decoupling and weather normalization?

A. I think it would be difficult to find a sample, a large enough sample with all of those characteristics.

Q. So how do we evaluate the risks this company has mitigated through regulatory processes versus other companies when we establish ROE?

A. At this point I'm not quite sure, and this is why when we were conferring on Dr. Hansen's report that he attached to his testimony and we saw the first drafts of that report, that we asked how one might go about actually doing that type of an evaluation. And I think that was what led to, as Dr. Hansen indicated, the Appendix A that he asked another member of the company to write.

Now, my interpretation of that was that, as Dr. Hansen pointed out, that if you found that there was some evidence, credible evidence, that risk shifting or risk reduction had taken place, then that might be one way that you could evaluate and take into account in terms of recommending a rate of return.

Q. And can you calculate that if you can't find a comparable sample of companies?

A. It might be hard, yes, it might be questionable. My recollection is, and it's been several years since I have done it, rate of return for Questar -- well, as was testified, the last rate case was 2002. The sample that we used in that case was relatively small. My recollection was it was less than ten companies to begin with. Of course, we do those calculations all the time in-house. And depending on what assumptions you make in terms of what makes up a comparable sample of the companies, it is still a very small sample. Ten to twelve companies, possibly. Those particular characteristics have not been used in the past as a screening tool, either, to come up with that sample of companies.

Q. Is that information available on each company that you put your sample --

A. I believe it would be available and fairly easy to obtain. You could -- one possibility would be to drop some of the criteria that we use now, which is the bond ratings, primarily, and their revenues from gas sales are two of the primary screening tools that we use to come up with that comparable. If you drop those, you might get a slightly larger sample. But it might be arguable that they are not or they don't have similar risk profiles as Questar does.

EXAMINATION

BY COMMISSIONER BOYER:

Q. Dr. Powell, you were in the room when I had a little conversation with Dr. Hansen a moment ago, were you not?

A. I was here, yes, sir.

Q. I'm going to try to restate that question to you. Given the context in which Questar operates with commodity cost pass-through to consumers, the possibility to use forecast test years going forward, first of all would you agree with Dr. Hansen that forecast test year, except for eliminating the disincentive to do demand-side management, would be an acceptable substitute or alternative to CET mechanism?

A. Yes. As a matter of fact, back in an earlier phase of this particular proceeding, I believe there was a White Paper that was submitted to the Commission that indicated or detailed out the various alternatives that the group had considered as addressing declining use per customer, and forecasted test year was one of those that we did consider. And if I recall correctly, that was one of the major conclusions is that a forecasted test year did not address the disincentive.

Q. And my follow-up question to Dr. Hansen was, given that, could you conceive of a forecast test year used in conjunction with a more limited CET targeted to recovery of those costs attributable to reductions in customer usage because of demand-side management programs? So you get the best of both worlds without full decoupling, is my question.

A. Well, if I understand what you are asking, in a sense what you are asking is can we use a forecasted test year with some kind of loss revenue calculation. And the answer of course is yes, we could do that. I have never said in any of my testimony that you couldn't do a lost revenue calculation. I have just said that it will be difficult and it will be controversial. At least the first time we go through the procedure of establishing how we are going to set that up.

The problem that I see, as I think Dr. Hansen has pointed out, is it doesn't fully address the disincentives that the Company has to engage in promoting DSM. Nor does it address fully their issues or incentives that they have to try to promote group sales.

Q. Okay. Thank you.

Ms. Schmid, have you any redirect?

MS. SCHMID: No redirect.

COMMISSIONER BOYER: Dr. Powell, I think you are excused. We still have a few minutes before the public witness section.

Commissioner Campbell would like to ask one more.

FURTHER EXAMINATION

BY COMMISSIONER CAMPBELL:

Q. Chairman Boyer's question raised a question in my mind and that is, do you have an opinion, is it more difficult to estimate and come up with the numbers for lost revenue or would it be more difficult to come up with kind of a risk analysis between companies? If these were the options we were looking at, if we were looking at compensating customers for perceived or real risk shifting versus kind of a lost revenue approach, and there's pluses and minuses to both, you still have estimation problems in both, do you have an opinion which one would be easier or harder to estimate?

A. If I could use a different phrase, instead of saying easier or harder, I don't think in terms of the controversy that there's going to be much difference. I recall one Questar rate case where the company's lawyer and I argued probably for approximately two hours over whether you should use the mean or the median in that particular case. I will point out that I think the Commission sided with me, but we will ignore that. Don't strike that. I think there's probably enough controversy surrounding both of those that it's one or the other.

COMMISSIONER BOYER: Thank you, Dr. Powell. You are excused.

DR. POWELL: Thank you.

COMMISSIONER BOYER: We have a few minutes. I think we should try starting with Ms. Wright. Would that be acceptable? And we will see how far we get this evening before the public witness portion of the hearing.

Ms. Bell, you are going to assist Ms. Wright?

MS. BELL: Yes. I don't believe Ms. Wright has been sworn in this docket. I believe Howard Geller was.

COMMISSIONER BOYER: We'd best do that right now, then.

Sarah Wright,
called as a witness, being first sworn,
was examined and testified as follows:

EXAMINATION

BY MS. BELL:

Q. Will you please state your name for the record.
A. Sarah Wright.
Q. And on whose behalf are you appearing?
A. Utah Clean Energy.
Q. And in what capacity are you employed by Utah Clean Energy?
A. I'm the executive director.
Q. Did you file a joint position statement with SWEEP on June 1, 2007?
A. I did.
Q. Did you also file six pages of surrebuttal testimony with two exhibits in this case on August 31, 2007?
A. I did.
Q. If I were to ask you the same questions

today that were asked in your surrebuttal testimony, would your answers be the same?

A. Yes.

Q. Do you have any corrections you would like to make to that?

A. No.

MS. BELL: On behalf of Utah Clean Energy and SWEEP, I would like to move for the admission of the joint position statement, which was filed in this docket as UCE SWEEP Exhibit 1-YR 1.0; and UCE surrebuttal testimony of Sarah Wright on behalf of Utah Clean Energy, which I think was marked as UCE SWEEP Exhibit 1-YR 2.0. And I believe that had two exhibits attached to it, UCE SWEEP Exhibit 1-YR 2.1,. And UCE SWEEP Exhibit 1-YR 2.2.

COMMISSIONER BOYER: Are there any objections to admission of these two pieces of evidence?

MR. PROCTOR: No objection.

MS. SCHMID: No objection.

COMMISSIONER BOYER: Mr. Dodge?

MR. DODGE: No objection.

COMMISSIONER BOYER: Those two pieces of testimony marked as indicated by Ms. Bell, I don't want to repeat that long series of numbers, are admitted into evidence.

Q. (By Ms. Bell) Do you have a summary of your position statement surrebuttal testimony filed in this docket?

A. Yes. I will provide a summary.

First I will say a little about Utah Clean Energy. We are a nonprofit public interest group and we work to advance energy efficiency and renewable energy as part of a cleaner, safer, more secure energy future. We believe that energy efficiency is critical and an increasingly important energy resource that should be mined and developed just like we would develop any other energy resource.

The Energy Information Administration shows that the U.S. only holds about 3.3 percent of the world's natural gas supplies. And they predict that by around 2015 that our Canadian imports of natural gas will decline and our reliance on overseas resources will begin to dramatically increase. Over half of the global natural gas supplies are held in Russia, Africa, and the Middle Eastern countries. We believe that to aggressively and effectively develop our vast natural gas energy efficiency reserves, that it is critical to align the financial interests of the utility such that their financial well-being is not tied to the volume of gas that they sell, and the CET meets this objective.

Since the pilot CET and the demand-side management programs, the pilot programs were put into effect, we have seen a change in Questar's willingness to implement DSM programs. Questar has implemented a DSM advisory group, developed and implemented a comprehensive set of DSM programs, and they are looking to expand those programs in 2008. And furthermore, they have actively marketed and promoted the Thermwise campaign, Thermwise program and campaign which serves as a public information campaign for energy efficiency. And many of the benefits of that campaign are difficult to measure. This energy savings is associated with public education.

So in summary, the CET has resulted in aggressive development and implementation of energy efficiency programs, created the cultural change we wanted to see within the Company with respect to DSM, and we believe at Utah Clean Energy that it is in the best interest of Utah citizens and future generations of energy users to keep the CET mechanism in place for the entire three year pilot program. We believe that at that point there will be adequate quantifiable data to evaluate both the CET and the effectiveness of Questar's DSM programs. Thank you.

COMMISSIONER BOYER: Thank you, Ms. Wright. I guess we are asking you to put two hats on at the same time. Have you any friendly cross-examination?

MS. BELL: No, I don't. But she is available for questions.

COMMISSIONER BOYER: How about you, Ms. Schmid?

MS. SCHMID: Nothing from the Division.

COMMISSIONER BOYER: Let's turn to Mr. Proctor, then.

MR. PROCTOR: I have no questions. Thank you.

COMMISSIONER BOYER: Mr. Dodge?

MR. DODGE: No questions. Thank you.

COMMISSIONER BOYER: Everybody must want to go home this evening.

Commissioner Allen.

EXAMINATION

BY COMMISSIONER ALLEN:

Q. In your profile testimony you indicate there are two states that have conducted studies about the effectiveness of educational programs, but you did mention it is hard for us to measure and we are all struggling with that. Do you happen to have any background? Were those large-end samples or were they surveys, were they comparative? Do you know much about those?

A. I would have to go back and review them.

Q. They came up with 3 percent nonpeak and 5 percent peak demand reduction, and it's based on educational programs? Did I read that right?

A. Right. Based on mostly behavior changes associated with that.

Q. Thank you.

A. And I would be happy to provide you with the original studies.

Q. That would be good information to have.

COMMISSIONER BOYER: Commissioner Campbell?

COMMISSIONER CAMPBELL: No questions.

EXAMINATION

BY COMMISSIONER BOYER:

Q. Just one or two questions, Ms. Wright.

In your testimony, in addition to supporting the continuation of the CET, you indicated that you do not and your constituency does not support the lost revenue adjustment mechanism. Did you, in your analysis, consider any modifications to the CET? You have heard some of the testimony by the Division. Mr. Barrow, for example, had three or four suggestions. Did you consider those suggestions and do you have any or would you support any of those, or do you have any others?

A. We think that it is too difficult to quantify -- if we want a willing and able partner from the utility to advance all energy efficiency, and we want them to promote education campaigns, we want them to help with building code enforcement, that it is too difficult to quantify the savings associated with that. And if it is just some sort of partial decoupling with a loss revenue, that the utility would not be undergoing large educational campaigns. They probably wouldn't be as supportive of training for building code enforcement and building to code. Those are the types of measures that would be very difficult to quantify.

COMMISSIONER BOYER: Okay. Thank you very much, Ms. Wright. Any redirect Ms. Bell?

MS. BELL: No.

COMMISSIONER BOYER: You may be excused.

Thank you.

This is the way we will proceed. We will take a recess now until 4:30, until the public witness portion of the proceeding commences. And then we will resume this hearing tomorrow morning at 9:30 with the testimony of Dr. Dismukes. And Mr. Higgins will follow.

MR. DODGE: We had discussed Mr. Higgins going first, if that's okay.

MR. PROCTOR: Yes.

COMMISSIONER BOYER: That is acceptable to us. We will reverse the order, then, and begin with Mr. Dodge, followed by the Committee of Consumer Services then in the morning.

Thank you for your presence. And may I compliment you on the way you handled your yourselves; politely and collegially. Have a good evening.

(The portion of the hearing was concluded at 4:20 p.m.)

REPORTER'S HEARING CERTIFICATE

STATE OF UTAH)
) ss.
COUNTY OF SALT LAKE)

I, Diana Kent, Registered Professional Reporter and Notary Public in and for the State of Utah, do hereby certify:

That prior to being examined, the witnesses were duly sworn to tell the truth, the whole truth, and nothing but the truth;

That said proceeding was taken down by me in stenotype on September 18, 2007, at the place therein named, and was thereafter transcribed, and that a true and correct transcription of said testimony is set forth in the preceding pages;

I further certify that I am not kin or otherwise associated with any of the parties to said cause of action and that I am not interested in the outcome thereof.

WITNESS MY HAND AND OFFICIAL SEAL this 21st day of September, 2007.

Diana Kent, RPR, CRR
Notary Public
Residing in Salt Lake County