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	)	**Docket Number 05-057-T01**
For the Approval of the Conservation	)	
Enabling Tariff Adjustment Option	)	
And Accounting Orders	)	

STIPULATION TESTIMONY
OF
ERIC ORTON
ON BEHALF OF THE
UTAH COMMITTEE OF CONSUMER SERVICES

September 25, 2006

Introduction

Q: **PLEASE STATE YOUR NAME, AND PARTY YOU REPRESENT FOR THE RECORD.**

A: My name is Eric Orton. I am testifying for the Committee of Consumer Services.

Q: **WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A: To present the Committee's position on the Conservation Enabling Tariff (CET) stipulation filed with the Commission on September 13, 2006.

Q: **WERE YOU INVOLVED ON BEHALF OF THE COMMITTEE IN SETTLEMENT NEGOTIATIONS AMONG THE PARTIES THAT PRODUCED THIS STIPULATION?**

A: Yes. I have been continually involved in this case from its inception through the discussions that culminated in this stipulation.

Background

Q: **BRIEFLY DISCUSS THE COMMITTEE'S POSITION REGARDING THE CET APPLICATION WHICH QUESTAR GAS COMPANY (QUESTAR GAS OR UTILITY) AND THE DIVISION OF PUBLIC UTILITIES (DIVISION) ORIGINALLY FILED WITH THE COMMISSION.**

A: The Committee has always been supportive of cost-effective DSM programs, but viewed with concern the Joint Applicant's proposal to foster natural gas DSM programs by providing the Utility revenue assurance via this CET mechanism. We viewed the CET mechanism, whereby the Utility's revenues would be "de-coupled" from its sales, as a substantial departure from traditional ratemaking. Such a major policy change, which among other things constitutes a further transfer of business risk from the Utility to ratepayers, should not, in the Committee's view, be a matter considered in isolation, but rather as part of a general rate case.

The Committee retained Dr. David Dismukes, associated with the firm Acadian Consulting, in Baton Rouge, Louisiana, to review the CET application and respond to the Committee's concerns. Dr. Dismukes filed expert witness testimony in this proceeding on behalf of the Committee which challenges the Joint Applicants' claim that a full revenue-sales decoupling mechanism is required in order for the Utility to roll out cost-effective DSM programs. Dr. Dismukes identified concerns with a number of aspects of the proposed CET. Those concerns included: (1) fixing Utility revenues through variable rates (a.k.a., single item ratemaking); (2) shifting the risk of changes in market or business conditions to customers without a compensating adjustment to the Utility's return on equity; (3) the Utility's claim of lost revenues did not appear to be a significant problem given its recent historical (2005) and projected (2006) earnings levels; and (4) the Utility has the capability of proposing a future test year in a general rate case to address any alleged lost revenues.

Dr. Dismukes' testimony also describes alternatives to the proposed CET mechanism that would remove the perceived barrier to implementing DSM programs without the negative consequences associated with a full revenue decoupling mechanism.

Q: **IN OTHER WORDS, THE KEY ISSUE FOR THE COMMITTEE IS NOT CONSERVATION, BUT RATHER THE MECHANISM THE JOINT APPLICANTS ARE PROPOSING TO FOSTER NATURAL GAS CONSERVATION. IS THAT CORRECT?**

A: Yes. That is correct. The Committee has always supported the development and implementation of cost-effective DSM programs. For example, the Committee has actively participated in PacifiCorp task forces and advisory groups charged with evaluating electric DSM measures and programs. We have periodically used outside experts to advise us on the efficacy of certain DSM programs. The CET proposal creates no DSM programs. It would merely remove a perceived barrier to the Utility's willingness to implement DSM programs. The Committee believes there are better ways to remove any such barrier than by granting the Utility revenue assurance.

Alternatives

Q: **DID DR. DISMUKES PROVIDE ALTERNATIVES TO THE CET?**

A: Yes. He generally outlined incentive-based and partial decoupling approaches that could be used to encourage the Utility to pursue cost-effective DSM programs.

Q: **HOW DOES THE CET STIPULATION IMPACT THOSE ALTERNATIVES?**

A: The Stipulation creates a window of time for the Committee and other parties to more fully develop alternatives to the CET that would achieve the desired objective of removing the perceived barrier to Questar Gas implementing cost-effective DSM programs but be free of the downside elements attendant to the CET. At the same time, the Stipulation allows the Utility to initiate some DSM programs this heating season without exposing ratepayers to the full lost revenue risk that would have resulted if the Joint Applicants' proposal was approved by the Commission. The Committee therefore views the Stipulation as an acceptable short-term compromise.

In addition, there appears to be strong public support for natural gas DSM programs. The Stipulation responds to that strong interest in conservation but at the same time builds in time to make sure the long-term route to that desirable objective is in the public interest.

Settlement Provisions

Q: **PLEASE SUMMARIZE THE STIPULATION.**

A: The Stipulation essentially allows for the CET to be implemented for a period of one year, but caps the lost revenue exposure to the ratepayers during that one-year period. The Stipulation also allows cost effective DSM programs to begin immediately, but preserves the opportunity to develop a better mechanism to carry those programs forward after the first year of a three-year pilot program.

Q: **WHY DOES THE COMMITTEE SUPPORT THE STIPULATION?**

A: As discussed above, the Committee determined it was in the public interest to not delay the implementation of cost-effective natural gas DSM programs. If the Stipulation is approved by the Commission, the Utility is committed to quickly move forward with an initial set of DSM programs.

The Stipulation also relieves the Commission of the burden of attempting to be responsive to public support for DSM programs by possibly implementing a revenue-sales decoupling mechanism that goes well beyond what is necessary and creates its own set of regulatory issues. The Stipulation simply gets that Pilot Program off on a more sure footing by avoiding the risk that regulatory parties leaped before they first carefully looked. Nothing desirable has been lost and everyone has gained some time to consider how the program might be better structured.

Benefits of the Stipulation

Q: **WHAT BENEFITS AND PROTECTIONS ARE INCLUDED IN THE STIPULATION FOR RESIDENTIAL AND SMALL BUSINESS CUSTOMERS?**

A: There are several notable provisions contained in the stipulation that either benefit or protect customers. I'll list and briefly discuss them.

1. Customers benefit from the Utility's commitment to implement cost-effective DSM programs for a period of three years, regardless of the mechanism authorized after the first year to recover any resulting lost revenues. In the first year alone, Questar Gas commits to spend $2-$5 million on cost-effective DSM programs and will seek Commission approval of any proposed programs.

2. Approval of the Stipulation will establish a DSM Advisory Group to assist in the development and proposal of cost-effective DSM Programs.

3. A pilot program or "laboratory setting" is created to test the Utility's good faith in pursuing cost-effective natural gas DSM programs, test the appropriateness of the CET, and afford time for parties to develop and propose workable alternatives to the CET.

4. The Stipulation limits the potential market and business risk exposure that the CET creates for ratepayers by placing a "cap" on lost revenues for a period of one year. Through August 2007, the Utility is limited to amortizing into rates CET accruals amounting on a net basis to 0.5% of total Utah GS revenues based on the most recent 12-month period. Through August 2007, the overall amount that the Utility can accrue in the CET balancing account for amortization purposes is capped at 1.0% of total Utah GS revenues based on the most recent 12-month period. The 1% cap therefore limits customers' lost revenue exposure to an estimated range of between $7.5 to $9.5 million.

5. The CET account balance will initially be credited by an amount of approximately $1.1 million, which will flow through as a decrease on customers' bills once the CET goes into effect.

6. All parties reserve the right to file a general rate case at any time during the pilot period.

7. The Committee waives it right to challenge the legality of the CET for only the first year of the three-year pilot program.

Public Interest

Q: **DOES THIS STIPULATION RESULT IN A FAIR AND REASONABLE COMPROMISE OF ALL ISSUES IN THIS DOCKET AND IS IT IN THE PUBLIC INTEREST?**

A: Yes. The Stipulation secures time for the parties and the Commission to consider alternatives to the CET, limits customers' exposure to lost revenues resulting from the CET, and commits the Utility to move forward with cost-effective DSM programs this heating season. Thus, the Committee believes the Stipulation is clearly in the public interest.

Q: **DOES THIS CONCLUDE YOUR TESTIMONY ON THE PROPOSED STIPULATION?**

A: Yes it does.