- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

Joint Application of Questar Gas Company, the Division of Public Utilities, and Utah Clean Energy, Approval of the Conservation Enabling Tariff Adjustment Option and Accounting Orders	**Docket No. 05-057-T01** **Utah Division of Public Utilities** **Exhibit No. DPU 2.0**

Prefiled Addendum Testimony of

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For the Division of Public Utilities

Department of Commerce

State of Utah

January 31, 2006

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Q. Are you the same George Compton who caused direct testimony to be prefiled on January 23rd of this year?

A. I am.

Q. What is the purpose of this "addendum" testimony?

A.. My direct testimony contained a reference to a very recent (January 18, 2006) Connecticut Commission Decision on this subject. My reference source was *Restructuring Today*, which had that same date. In light of a subsequent opportunity to read the Connecticut Decision itself, I have concluded that my earlier representation, which appeared as Footnote 16 on page 12, was incomplete at best, and possibly misleading. To rectify that situation is the purpose of this addendum testimony

Q. Refresh our memories. What was your representation as based on the *Restructuring Today* article?

A. I said, "The decoupling mechanism recently rejected by the Connecticut commission was in fact an increase in the lump-sum delivery [or customer] charge, not the volumetric rate adjustment mechanism proposed in this case."

Q. What did your reading of the Connecticut Decision tell you that was different from what you just said?

A. Connecticut did indeed reject raising the customer charge (which was already in the $10 to $12 range), with the caveat that they would "explore making modest increases to fixed charges in each electric DC's [distribution company's] next rate case." But they also rejected approaches that were more comparable to the CET of our Joint Application. That Commission also reaffirmed its support of "partial decoupling," whereby the utility is compensated for its direct conservation program (e.g., DSM) costs and for the sales revenues lost owing to those programs.

Q. What were the "approaches that were more comparable to the CET of our Joint Application," and why were they rejected?

A. One was full revenue decoupling; the other was per-customer average revenue decoupling. The latter corresponds to our proposed CET. With full revenue decoupling, the revenue target is set directly – i.e., without regard to how many customers enter or leave the system. This approach is favorable to utilities if the customer base is stable and insofar as declining revenues due to declining usage per customer would be covered. The downside is that utilities would have to pay back to ratepayers the revenues that exceeded the revenue target even if the added revenues were caused by added customers. Because less than 30% pf the customers in Connecticut heat with gas, there is the potential for major revenue increases due to additions to the customer base. If the utility were forced, due to decoupling, to give up the added revenues from adding customers, they would not have the financial wherewithal to cover the additional costs that accompanied the added service obligations. Accordingly, it is most understandable that the Connecticut gas utilities would oppose full revenue decoupling, and that the Connecticut Commission would concur with that opposition.

The gas utilities favored the per-customer average revenue decoupling, but it was rejected on the grounds that, in the Commission's judgement, it would shift too many of the weather-related and other sales volatility risks to customers. (It is noteworthy that only one gas local distribution company in that state currently enjoys a weather normalization adjustment mechanism such as Questar has long benefitted from.)

The other justification was that by "removing or weakening the link between usage and rates, [decoupling] does

not encourage this ratepayer-initiated conservation." I would respond that the CET is not purported to encourage ratepayer-initiated conservation, per se. Instead, the CET removes the disincentives for the utility to initiate and support conservation measures. Also, having the CET rather than a large customer charge avoids losing the customer-initiated conservation incentives that are now built into the Questar rate design (with its relatively low customer charge). Finally, as I argued on page 23 of my Direct Testimony (lines 532-534), individual customers would continue to get the full price-signal to conserve because the decoupling removes the link between usage and *revenues* at the aggregate level and only remotely at the individual customer level.

Q. Does that conclude your testimony?

A. It does, thank you.